QJA/BS/MIRSD/MIRSD-SEC-5/32720/2026-27

SECURITIES AND EXCHANGE BOARD OF INDIA

FINAL ORDER

UNDER SECTION 12 (3) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH REGULATION 27 OF SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008.

IN RESPECT OF:

NOTICEE	SEBI Registration No.	PAN
Modex International Securities Ltd	INZ000211434	AAACM2105K

In the matter of Modex International Securities Limited, Stock Broker

A. BACKGROUND

1. The present matter emanates from post enquiry show cause notice ("**SCN**") dated April 19, 2023 issued to **Modex International Securities Ltd** (hereinafter referred to as "**MISL/Noticee**") under regulation 27 (1) of SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as "**Intermediaries Regulations**"). The Noticee was registered with Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") as a Stock Broker with SEBI registration no. INZ000211434.

2. National Stock Exchange (NSE) based on offsite supervision data and onsite inspection, observed that MISL falsified the Register of securities of clients by passing false entries of transfer of securities. In this regard, NSE submitted its inspection report **(IR)** to SEBI on December 27, 2019. Thereafter, NSE vide its letter dated January 03, 2020 in order to protect the interest of investors, had sought intervention of SEBI, and appealed to restrain MISL and its directors/associated entities from accessing securities market as well as freeze the financial assets of member available with Exchanges/CM/CC/Depositories/ Banks etc.

3. Considering above facts, SEBI directed NSE to conduct forensic audit of books of accounts of MISL for the period April 01, 2017 to January 24, 2020 to ascertain misappropriation of clients' funds/securities and asset & liability position of MISL.

4. Subsequently, NSE appointed the forensic auditor (KPMG) on January 24, 2020. Ensuing forensic audit revealed that MISL inter alia misappropriated clients' funds/securities and there was a shortfall of client's fund and securities to the tune of Rs.125.92 Crore. Thereafter, based on the analysis submitted by the NSE, SEBI passed ex-parte ad-interim order on April 30, 2020 against MISL.

5. Subsequently, the forensic auditor, under supervision of NSE, submitted its final forensic audit report **('FAR'**) on May 05, 2020. Finally, the directions issued vide the said order of SEBI was confirmed vide confirmatory order dated September 11, 2020.

B. PROCEEDINGS BEFORE DESIGNATED AUTHORITY

6. Pursuant to findings/observations made in the matter, SEBI initiated Enquiry proceedings under Chapter V of the Intermediaries Regulation against the Noticee.

7. The Designated Authority ("**DA**") issued a show cause notice dated November 10, 2022 (hereinafter referred to as "**pre-Enquiry SCN**") to the Noticee under regulation 25 (1) of the Intermediaries Regulations to show cause as to why appropriate

recommendation should not be made against it in terms of Regulations 26 of the Intermediaries Regulations for the alleged violations.

8. Since, the Noticee did not file any reply to the pre-enquiry SCN, the matter was proceeded *ex-parte* against the Noticee. Based on the allegations levelled against the Noticee in the pre-Enquiry SCN and the material available on record, the DA concluded the Enquiry Proceedings and submitted the Enquiry Report ("**Enquiry Report**") dated March 28, 2023 in terms of regulation 26 of the Intermediaries Regulations.

9. The DA in the report has observed the following against the Noticee:

   9.1. There was shortfall in client securities available with the Noticee.
   9.2. There was shortfall in funds available with the Noticee.
   9.3. The Noticee misappropriated securities and funds of the client.
   9.4. The Noticee misrepresented its books and accounts.
   9.5. The Noticee made periodic payments to its clients, misutlised clients funds/securities and was engaged in business other than as a stock broker.

10. Based on the aforesaid findings, the DA held that the violations pertaining to IA Regulations and PFUTP Regulations stood established against the Noticee. Accordingly, the DA recommended the following:

"In view of the facts and circumstances of the case and material placed before me, I am of the view that the Noticee is liable for action under Regulation 23 of the Intermediaries Regulations, 2008. Therefore, in terms of Section 12(3) of the SEBI Act read with Regulation 23 and 26 of the Intermediaries Regulations, 2008, I recommend that the registration of the Noticee i.e., Modex International Securities Ltd (MISL) SEBI Registration No: INZ000211434, as a Stock Broker be cancelled in the interest of the securities market."

C. SHOW CAUSE NOTICE, REPLY AND HEARING

11. Pursuant to the submission of the Enquiry Report, SCN dated April 19, 2023 in the matter was issued to the Noticee. Vide the above-mentioned SCN, Noticee was called upon to show cause as to why action as recommended by the DA or any other directions as deemed fit should not be issued/imposed on it in terms of Intermediaries' regulation. The SCN was issued enclosing along with the Enquiry Report of the DA dated March 28, 2023 to the Noticee. Hence, any reference in this Order to the allegations made in the SCN must also be read to include the conclusions arrived at in the Enquiry Report.

12. It is relevant to note that in parallel to the actions initiated by SEBI, a petition under Section 7 of the Insolvency and Bankruptcy Code (IBC) was filed against the Noticee on March 07, 2021 before the Hon'ble NCLT, New Delhi Bench. Since, the Noticee had not contested the insolvency proceedings, the Hon'ble Tribunal initiated Corporate Insolvency Resolution Process (CIRP) ex-parte against the Noticee on March 04, 2022 and moratorium came into effect.

13. SEBI filed an intervention application dated December 09, 2022 before the Hon'ble Tribunal to recall the order dated March 04, 2022 admitting the Noticee into CIRP on the grounds that the Noticee is excluded from the enforcement of the IBC as it is a Financial Service Provider (FSP) being a stockbroker registered with SEBI.

14. Hon'ble NCLT. New Delhi Bench vide order dated June 12, 2025 allowed SEBI's application and set aside its earlier order dated March 04, 2022 due to lack of inherent jurisdiction. Therefore, the Noticee was restored to its legal status as it existed immediately prior to the commencement of CIRP. The relevant part of the order is reproduced below:

> "…
> *12. As a natural corollary to the recall of the admission order, the Corporate Debtor is hereby restored to its legal status as it existed immediately prior to the commencement of the Corporate Insolvency Resolution Process (CIRP).*
> *…"*

15. Subsequently, the instant matter came to be assigned to the undersigned on December 15, 2025, consequent upon the demitting of office by the erstwhile Quasi-Judicial Authority. Pursuant thereto, a Hearing Notice dated January 08, 2026 was issued to the Noticee, scheduling the matter for hearing on January 28, 2026. However, the said notice was returned undelivered through both SPAD and email. Thereafter, efforts were undertaken to ascertain alternate addresses and email IDs of the Noticee; however, service of notice could not be effected. Finally service of notice was effected through Market Infrastructure Intermediaries (MIIs) on March 12, 2026. MISL vide letter dated March 25, 2026 provided the details of Mr. Pawan Kumar Sachdeva for purpose of correspondence on behalf of MISL in the proceedings initiated under section 11B of the SEBI Act, 1992. Hence, Notice of hearing was also served on Mr. Pawan Kumar Sachdeva in the present proceedings.

16. Subsequently, *vide* letter dated May 20, 2026, Mr. Pavan Kumar Sachdeva on behalf of MISL requested for an opportunity of inspection of documents “relied upon” by SEBI in issuing the SCN. He further submitted that MISL is not in operation and that he was not looking after the day-to-day operations of the company. However, he was representing MISL since the MCA records reflected that he is still the director of MISL. Accordingly, inspection of documents was allowed on May 22, 2026 and the same was availed by the Authorized Representatives (ARs) of the Noticee.

17. Thereafter, another Notice of hearing was sent through email dated May 29, 2026 and hearing was scheduled in the matter on June 18, 2026. In response to the said email, the Noticee filed its written submissions vide letter dated June 17, 2026. A personal hearing in the matter was held on June 18, 2026. On the said date, the Authorized Representatives (ARs) of the Noticee reiterated their earlier submissions and the ARs were requested to clarify certain points emanating from its earlier reply dated June 17, 2026. Pursuant thereto, post hearing submissions vide letter dated June 29, 2026 were made by the Noticee.

18. The submissions made by the Noticee (through its AR) during the personal hearing and vide its letters dated May 20, 2026, June 17, 2026, and June 29, 2026 are summarised below:

18.1. The Noticee submitted that it has been operating in the capital market segment since April 1966, in Future and Options Segment since August 2021 and had a clear track record and confidence of 12998 clients in capital markets segment (active clients 1301) and 9720 clients in F&O Segments including prominent institutional clients (active clients 532).

18.2. The Noticee submitted that the main person responsible for all the decisions of Modex and handling the day to day affairs of Modex was Mr. Dharmendra Kumar Arora, who expired on April 17, 2021. The Noticee submitted that as Mr. Pawan.Kumar Sachdeva is shown as a Director of the Company (as per the MCA records), he has made submissions on behalf of Modex but is completely unware about the functioning of the company and has filed the reply based on available documents and remembrance of facts.

