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**NSEL Matter and ongoing support by our Associations**

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Brokers 1950 <1950brokers@gmail.com>  
To: presi.sec@anmi.in, bbplmumbai@gmail.com

Wed, Jan 9, 2019 at 7:50 PM

# **OPEN LETTER TO ANMI AND BBF**

## **WHO ARE CROWD-FUNDING TO PROTECT CRIME OF TOP 5 BROKERS AGAINST SEBI**

**ASSOCIATION SUPPORTING ACCUSED MEMBERS AT THIS STAGE CAN  
BE COMPARED WITH FICCI OR CII SUPPORTING KINGFISHER / VIJAY  
MALLYA OR ANY OTHER NPA OR WILFUL DEFAULTER OR BULLION /  
JEWELLERY ASSOCIATIONS SUPPORTING NIRAV MODI / MEHUL  
CHOKSI!!!**

January 9, 2019

To

1. **Mr. Rajesh Baheti**

President, Association of National Exchanges Members of India  
Office No. 202, Star Hub Building No 1,  
Behind ITC Maratha Hotel, Sahar Road, Andheri (East),  
Mumbai – 400 059

2. **Mr. Uttam Bagri**

Chairman, BSE Brokers' Forum  
808A, 8th Floor, P.J. Towers,  
Dalal Street, Fort,  