18.3. The Noticee submitted that a system error took place in MISL which resulted into mixing of ledger balances of many clients and further due to this system error stocks/bonds of many clients were sold to recover the debit balances of some clients and vice-versa. The said error was immediately brought to the notice of NSE in writing vide emails dated June 12, 2019 and August 23, 2019.

<u>Submissions regarding inaccuracies and flaws in the forensic report</u>

18.4. The Noticee submitted that the pre-enquiry SCN majorly relied on the FAR but the said report outlines several significant assumptions, limitations and caveats that challenge the conclusiveness and accuracy of the findings. The Noticee further submitted that the forensic report explicitly states that it is not a statutory audit or a definitive pronouncement but relies on selective testing of data and has assumed the genuineness of all documents without proper verification.

18.5. The Noticee submitted that the FAR had valuation and calculation flaws as it could not find pricing data for 490 scrips and arbitrarily valued them at exactly INR 1. The Noticee also submitted that the historical shortfall computations for March

2017, 2018 and 2019 relied on MISLs uncorrected records and the unpriced securities were similarly valued at INR 1. The Noticee further pointed out that the report itself stated that their determination could be impacted by several unresolved anomalies in the Registrar of Securities including unexplained variances of approx. INR 4.22 crore (12 clients), INR 2.87 crore (44 clients) and INR 1.19 crore (127 clients).

18.6. The Noticee submitted that the analysis regarding the misapplication of funds is incomplete because bank statements lacked beneficiary or payer details for a substantial volume of high value transaction. The Noticee further submitted that beneficiary details were missing for 145 payments transactions totalling approximately INR 47.68 Crore; payer details were missing for 224 receipt transactions totalling approximately INR 76.67 crore; and the propriety of payments made to 15 third parties totalling INR 6.35 crore was also not established as MISL had not provided the supporting details.

Submissions pertaining to non-availability of client securities

18.7. The Noticee submitted that the alleged shortfall of INR 95.29 Crore has been incorrectly computed, particularly as no consideration has been given to the negative/recoverable securities amount to INR 113.03 Crore being securities recoverable from clients as on 24.01.2020. The Noticee contended that the computation undertaken in the Enquiry Report does not reflect the true and correct position of client’s securities.

18.8. The Noticee submitted that Table 7 of the FAR itself states that there existed negative/recoverable securities aggregating to INR 113.03 crore pertaining to non-pro clients and if such negative securities, even partially, are adjusted or set off against the alleged net positive securities shortfall of INR 95.29 Crore payable to clients, the alleged shortfall figure would materially change. The Noticee further submitted that Annexure 18 to FAR make it apparent that apart from non-pro top 16 clients, there were several other non-pro clients from whom securities of substantial value were recoverable. The Noticee therefore contended that the alleged shortfall has been arrived at without considering the corresponding recoverable positions.

18.9. The Noticee submitted that the shares wherein there is a negative /recoverable securities aggregating to INR 113.03 Crore is similar to the shares wherein there is an alleged shortfall of INR 95.29 Crore are to be similar. The Noticee further submitted that on analysing Annexure -15 of the FAR (the scrip details of detaining shortfall in non-pro clients scrip) and Annexure -19 (details of pro codes from whom securities are recoverable) following may be noted:

a. In respect of Reliance Industries the amount in both the Annexures comes to around INR 10.3 Crores.
b. In respect of a scrip L&T Ltd., the amount comes to INR 6.03/6.04 Crores
c. In respect of Hindustan Unilever Ltd., the amount comes to INR 5.78 Crores
d. In respect of TCS Limited, the amount comes to INR 4.36/4.37 Crores.

18.10. The Noticee submitted that an analysis of top 16 non-pro clients with negative securities holdings (i.e. securities recoverable from them) reveals that securities of approximate INR 111.12 Crore in 25 scrips as of January 24, 2020 is recoverable. In respect to the said, 16 non-pro clients, the Noticee further submitted that 2 of the non-pro clients i.e. Mr. Srinavas Rao Addanki and Ms. Padmavathi Addanki being allegedly connected to Modex had nothing to do with the negative securities balance in their account.

18.11. The Noticee submitted that no investigation or detailed inquiry has been conducted by SEBI with regard to the alleged shortfall of securities amounting to INR 95.29 Crore. The Noticee contended that the allegations in the SCN are primarily based upon assumptions and incomplete consideration of the available data and records, without duly appreciating the recoverable securities position and the actual reconciliation of client's accounts.

18.12. The Noticee also submitted that no opportunity was provided to reconcile the records and since the transactions and records are several years old and therefore a detailed reconciliation of positive and negative securities balances was necessary before arriving at any adverse conclusion.

<u>Submission pertaining to shortfall in funds and improper use of client's fund</u>

18.13. The Noticee submitted that the FAR itself clearly records that there was neither any siphoning nor any fraudulent diversion or transfer of funds and the funds in questions were utilised solely for the legitimate business requirement and operations needs of the Company. The Noticee elaborated on the same, as follows:

a. Approximately INR 100.27 Crore was transferred from the BSE/NSE cash settlement account maintained with IndusInd Bank to F&O settlement account maintained with Axis Bank because of F&O loss.
b. Payment amounting to approximately INR 16.97 Crore were made to clients despite outstanding F&O losses recoverable from them.
c. Flat advances amounting to approximately INR 10.47 Crore were paid to beneficiaries connected with Mr. Pawan (INR 4.52 Crore) and other parties (INR 5.95 Crore) which were genuine transactions pursuant to which the Company had acquired good and marketable title to the concerned properties.

18.14. The Noticee submitted that the Company had availed an overdraft facility of INR 9.79 crore from Axis Bank against the said properties acquired by the Company. In respect of INR 10.47 Crores, INR 4.52 Crores were in respect of Klassy Construction Private Limited (Related to Pavan). The said transaction was from 2017 - 2019 and the same was also reserved in 2021 and was used for paying off the clients. The said agreement was of around Rs 16 crores in respect of which Rs 4.52 crores was received from Modex which was subsequently recovered. Further, a copy of the Ledger account of Modex International Securities Limited for the period 01.04.2018 to 31.03.2021 and Modex Commodity Trades Pot Ltd for the period .01.04.2020 to 31.03.2021 in the books of accounts of Klassy Construction Private Limited was also provided by the Noticee.

18.15. The Noticee further submitted that all the aforesaid transactions were duly recorded in the books of accounts of the Company and were undertaken in the ordinary course of business. There was no wrongful diversion or siphoning of funds, and the transactions were supported by underlying documentation and banking records. The Noticee contended that the allegations of misappropriation or unauthorized utilization of funds are wholly misconceived and untenable.

Submission on allegation of Shortfall of funds available with MISL

18.16. The Noticee submitted that Para 6.7 of the FAR deals with Creditor Obligation. The Noticee pointed out that said paragraph itself states that, "in 11 out of 259 creditors, TP of approx. INR 71.86 Crores can be considered good to set off against net securities receivable of approximate INR 99.39 Crore (i.e. securities receivable of INR 106.04 Crore minus securities payable of INR 6.65 Crore)." Further, 10 out of these 11 creditors are those whose accounts were allegedly used to sell securities of other clients, as referred in Section 6.4(1C) of the FAR.

18.17. The Noticee submitted that while the FAR and the summary of Funds and Securities Payable as on 24.06.2020 (forming part of the Annexure to the NSE Report) have considered Rs. 71.86 Crores out of the aggregate receivables of Rs. 106.04 Crores as "good for set off", no consideration whatsoever has been accorded to the balance trade receivables. The Noticee contended that methodology adopted for computation of the alleged shortfall is incomplete and does not present the correct financial position.

18.18. The Noticee further submitted that the dues of Axis Bank amounting to Rs. 41.98 Crores included an amount of Rs. 21.98 Crores arising on account of shortfall of obligations. The said amount was subsequently permitted to be appropriated and adjusted from the margin held by Axis Bank pursuant to the Order dated 03.07.2020 passed by the Hon'ble Securities Appellate Tribunal in Appeal No. 146 of 2020 filed by Axis Bank. Consequently, the liability towards Axis Bank stood reduced to that extent.

18.19. Additionally, the Noticee submitted that the wife of Pavan, Mrs. Sangeeta Sachdeva, had mortgaged a property belonging to her with Axis Bank for the Bank Guarantee and because Modex was unable to pay back that Loan, the physical possession of the said property was taken by Axis Bank. The Noticee also submitted that the remaining exposure of Axis Bank, comprising the loan of around Rs. 10.5 Crores secured against immovable property and the non-funded bank guarantee exposure of Rs. 10.5 Crores was adequately secured by underlying securities/assets. However, no consideration has been given in the FAR or the ER/ SCN to the realizable value of such secured assets while computing the alleged shortfall. The Noticee contended that had the value of the available securities and secured assets been duly considered, the quantum of the alleged bank dues and consequential shortfall would have been substantially lower.

18.20. The Noticee submitted that that the Bank guarantee of around Rs 12 crores does not have anything to do with any alleged misutilization of funds/ securities and also contended that the alleged shortfall of clients' funds has not been computed in a proper or holistic manner and does not reflect the true and correct factual position.

Submission on the allegation of Misrepresentation of books and accounts.

18.21. The Noticee submitted that the alleged figure of Rs. 111.12 Crore represents securities recoverable from clients and therefore constitutes a corresponding receivable/recoverable position in the books of MISL. The Noticee contended that ER failed to appreciate these negative or recoverable balances and are required to be considered together with the corresponding positive balances and overall client-wise reconciliation.

18.22. The Noticee also submitted that there existed substantial recoverable securities from non-pro clients and if such recoverable or negative securities balances are appropriately reconciled and adjusted against the alleged positive shortages, the resultant position would materially differ from the figures alleged in the SCN.

18.23. The Noticee further submitted that no independent forensic verification or transaction-level investigation appears to have been conducted to establish that the alleged manual adjustments were fictitious, unauthorized, or intended to suppress deficits. The Noticee contended that the SCN does not identify any specific instance of diversion, misuse, siphoning, or unauthorized transfer of client securities resulting from the alleged entries. In the absence of any evidence of wrongful gain, fraudulent intent, or actual client loss, the allegation remains purely presumptive.

18.24. The Noticee submitted that MISL has substantially complied with the applicable regulatory requirements and any alleged deviation, if at all, was merely procedural or technical in nature without any mala fide intention, wrongful gain, or prejudice to investors.

18.25. The Noticee submitted that issue in respect of the 35 transactions totalling INR 8.87 Crore, has been rectified in January 2020 and in respect of Spazzio, it submitted that Mr. Dharmendra was aware of the said transaction and therefore no allegation can be attributable to us in respect to the same.

18.26. The Noticee contended that that these accounts related entries were generally looked after by Mr. Dharmendra and the accounting purpose is generally looked after by the accounts departments which is audited from time to time.

Submission pertaining to periodic payments to clients and misutilization of clients' funds/ securities

18.27. The Noticee submitted that MISL had not entered into any arrangement for fixed or assured returns on investment with any client as alleged and it was Mr. Vikram Duggal who was managing the complete VD Group trading by leading the marketing team and continuously holding meetings with VD group clients for development of business. The Noticee submitted copies of certain communication between Mr. Vikram Duggal and the employees or executives of Modex to support his contention that Mr. Vikram was exclusively dealing with the clients.

18.28. The Noticee further submitted that Mr. Vikram Duggal was exclusively responsible on full-time basis to provide service to VD clients and for that purpose he was drawing remuneration from the Company. The Noticee provided the remuneration details of Mr. Vikram Duggal.

18.29. The Noticee in its submission also denied that the Company had failed to make efforts to recover the losses arising in the F&O Segment. The Noticee submitted that certain investments/trades in the F&O Segment resulted in losses, but it is incorrect and misleading to suggest that the Company took no steps for recovery of the said dues. The Noticee also submitted that concerned employees and officials of the Company were in constant touch with the concerned clients with a view to recover the outstanding amounts and certain clients were permitted to continue trading operations or were granted time and flexibility for making periodic payments, considering the longstanding business relationship with such clients and their prior track record in honouring their obligations.

18.30. The Noticee in his submissions further denied that the Company had collected investments from clients merely on the basis of periodic payment commitments or that the Company sought to recover F&O losses by selling securities belonging to other clients. The Noticee submitted that a company is not automatically liable for alleged wrongdoing committed by an independent third party or a rogue director unless it can be proven that the corporate entity itself authorized, directly benefited from, or demonstrated systemic negligence regarding the wrongdoing which is not the fact in the present case.

18.31. The Noticee further submitted that it continues to retain the right to recover such outstanding dues and losses from the concerned clients notwithstanding any accounting write off so long as the claims remain within the prescribed period of limitation and have not become time barred. Therefore, the Noticee contended that it cannot lead to the conclusion that the recoverability of the said amounts had ceased or that no recovery efforts were undertaken by the Company.

18.32. The Noticee has relied upon various case laws to contend that strict proof is required before attributing fraudulent intent and the fraud cannot be concluded on the basis of preponderance of probability.

18.33. The Noticee submitted that the business of the company came to a standstill and the same has been totally non - operational. The Noticee also submitted that because of the financial difficulty, the company was also admitted into corporate insolvency before the Hon’ble NCLT Delhi. The Noticee further stated that by an Order dated 12.06.2026, Hon'ble NCLT, New Delhi, restored the legal status of the Company as it existed immediately prior to the commencement of the insolvency process.

18.34. The Noticee submitted that lapses if any were unintentional and remedial action has been taken after review of operation and process. Therefore, the Noticee has prayed that the proceedings initiated against him vide the SCN may be dropped.

D. CONSIDERATION OF ISSUES AND FINDINGS

19. I have perused the pre-enquiry SCN, Enquiry Report and other material available on record. In the extant proceedings, it is required to ascertain whether the Noticee has violated the provisions of securities law as mentioned in the Enquiry report.

20. Before proceeding, I find it appropriate to reproduce below the relevant provisions of the regulations and circulars alleged to have been violated by the Noticee:

SEBI Act, 1992

Registration of stock brokers, sub-brokers, share transfer agents, etc.
12. (1) *No stock broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and such other intermediary who may be associated with securities market shall buy, sell or deal in securities except under, and in accordance with, the conditions of a certificate of registration obtained from the Board in accordance with the 53[regulations] made under this Act:*

Provided that a person buying or selling securities or otherwise dealing with the securities market as a stock broker, sub-broker, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and such other intermediary who may be associated with securities market immediately before the establishment of the Board for which no registration certificate was necessary prior to such establishment, may continue to do so for a period *of three months from such establishment or, if he has made an application for such registration within the said period of three months, till the disposal of such application:*

Provided further that any certificate of registration, obtained immediately before the commencement of the Securities Laws (Amendment) Act, 1995, shall be deemed to have been obtained from the Board in accordance with the regulations providing for such registration.

Contravention by companies.

27. (1) Where a contravention of any of the provisions of this Act or any rule, regulation, direction or order made thereunder] has been committed by a company, every person who at the time the contravention was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the [contravention] and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the [contravention] was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such [contravention].

(2) Notwithstanding anything contained in sub-section (1), where an [contravention] under this Act has been committed by a company and it is proved that the [contravention] has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the [contravention] and shall be liable to be proceeded against and punished accordingly.

Explanation: For the purposes of this section,—

(a) "company" means anybody corporate and includes a firm or other association of individuals; and

(b) "director", in relation to a firm, means a partner in the firm.

<u>SCRA, 1956</u>

Power to issue directions.

12A. (1) If, after making or causing to be made an inquiry, the Securities and Exchange Board of India is satisfied that it is necessary—

(a) in the interest of investors, or orderly development of securities market; or

(b) to prevent the affairs of any recognised stock exchange or clearing corporation, or such other agency or person, providing trading or clearing or settlement facility in respect of securities, being conducted in a manner detrimental to the interests of investors or securities market; or

(c) to secure the proper management of any such stock exchange or clearing corporation or agency or person, referred to in clause (b),

it may issue such directions,—

(i) to any stock exchange or clearing corporation or agency or person referred to in clause (b) or any person or class of persons associated with the securities market; or

(ii) to any company whose securities are listed or proposed to be listed in a recognised stock exchange, as may be appropriate in the interests of investors in securities and the securities market.

Explanation. —For the removal of doubts, it is hereby declared that power to issue directions under this section shall include and always be deemed to have been included the power to direct any person, who made profit or averted loss by indulging in any transaction or activity in contravention of the provisions of this Act or regulations made thereunder, to disgorge an amount equivalent to the wrongful gain made or loss averted by such contravention.

(2) Without prejudice to the provisions of sub-section (1) and section 23-I, the Securities and Exchange Board of India may, by an order, for reasons to be recorded in writing, levy penalty under sections 23A, 23B, 23C, 23D, 23E, 23F, 23G, 23GA and 23Hafter holding an inquiry in the prescribed manner.

SEBI (Stock Brokers and Sub-brokers) Regulations, 1992.

Conditions of registration.

***9.** Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,*

-(a) the stock broker holds the membership of any stock exchange;

(b) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;

(c) where the stock broker proposes change in control, he shall obtain prior approval of the Board for continuing to act as such after the change;

(d) he shall pay fees charged by the Board in the manner provided in these regulations;

(e) he shall take adequate steps for redressal of grievances, of the investors within one month of the date of receipt of the complaint and inform the Board as and when required by the Board;

(f)he shall at all times abide by the Code of Conduct as specified in Schedule II; and (g) he shall at all times maintain the minimum net worth as specified in Schedule VI. 30[

(h) Every stock broker who act as an underwriter shall enter into a valid agreement with the body corporate on whose behalf it is acting as underwriter and shall abide by the regulations made under the Act in respect of the activities carried on by it as underwriter.

(i) Every Stock Broker shall be entitled to act as an underwriter only out of its own net worth/funds as may be prescribed from time to time.]

To maintain proper books of account, records, etc.

17. (1) Every Stock Broker shall keep and maintain the following books of account, records and documents, namely:—

(a) Register of transactions (Sauda Book);

(b) Clients ledger;

(c) General ledger;

(d) Journals;

(e) Cash book;

(f) Bank pass book;

(g) Documents register containing, inter alia, particulars of securities received and delivered in physical form and the statement of account and other records relating to receipt and delivery of securities provided by the depository participants in respect of dematerialized securities;
(h) Member's contract books showing details of all contracts entered into by him with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members;
(i) Counterfoils or duplicates of contract notes issued to clients;
(j) Written consent of clients in respect of contracts entered into as principals;
(k) Margin deposit book;
*(l) *****
*(m) *****
(n) Client account opening form in the format as may be specified by the Board
(2) Every stock broker shall intimate to the Board the place where the books of account, records and documents are maintained.
(3) Without prejudice to sub-regulation (1), every stock broker shall, after the close of each accounting period furnish to the Board if so required as soon as possible but not later than six months from the close of the said period a copy of the audited balance sheet and profit and loss account as at the end of the said accounting period:
Provided that, if it is not possible to furnish the above documents within the time specified, the Stock Broker shall keep the Board informed of the same together with the reasons for the delay and the period of time by which such documents would be furnished.
(4)(1) Subject to the provisions of any other law, every Stock Broker acting as an underwriter shall keep and maintain the following books of account and documents, namely:-
(a) In relation to an underwriter being a body corporate—
(i) a copy of the balance sheet and profit and loss account as at the end of each accounting period;
(ii) a copy of the auditor's report on the accounts for that period;
(b) In relation to an underwriter not being a body corporate—
(i) records in respect of all sums of money received and expended by them and the matters in respect of which the receipt and expenditure take place; and
(ii) their assets and liabilities.
(2) Every Stock Broker acting as an underwriter shall also maintain the following records with respect to—
a) details of all agreements
b) total amount of securities of each body corporate subscribed to in pursuance of an agreement
c) such other records as may be specified by the Board for underwriting.
(5) Agreement with clients Every stock broker acting as an underwriter shall enter into an agreement with each body corporate on whose behalf it is acting as underwriter and the said agreement shall, amongst other things, provide for the following, namely: —
a) the period for which the agreement shall be in force;
b) the allocation of duties and responsibilities between the underwriter and the client
c) the amount of underwriting obligations;

d) the period, within which the underwriter has to subscribe to the issue after being intimated by or on behalf of such body corporate;
e) the amount of commission or brokerage payable to the underwriter;
f) details of arrangements, if any, made by the underwriter for fulfilling the underwriting obligations.
(6) General responsibilities of a Stock Broker as an underwriter
a) Every Stock Broker acting as an underwriter shall not derive any direct or indirect benefit from underwriting the issue other than the commission or brokerage payable under an agreement for underwriting.
b) The total underwriting obligations under all the agreements shall not exceed twenty times of the net worth.
c) Every Stock Broker acting as an underwriter, in the event of being called upon to subscribe for securities of a body corporate pursuant to an agreement shall subscribe to such securities within 45 days of the receipt of such intimation from such body corporate."

CODE OF CONDUCT FOR STOCK BROKERS
"A. General.
(1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.
(2) Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business.
(3) Manipulation: A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains
(4) Malpractices: A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors' interest or which leads to interference with the fair and smooth functioning of the market. A stockbroker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

<u>SC (R) Rules, 1957</u>

Qualifications for membership of a recognised stock exchange
8. *The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:*
(1) No person shall be eligible to be elected as a member if—
…..
(f) he is engaged as principal or employee in any business other than that of securities 5 [or commodity derivatives] except as a broker or agent not involving any personal financial liability unless he undertakes on admission to sever his connection with such business:

Provided that no member may conduct business in commodity derivatives, except by setting up a separate company which shall comply with the regulatory requirements, such as, net worth, capital adequacy, margins and exposure norms as may be specified by the Forward Market Commission, from time to time:

Provided further that nothing herein shall be applicable to any corporations, bodies corporate, companies or institutions referred to in items (a) to (k) of the proviso to sub-rule (4).;

(3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if—
…
(f) he engages either as principal or employee in any business other than that of securities or commodity derivatives] except as a broker or agent not involving any personal financial liability, provided that—
(i) the governing body may, for reasons, to be recorded in writing, permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry on business on the stock exchange either as an individual or as a partner in a firm,
(ii) in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for severing their connection with any such business,
(iii) nothing herein shall affect members of a recognised stock exchange which are corporations, bodies corporate, companies or institutions referred to in items (a) to (k) of the proviso to sub-rule (4).

Books of account and other documents to be maintained and preserved by every member of a recognised stock exchange.
15.(1) Every member of a recognised stock exchange shall maintain and preserve the following books of account and documents for a period of five years :
(a)Register of transactions (Saudabook).
(b)Clients' ledger.
(c)General ledger.
(d)Journals.
(e)Cash book.
(f)Bank pass-book.
(g)Documents register showing full particulars of shares and securities received and delivered

SEBI (Portfolio Managers) Regulations, 1993

3. Registration as portfolio manager:
No person shall act as portfolio manager unless he holds a certificate granted by the Board under these regulations:

Provided that a merchant banker acting as a portfolio manager immediately before commencement of the Securities and Exchange Board of India (Portfolio Managers) (Second Amendment) Regulations, 2006 may continue to do so for a period of six months from such commencement or, if he has made an *application for registration under these regulations within the said period of six months, till the disposal of such application.*

14. Contract with clients and disclosures:

(1) (a) The portfolio manager shall, before taking up an assignment of management of funds or portfolio of securities on behalf of a client, enter into an agreement in writing with such client clearly defining the inter se relationship, and setting out their mutual rights, liabilities and obligations relating to management of funds or portfolio of securities containing the details as specified in Schedule IV.

<u>SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003</u>

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

(b)use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

***(1)** Without prejudice to the provisions of regulation 3, no person shall indulge in a manipulative, fraudulent or an unfair trade practice in securities markets.*

Explanation.–For the removal of doubts, it is clarified that any act of diversion, misutilisation or siphoning off of assets or earnings of a company whose securities are listed or any concealment of such act or any device, scheme or artifice to manipulate the books of accounts or financial statement of such a company that would directly or indirectly manipulate the price of securities of that company shall be and shall always be deemed to have been considered as manipulative, fraudulent and an unfair trade practice in the securities market.

***(2)** Dealing in securities shall be deemed to be a manipulative fraudulent or an unfair trade practice if it involves any of the following:—*

***(a)** disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading in a reckless or careless manner*

and which is designed to, or likely to influence the decision of investors dealing in securities
(b) *fraudulent inducement of any person by a market participant to deal in securities with the objective of enhancing his brokerage or commission or income;*
(c) *mis-selling of securities or services relating to securities market;*

SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993
https://www.sebi.gov.in/legal/circulars/nov-1993/regulation-of-transactions-between-clients-and-brokers_19445.html

SEBI Circular No SEBI/MRD/Policy/AT/Cir- 19/2004 dated April 21, 2004
https://www.sebi.gov.in/legal/circulars/apr-2004/settlement-of-transactions-in-holidays-stock-exchanges-and-depositories_12551.html

SEBI Circular No. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008
https://www.sebi.gov.in/legal/circulars/apr-2008/collateral-deposited-by-clients-with-brokers_6922.html

SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P /2016/95 dated September 26, 2016
https://www.sebi.gov.in/legal/circulars/sep-2016/enhanced-supervision-of-stock-brokers-and-depository-participants_33334.html

21. The investigation reveals that Modex had collected investments (securities/funds) from certain clients and assured periodic returns to them. Since Modex incurred substantial losses in the F&O segment and was unable to recover them from the said clients whose monies were invested, it attempted to recoup the losses, by unauthorised selling of other client securities. Therefore, as per the investigation, Modex had misused and misrepresented client funds/securities and falsified its RoS to conceal the same. This process of misuse and misrepresentation resulted in multiple violations of the SEBI Act, 1992, the Securities Contracts (Regulation) Act, 1956, and the rules, regulations and circulars framed thereunder was observed.

22. I shall now proceed to deal with the violations alleged, basis the conclusions in the Enquiry report:

I. Non-availability of clients securities

23. The SCN alleges that there was a shortfall of client's securities of INR 95.29 Crore in 288 scrips and client securities have been misappropriated to the extent of INR

113.03 Crore in 323 scrips. Therefore, it has been alleged that the Noticee violated SEBI Circular dated November 18, 1993, SEBI Circular dated April 21, 2004, SEBI Circular dated April 17, 2008 and SEBI Circular dated September 26, 2016.

24. SEBI Circular dated November 18, 1993 requires segregation of client funds from the broker's own funds, mandates that money received from or on account of a client be deposited forthwith in the clients' account, and restricts withdrawals therefrom to specified client-related purposes. SEBI Circular dated April 21, 2004 reinforces these obligations through the member-client agreement framework, including segregation of client monies and securities deposited as margin. SEBI Circular dated April 17, 2008 further strengthens the framework by requiring proper records, audit trail, periodic reconciliation, and daily statements of collateral utilisation so as to prevent misuse of client collateral. Further, SEBI Circular dated September 26, 2016 expressly prohibits use of client funds and securities for proprietary purposes and permits transfer from the client account to the proprietary account only for legitimate dues supported by daily reconciliation.

25. The SCN notes the following in respect of shortfall of client's securities:
    i) In 288 scrips, the shortfall in clients' securities available with MISL and its CMs is Rs.95.29 crore;
    ii) In 66 scrips, the securities holdings of Rs.9.93 crore available with MISL and its CMs are in excess of securities holdings of clients as per corrected register of securities (RoS);
    iii) The securities of Rs.2.88 crore for 61 scrips are available with MISL and its CMs, but are not recorded in the corrected register of securities.

26. The details of value of non-availability of securities as summarised in the FAR (as on January 24, 2020) is summarised below:

Table 1

Shortfall of clients securities as on January 24, 2020 *(Amount in INR crore)*		
Sr. No.	**Particulars**	**Amount**
1	Value in client accounts with positive securities balances	233.02
2	Less: Disputed securities holdings not payable	46.30
3	**Net payable to clients with Positive securities holdings = (1) - (2)**	**186.72**
4	**Total value of securities available (4.1+4.2+4.3)**	**104.24**
4.1	Value of securities per client beneficiary/client collateral/Client Unpaid Securities Accounts/Pool accounts	3.40
4.2	Value of securities per Own beneficiary accounts	0.23
4.3	Value of securities with NCL /Clearing Members	100.61
5	Securities available with MISL and CMs, but not recorded in ROS	(12.81)
6	**Securities not available with MISL and CMs as on January 24, 2020**	**95.29**

27. The shortfall of securities as detailed in the FAR and reproduced in the SCN has not been arrived at on the basis of assumption, but on the basis of the corrected Register of Securities and the actual availability of securities with MISL and its clearing members as on January 24, 2020. The Noticee's argument that consideration should have been given to negative or recoverable securities balances aggregating to INR 113.03 crore is misconceived, as such recoverable positions cannot substitute or set off the obligation to maintain and return actual securities payable to clients. A recoverable claim against certain clients does not negate the deficiency in securities owed to other clients, nor does it cure the fact of non-availability of securities that ought to have been available with the Noticee and its clearing members.

28. Further, the FAR has specifically identified the client accounts, the scrip-wise shortfall, and the manual adjustments undertaken by the Noticee to mask such deficits. Despite this, the Noticee has not furnished any specific client-wise or

scrip-wise reconciliation, nor any documentary evidence, to refute the allegations. The submissions made by the Noticee are unsupported by any evidence and therefore the contention that the shortfall has been incorrectly computed is untenable.

29. The Noticee's contention that the scrips in which negative or recoverable securities aggregating to INR 113.03 crore are reflected correspond to the scrips in which the alleged shortfall of INR 95.29 crore is shown, and therefore ought to be set off, is untenable. Annexure 15, which sets out the scrip level details of the securities shortfall, and Annexure 19, which furnishes the client-wise details of negative securities balances, are naturally expected to exhibit overlap, both being referable to the same set of underlying securities transactions. However, such overlap, by itself, neither justifies any set-off and the finding that the securities payable to clients were not, in fact, available with the Noticee still remains.

30. Hence, on the basis of material available on record, I am inclined to agree with the conclusion of the DA that the Noticee has violated SEBI Circular dated November 18, 1993, SEBI Circular dated April 21, 2004, SEBI Circular dated April 17, 2008 and SEBI Circular dated September 26, 2016.

II. <u>Shortfall in client funds</u>

31. The SCN alleged that the Noticee did not have sufficient funds to settle client obligations and had violated the provisions of SEBI Circular dated November 18, 1993 and SEBI Circular dated September 26, 2016.

32. Clause 1 of SEBI Circular dated November 18, 1993 mandates strict segregation of client funds and broker's own funds, and requires that money received from or on account of a client be deposited forthwith in the clients' account. Further, SEBI Circular dated September 26, 2016 inter-alia bars a stock broker from using client funds or securities for proprietary purposes and mandates that transfer from the client account to the proprietary account is permitted only for legitimate dues, such

as brokerage, statutory charges, or funded debit balances, and must be supported by daily reconciliation.

33. The Noticee has primarily contended that no consideration has been given to trade receivables while calculating the shortfall in funds, the overdraft balance in the Axis Bank account does not take into account the underlying assets/securities which were pledged for availing the said facility.

34. I note from the FAR that as of January 24, 2020, shortfall in funds available with MISL is Rs.79.61 crore, which comprises creditors of Rs.30.63 crore, net overdraft balance with banks of Rs.49.09 crore and margin of Rs.0.11 crore with BSE. The details have been tabulated below:

Table 2

Sr. No.	Particulars	Amount in INR crore
1	Creditors as on January 24, 2020	102.49
2	Less: Creditors considered good for set-off against securities receivable from them	71.86
3	**Net creditors**	**30.63**
4	Add: Security Deposit with Axis Bank	(0.10)
5	Add: Bank Balance as on February 17, 2020 – Axis Bank (Overdraft)	41.98
6	Add: Bank Balance as on February 17, 2020 – IndusInd (Overdraft)	7.27
7	Add: Bank Balance as on January 24, 2020– Others	(0.06)
8	Add: Cash Margin with NSE as on February 17, 2020	-
9	Add: Cash Margin with BSE as on February 19, 2020	(0.11)
10	**Shortfall in available funds on 24 January 2020**	**79.61**

35. The above table clearly establishes that the Noticee did not maintain adequate funds to discharge its obligations towards clients. A shortfall of this magnitude is fundamentally inconsistent with the requirement of strict segregation and

protection of client funds envisaged under the aforesaid circulars. If client funds had in fact been maintained in the manner mandated, the Noticee would necessarily have had sufficient readily available funds to settle client obligations. This gives rise to a reasonable and compelling inference that the client funds were not being maintained and deployed in the manner required under the applicable regulatory framework.

36. As regards the Noticee's contention that no consideration was given to trade receivables while calculating the shortfall in funds, it is relevant to note that paragraph 6.7 of the FAR, as well as the table above, has already deducted an amount of Rs. 71.86 crore by way of set-off against securities receivable while arriving at the shortfall figure.

37. The Noticee has also contended that the overdraft facility extended by Axis Bank was adequately secured by underlying assets/securities and the same should have been considered while computing the shortfall. Apart from a mortgage agreement relating to a residential flat (executed between the wife of Mr. Pavan Kumar Sachdeva and Axis bank), details of any other securities/assets backing the overdraft facility have not been furnished by the Noticee. Further, the existence of collateral securing a borrowing does not have the effect of reducing the liability itself, nor can it be taken into account to offset the shortfall in funds. Such security may be relevant for the lender from the standpoint of recoverability, but it does not alter the nature or quantum of the outstanding obligation for the purpose of assessing fund availability. Accordingly, the overdraft balance was rightly taken into account while determining the shortfall in funds.

38. Hence, on the basis of material available on record, I find that the Noticee had shortfall of funds to meet its obligations towards clients. Therefore, I am inclined to agree with the conclusion of the DA that the Noticee has violated the provisions of SEBI Circular dated November 18, 1993 and SEBI Circular dated September 26, 2016.

III. Improper use of clients' funds

39. The SCN alleges that the Noticee misappropriated the funds of clients by not transferring sales proceeds to the clients and used the sale proceeds for other purposes. Therefore, it was alleged that the Noticee has violated the provisions of SEBI Circular dated November 18, 1993 and SEBI Circular dated September 26, 2016.

40. SEBI Circular dated November 18, 1993 mandates strict segregation of client funds and broker's own funds, and requires that money received from or on account of a client be deposited forthwith in the clients' account. Further, SEBI Circular dated September 26, 2016 inter-alia bars a stock broker from using client funds or securities for proprietary purposes and mandates that transfer from the client account to the proprietary account is permitted only for legitimate dues, such as brokerage, statutory charges, or funded debit balances, and must be supported by daily reconciliation.

41. The Noticee's submissions have been summarized in paragraph 18. The Noticee has submitted that the funds in question were utilized solely for legitimate business requirements of the company and has provided a break-up showing the manner in which the said funds were utilized. The Noticee has argued that the funds were transferred from its own cash settlement account to its F&O settlement account, and therefore remained within the company and not misappropriated. The Noticee has further submitted that an amount of INR 10.47 crore was utilized for paying advance towards purchase of flats, which was subsequently sold in order to repay the clients of the Noticee.

42. I note from FAR that the modus operandi adopted by the Noticee was that it collected funds and securities from certain clients on the assurance of periodic payments. These clients were largely mapped to MISL's branch codes 'VD' and 'VD2' or bore client codes beginning with 'MX'. The Noticee deployed those assets in the F&O segment, and, after incurring losses, met the resulting obligations and periodic payment commitments by selling client securities. The FAR further

identified that such transactions were carried out largely through specific set of 10 client accounts, including certain accounts alleged to be connected or interrelated.

43. Further analysis of the fund flow in the client ledgers reveals that, during the forensic audit period, the Noticee received net cash settlement of INR 126.31 crore from the Exchanges against sale and purchase of clients' securities and also received a net sum of INR 9.98 crore from its clients. The material on record indicates that the sale proceeds of INR 126.31 crore received from the Exchanges were not transferred to the clients. Further, as per the bank statements and balance confirmations referred to in the FAR, the Noticee had a fund shortage of INR 48.73 crore as on January 24, 2020, which indicates that the funds received from clients were also potentially not available for their intended purpose. Accordingly, the total potential misappropriation of funds by the Noticee is noted to be INR 136.29 crore.

44. A summary of potential fund misappropriation segregated in VD and Non-VD clients (as summarized in the FAR) is presented in below Table:

Table 3

Potential misappropriation of funds by MISL *(Amount in INR crores)*								
		Cash settlement for clients			Fund flow to/from clients			Misappropriation of funds
Sr. No.	Particulars	Purchase	Sale	Net sale	Payment	Receipt	Net inflow	
		(A)	(B)	(C) = (B- A)	(D)	(E)	(F) = (E- D)	(G) = (C+F)
1	VD Group	97.40	226.21	128.81	101.95	92.28	(9.67)	119.14
2	Non-VD	522.92	520.42	(2.50)	391.40	411.05	19.65	17.15
	Group Total	**620.32**	**746.63**	**126.31**	**493.35**	**503.33**	**9.98**	**136.29**

45. From the table above it is evident that the Noticee that the sum of approx. INR 136. 29 Crore was not paid out to the clients. As per SEBI Circular dated November 18, 1993 and SEBI Circular dated September 26, 2016, the said sum should have been deposited forthwith in the clients' account and should have not

been permitted to be used for proprietary purposes. The Noticee has not explained why the said amount were not transferred to the clients.

46. I find that the Noticee's contention that the transfer of INR 100.37 crore from the cash settlement account to the F&O settlement account would not amount to misappropriation merely because the funds continued to remain within the company, is wholly misconceived and untenable. Client funds are required to remain segregated and cannot be utilized by the stock broker to meet obligations arising in another segment, including the F&O segment. Any such transfer, constitutes an impermissible diversion of client funds. In fact, the Noticee's own submission that payouts were made to clients despite losses in the F&O segment only reinforces the inference that client funds were being misutilised.

47. The Noticee has also submitted that INR 10.47 crore was utilized as advance towards the purchase of flats, which were later sold to repay clients. I note that client funds cannot, under any circumstance, be diverted for acquisition of immovable property or for any other purpose determined at the discretion of the stock broker. The subsequent sale of such flats, does not cure the illegality of misappropriation of client funds.

48. Hence, on the basis of material available on record, I am inclined to agree with the conclusion of the DA that the Noticee has violated the provisions of SEBI Circular dated November 18, 1993 and SEBI Circular No. dated September 26, 2016.

IV. <u>Misrepresentation of books and accounts</u>

49. The SCN alleged that the Noticee had misrepresented its books and accounts by making incorrect adjustments in Register of Securities (RoS), misrepresentation of payments/receipts of clients and incorrect adjustment in client's financial ledgers. Therefore, it was alleged that the Noticee has violated Rule 15 of SCRR read with Regulation 17 of Stock Broker Regulations.

50. Rule 15(1) of the SCRR requires every member of a recognized stock exchange to maintain and preserve for five years specified books of account and documents, including the sauda book, clients' ledger, general ledger, journals, cash book, bank pass-book, documents register, contract books, contract notes, clients' written consents, and margin deposits book. Similarly, Regulation 17(1) of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 requires every stock broker to keep and maintain the prescribed books of account, records, and documents. Read together, these provisions require a stock broker to maintain complete, accurate, and verifiable records of its transactions, client dealings, funds, securities, and related documents.

a. Incorrect adjustment in Register of Securities

51. I note from FAR that in the accounts of 118 clients, there was a negative securities holding of Rs.113.03 crore in 323 scrips as on January 24, 2020 which indicates that securities of other clients were sold to meet the obligation of these 118 clients. Further, analysis of top 16 clients with negative securities holdings (i.e. securities recoverable from them) of Rs.111.12 crore in 250 scrips (as on January 24, 2020) also showed that Noticee had recorded incorrect manual adjustments to set-off the deficit of Rs.111.12 crore. The manual adjustments that were carried out by the Noticee were of the following nature:

i. <u>Manual margin adjustments (INR 116.65 crore):</u> Manual entries aggregating to INR 116.65 crore were recorded under the margin option in the accounting software to artificially inflate the securities holdings of 16 client accounts in the F&O segment. These securities were subsequently transferred to the cash market and sold. The entries appear to have been made to facilitate the sale of securities belonging to other clients through these 16 client accounts.

ii. <u>Manual transfer adjustments (INR 6 crore):</u> Similarly, manual transfer entries aggregating to INR 6 crore were recorded in the same 16 client accounts to reduce their securities holdings against purchases made for other clients through those accounts. These adjustments appear to have been made to manage cases where clients, whose securities had earlier been sold through these 16 accounts, later sought transfer of securities to their demat accounts or executed sale transactions in respect of their holdings.

A summary of the manual adjustments for top 16 clients with negative securities holdings of Rs. 111.12 crore is presented in the following table:

Table 4

Top 16 clients with negative securities holdings as on January 24, 2020 *(Amount in INR crore)*							
				Potential incorrect adjustments			
Sr. No.	Client Code	Client Name	Closing balance per RoS Holding as on 24 January 2020 (MISL's books)	Manual margin adjustments to knock off sales	Manual transfer adjustments to knock off purchases	Other Adjustments	Corrected RoS as on 24 January, 2020
1	MX750	S****d S******yan	-	23.02	(1.03)	0.74	(22.73)
2	MX550	V****t S*******yan	-	22.31	(2.94)	(0.13)	(19.24)
3	MX725	I******r S***h J**eja	-	18.46	(0.61)	(0.13)	(17.72)
4	MX914	Last P*** So******s P*****e L*****d	-	14.08	(0.46)	(0.27)	(13.35)
5	MX845	Last P*** So******s P*****e L*****d	-	9.34	(0.03)	(0.10)	(9.21)
6	MX941	J****i S******yan	0.02	9.46	(0.83)	(0.37)	(8.28)
7	MX895	T*****on S******s S*******e P****te L*****d	-	5.78	-	-	(5.78)
8	1AP234	P*****athi A****ki	-	3.72	-	-	(3.72)
9	S472	S***ir P***r L****ed	-	2.16	-	1.25	(3.41)
10	1AP176	S*** K***r S***na	-	3.18	-	-	(3.18)
11	1AP1	S*****sa R** A****ki	-	2.89	(0.10)	-	(2.79)

12	N106	N*****er	0.24	1.24	-	(0.84)	(0.64)
13	MX865	P******m L** K***r	-	0.51	-	-	(0.51)
14	R290	R***l M****dra	-	0.23	-	-	(0.23)
15	R193	R***t K**ar	-	0.17	-	0.02	(0.19)
16	KV1	V*****ar K**ar V**ma	-	0.10	-	0.04	(0.14)
		Total	**0.26**	**116.65**	**(6.00)**	**0.21**	**(111.12)**

52. I note that the FAR, as well as the SCN, has specifically identified the client accounts in question and set out in detail the adjustments made therein. Thus, the allegations are not vague or generalized, but are supported by account-wise particulars and details. Therefore, the Noticee has merely made broad and unsubstantiated submissions regarding recoverable balances and lack of forensic verification, without specifically rebutting the individual client-wise findings or explaining the particular manual adjustments identified in the FAR and reproduced in the SCN. In the absence of any specific documentary evidence, or reconciliation to disprove the specific findings on record, the submissions do not establish anything to the contrary.

b. Other incorrect adjustments in RoS

53. The FAR notes that a review of RoS transaction ledger for the Review Period showed that in 21 transactions in 13 client accounts, the quantity has been deleted or reduced from delivered/received quantity. This led to change in total securities holdings of those clients in MISL's books by Rs.23.16 crore in absolute terms. This was corrected while determination of the shortfall of clients' securities holdings available with MISL.The Noticee has not made any submission to refute the said allegation.

c. Misrepresentation of payments/receipts of clients by MISL

54. I note from FAR that upon comparison of payments/receipts of clients (INR 10 lakhs and above) with bank account statements, the following was revealed:

i) In 35 transactions totaling Rs.8.87 crore, bank statements showed that funds have been received from Noticee’s group companies, but these have been recorded in bank book as receipt from clients.
ii) In one transaction, Rs.3.05 crore received from Design Pro has been applied to client account of Spazzio Projects and Interiors Private Limited (Spazzio). There is no client account of Design Pro. This has been adjusted from the closing balance of Spazzio in the books to compute its corrected fund balance.

55. With respect to the aforesaid findings, the Noticee has merely submitted that the accounting entries relating to the 35 transactions were rectified in January 2020. Further, it also contended that the transaction concerning Spazzio was handled by Mr. Dharmendra, and therefore no allegation can be attributed to the Noticee. The Noticee has not furnished any documentary evidence to substantiate its contention that the accounting entries in respect of the said 35 transactions were in fact rectified. Further, the contention that no liability can be attributed to the Noticee merely because Mr. Dharmendra was handling the transaction is untenable. A corporate entity such as the Noticee necessarily acts through its directors, officers, and employees, and cannot disclaim responsibility for its acts and omissions on the ground that a particular director was exclusively handling the matter.

d. Incorrect adjustment in client’s financial ledgers:

56. I note from the SCN and the FAR that several incorrect adjustments were made by the Noticee in the clients financial ledgers. These included the following:
i) Bad debt write-offs aggregating to INR 34.71 crore during FY 2017-18 and 2018-19 in respect of 117 client accounts pertaining to F&O losses, which were not debited to the Profit and Loss account but were instead adjusted against the Pro account, thereby resulting in overstatement of profits; notably, no evidence of recovery follow-up or legal notices was available, and in 45 of these accounts trading was allowed even after the write-off;

ii) Manual "Adjustment of Shares [N]" entries recorded between January 04, 2020 and January 24, 2020, whereby payables to 332 clients were increased by INR 103.64 crore and receivables from 18 clients were increased by INR 124.69 crore, with the balancing amount of INR 20.74 crore adjusted in the Pro accounts;

iii) Wrongful adjustment of payments and receipts, including rectification entries passed on December 19, 2019 and January 04, 2020 for payments of INR 18.33 crore and receipts of INR 11.56 crore, while one unrectified entry relating to receipt from 'Design Plus Architecture' wrongly applied to 'Spazzio' resulted in a balancing difference of approximately INR 3.05 crore, and comparison with bank statements further showed that in 35 transactions receipts from group companies were shown as client receipts; and

iv) Securities worth approximately INR 0.16 crore, out of securities sold by Axis Bank for closing open F&O positions, were found not to be available in the respective client accounts despite having been adjusted in the client ledgers by the Noticee which were excluded for determining the corrected ledger balances of client accounts.

A summary of the corrected creditors/debtors is shown in the below table:

Table 5

Corrected balances of clients as of 24January2020 *(Amount in INR crore)*					
		Trade Receivable		Trade Payable	
Sr. No.	Particulars	Count	Amount	Count	Amount
1	Corrected balances as of 24 January, 2020	456	(106.28)	259	102.49

*(**Note:** - Corrected creditors of Rs. 102.50 includes 10 clients alleged to be used for misappropriation of securities. If credit balance of those 10 clients totaling Rs. 71.86 crore is excluded. Net corrected creditors to remaining 249 clients will be approx. Rs. 30.63 crore.)*

57. The Noticee has not specifically refuted the aforesaid allegation and has merely stated that the relevant accounting entries were generally handled by Mr. Dharmendra, who has since expired, and by the accounting department. The Noticee has not brought on record any material or evidence to establish otherwise or to disprove the allegation.

58. Hence, on the basis of material available on record, I am inclined to agree with the conclusion of the DA that the Noticee has violated the provisions of Rule 15 of SCRR read with Regulation 17 of Stock Broker Regulations.

V. **Periodic payments to certain clients which were in nature of return on investments**

59. The SCN alleged that the Noticee had collected investment (securities/funds) from certain clients with commitment of periodic payment as returns on their investments and made periodic payments to its clients, misrepresented books and accounts and did not adhere to the rules of membership. Therefore, it has been alleged that the Noticee has violated the provision of Section 12(1) of SEBI Act, 1992 read with Rule 8 (1) (f) and 8 (3) (f) of SCRR and Regulation 3 & 14(1)(a) of SEBI (Portfolio Managers) Regulations, 1993.

60. Section 12 (1) of the SEBI Act *inter-alia* mandates intermediaries to act in accordance with conditions of certificate of registration obtained from SEBI. Rule 8 (1) (f) and rule 8 (3) (f) restricts the members of stock exchanges from engaging in any business other than that of securities or commodity derivatives and mandates that membership shall be discontinued if a member engages in any other business other than that of securities or commodity derivatives. Further, Regulation 3 and Regulation 14(1) (a) of the SEBI (Portfolio Managers) Regulations, 1993 requires registration for acting as a portfolio manager and mandate a formal client agreement/disclosure framework before rendering portfolio management services.

61. The submissions of the Noticee have been summarised in paragraph 18. The Noticee has denied the allegations relating to periodic payments made to its clients

and has primarily contended that one of its directors, Mr. Vikram Duggal, was solely responsible for handling the clients identified under the code name 'VD', and that all actions concerning this group of clients were undertaken without the knowledge of the Company. The Noticee has further submitted that the Company continues to retain the right to recover the losses from the clients, and the same has to be considered while deciding on the allegations made against the Company.

62. The bald submission that one of the directors (Mr. Vikam Duggal) was solely handling the transaction and the company had no idea about the actual handling of the business is not tenable as the Noticee being a corporate entity acts through its directors. Further, the clients belonged to Modex and the activities/transactions were being done on behalf of Modex. The mere fact that one of the Directors was handling such transaction does not absolve the Noticee of its obligation from adhering to the applicable regulations.

63. As per the material available on record, after analysing 78 out of 197 VD clients, it was observed that the Noticee had made periodic payments totalling to Rs.16.87 crore to 50 VD clients during the Review Period. In 47 out of those 50 VD clients, F&O losses of Rs.98.60 crore was recorded during the Review Period. Further, periodic payments totalling Rs.0.07 crore were observed in one Non-VD client despite F&O losses of Rs.2.13 crore. The detail of client wise F&O loss and periodic payments of Rs.16.70 crore made to 48 clients out of Rs.16.87 crore is reproduced are as under:

Table 6

Sr. No.	Client code	Client Name	Client category	Net F&O Loss Amount in crore)	Periodic payments (Amount in crore)
1	MX750	Shxxxd Sxxxxxxxyan	VD Group	(16.18)	2.06
2	MX550	Vxxxxt Sxxxxxxxyan	VD Group	(12.88)	2.19
3	MX725	Ixxxxvir Sxxxh Jxxxja	VD Group	(11.23)	0.49
4	MX673	Bxxxxes Gxxxl	VD Group	(5.75)	0.62
5	MX802	Hxxi Om Pxxi	VD Group	(5.23)	0.31
6	MX845	Lxxt Pxxk Dxxa Pxxxxxe Lxxxxxd	VD Group	(5.18)	0.69

7	MX875	Rxxxxh Kxxxr Sxxxi	VD Group	(4.45)	0.90
8	MX972	Jxxxxxxxxree Sxxxh	VD Group	(4.09)	0.41
9	MX895	Txxxxxxn Sxxxxxes Sxxxxxxxe Pxxxxxe Lxxxxxd	VD Group	(3.68)	0.67
10	MX951	Kxxxn Sxxi	VD Group	(3.03)	0.22
11	V40	Vxxxa Rxy	Non VD Group	(2.13)	0.07
12	MX1112	Axxxk Kxxxr Txxxxn	VD Group	(2.09)	0.91
13	MX814	Kxxxn Kxxxr	VD Group	(1.99)	0.33
14	MX914	Lxxt Pxxk Sxxxxxxxs Pxxxxxe Lxxxxxd	VD Group	(1.90)	0.28
15	MX941	Jxxxxi Sxxxxxxxyan	VD Group	(1.75)	0.93
16	MX929	Kxxxxxh Cxxxxxr Mxxxa	VD Group	(1.71)	0.16
17	MX796	Pxxxxxn Lxl Gxxxl	VD Group	(1.34)	0.35
18	MX958	Sxxxxxxr Txxxxr	VD Group	(1.30)	0.38
19	MX908	Rxxxxh Bxxxxxxa	VD Group	(1.19)	0.21
20	K103	Kxxxi Pxxxxxp Jxxn	VD group	(1.19)	0.33
21	MX1055	Vxxxd Kxxxr Mxxxxl	VD Group	(1.10)	0.34
22	MX952	Nxxxn Axxxxxxl	VD Group	(0.98)	0.27
23	MX1001	Lxxa Bxxxxxxa	VD Group	(0.74)	0.05
24	MX1097	Axxxt Sxxxs Pxxxxxe Lxxxxd	VD Group	(0.68)	0.45
25	MX931	Rxxxxi Vxxxa	VD Group	(0.65)	0.10
26	MX1144	Rxxxa Sxxxh	VD Group	(0.61)	0.12
27	MX1141	Axxxi Rxxxxxxxa	VD Group	(0.60)	0.16
28	MX946	Mxxxxt Sxxxh	VD Group	(0.58)	0.15
29	MX702	Rxxxxxxxxh Pxxxxxd Kxxxxxp	VD Group	(0.55)	0.04
30	MX701	Mxxxxxt Sxxxh Cxxxxxxry	VD Group	(0.50)	0.03
31	MX1027	Axxxt Kxxxxl	VD Group	(0.48)	0.15
32	MX724	Nxxxxn Cxxxxa	VD Group	(0.47)	0.03
33	MX722	Sxxxxa Pxxi	VD Group	(0.46)	0.03
34	MX942	Vxxxa Kxxxxa Rxxxxxi	VD Group	(0.45)	0.04
35	MX642	Axxl Mxxxl	VD Group		

				(0.45)	0.04
36	MX940	Axxl Vxxxa	VD Group	(0.44)	0.07
37	MX1186	Pxxxxa Mxxxxr	VD Group	(0.40)	0.10
38	MX1142	Mxxxn Pxxxxxxi	VD Group	(0.38)	0.05
39	MX1168	JxxxxxxxJit Sxxxh	VD Group	(0.37)	0.14
40	MX1169	Jxxxxxh Kxxr	VD Group	(0.37)	0.27
41	MX964	Rxxxxa Gxxxa	VD Group	(0.31)	0.16
42	MX1024	Axxxxa Axxxd	VD Group	(0.30)	0.06
43	MX1148	Sxxxdh Txxxxn	VD Group	(0.23)	0.24
44	MX1056	Vxxxxs Kr	VD Group	(0.16)	0.07
45	MX995	Rxxxxxra Kxxxr Gxxxa	VD Group	(0.16)	0.07
46	MX955	Axxa Mxxxn Pxxxxxni	VD Group	(0.03)	0.11
47	R260	Rxxxxxxsh Axxxxxtri	VD group	(0.03)	0.01
48	MX865	Pxxxxxxam Lxl Kxxxr	VD Group	(0.00)	0.85
			Total		**16.70**

64. I note that the Noticee has failed to explain as to why periodic payments were made to the aforesaid clients despite losses incurred in their account and it has failed to submit any proof to counter the allegations in respect of aforementioned clients. In absence of any evidence to the contrary and the prima-facie finding that payments were made to clients despite losses in their accounts, leads to the inference that Modex was engaged in business other than that of securities broking and also misused client's fund/securities to make periodic payments to certain clients despite losses incurred by them

65. Further, the Noticee has failed to submit any supporting evidence on record to show any efforts undertaken by the Company to recover the F&O losses from the clients and its mere assertion that the company still retains the right to recover the losses from the clients, does not disprove the allegation that periodic payments were made to clients.

66. I note that the fact that the Noticee had collected investments (securities/funds) from clients and periodic returns was assured and provided to them despite losses leads to the inference that Modex was providing services akin to an unregistered portfolio manager. Therefore, I find that Modex was carrying on a business similar to unregistered portfolio management, which is a service other than as a stock broker. The same is clearly prohibited under the applicable provisions.

67. Hence, on the basis of material available on record, I am inclined to agree with the conclusion of the DA that the Noticee has violated the provisions of Section 12(1) of SEBI Act, 1992 read with Rule 8 (1) (f) and 8 (3) (f) of SCRR and Regulation 3 & 14(1)(a) of SEBI (Portfolio Managers) Regulations, 1993.

68. The SCN has further alleged that Modex failed to comply with the statutory requirements embodied in Clauses A(1), A(2), A(3), and A(4) of the Code of Conduct specified in Schedule II, read with Regulation 9 of the SEBI (Stock Brokers) Regulations, 1992. The aforesaid provisions, inter alia, require a stock broker to maintain high standards of integrity, exercise due skill, care and diligence in the conduct of its business, and act with fairness in dealing with clients. They also prohibit a broker from indulging in manipulative, fraudulent, or deceptive practices, or from undertaking any act detrimental to the interest of investors or the integrity of the securities market. In the instant matter, the violations established hereinabove clearly demonstrate that Modex failed to exercise due skill, care, and fairness in the conduct of its business, and had resorted to malpractices. Therefore, I find that Modex has clearly violated Clauses A (1), A (2), A (3), and A (4) of the Code of Conduct specified in Schedule II, read with Regulation 9 of the SEBI (Stock Brokers) Regulations, 1992.

69. The Noticee has disputed the correctness of the FAR; however, it has failed to place on record any substantive figures or material to controvert the numerical findings forming the basis of the FAR. Apart from raising certain technical objections, the Noticee has not advanced any substantive challenge to the

underlying data or conclusions. Further, in respect of the majority of the issues, the Noticee has merely submitted that the director in charge was aware of the functioning of the company and that, after his demise, they are unaware of the alleged violations. Such bald and unsupported submissions, in the absence of any cogent material, are liable to be rejected.

E. CONCLUSION

70. For the reasons mentioned in the preceding paragraphs, I find that that the Noticee has violated the following provisions:

a. Non-availability of client securities- SEBI Circular dated November 18, 1993, SEBI Circular dated April 21, 2004, SEBI Circular dated April 17, 2008 and SEBI Circular dated September 26, 2016.

b. Shortfall in funds- SEBI Circular dated November 18, 1993 and SEBI Circular dated September 26, 2016.

c. Improper use of client's fund- SEBI Circular dated November 18, 1993 and SEBI Circular dated September 26, 2016.

d. Misrepresentation of books and accounts- Rule 15 of Securities Contracts (Regulation) Rules, 1957 read with Regulation 17 of SEBI (Stock Broker) Regulations 1992.

e. Periodic payments to certain clients which were in nature of return on investments - Section 12(1) of SEBI Act, 1992 read with Rule 8 (1) (f) and 8 (3) (f) of SCRR and Regulation 3 & 14(1) (a) of SEBI (Portfolio Managers) Regulations, 1993.

f. Failure to comply with the statutory requirements embodied in Clauses A(1), A(2), A(3), and A(4) of the Code of Conduct specified in Schedule II, read with Regulation 9 of the SEBI (Stock Brokers) Regulations, 1992.

71. As a SEBI registered intermediary, the Noticee is under statutory obligation to comply with the applicable SEBI Regulations, Circulars and Rules. The Noticee was involved in various malpractices including misrepresentation of books of accounts and misusing client funds and securities. Further, the Noticee was also engaged in business other than as a stock broker and was providing services similar to unregistered portfolio management services to its clients in violation of prescribed regulations. The violations established above strikes at the core principles of investor protection, transparency and regulatory compliance.

72. I note that the Noticee has been expelled as a trading member from both the NSE (w.e.f 15.09.2020) and the Bombay Stock Exchange (w.e.f 18.09.2020). The Noticee has submitted before me that its business has come to a standstill and the company is totally non-operational, as on date. The Noticee has further submitted that the main director (i.e. Mr. Dharmendra Kumar Arora) who was handling the day to day operations has expired and the only director (i.e. Mr. Pavan Kumar Sachdeva) is not involved in the day to day business or functioning of the company.

73. The initiation of CIRP against the Noticee reinforces the inference that the Noticee has been unable to maintain the financial capacity necessary to discharge its own debts and obligations. Further, the expulsion of the Noticee from the membership of both NSE and BSE, its admitted non-operational status for a prolonged period, and the demise of the principal director who was overseeing its day-to-day affairs, cumulatively cast serious doubt on the Noticee's capacity, continuity, and overall ability to function as a stock broker. Membership of a recognized stock exchange is a fundamental requirement for an entity to be eligible for continued registration as a stock broker. The Noticee's own submission and conduct reveals it has no desire to continue as a registered intermediary.

74. Having regard to the fact and circumstances discussed in aforesaid paragraphs, I agree with the recommendation made by the DA that the certificate of registration of the Noticee may be cancelled.

F. ORDER

75. In view of the foregoing, I, in exercise of powers conferred upon me under sub section (3) of Section 12 and Section 19 of the SEBI Act, 1992 read with the sub-regulation (5) of regulation 27 of the Intermediaries Regulations, hereby cancel the certificate of registration of the Noticee i.e. Modex International Securities Ltd.

76. Irrespective of the cancellation of the Certificate of Registration, the Noticee shall continue to be liable for anything done or omitted to be done as a Stock Broker and continue to be responsible for payment of outstanding fees and dues, to investors/clients of the Noticee, in accordance with law.

77. The Order shall come into force with immediate effect.

78. A copy of this order shall be served upon the Noticee and all the recognised stock exchanges for information and necessary action.

Biju S Digitally signed by Biju S Date: 2026.09.11 17:32:36 +05'30'

Date: September 11, 2026

Place: Mumbai

BIJU S.
QUASI JUDICIAL AUTHORITY
SECURITIES AND EXCHANGE BOARD OF INDIA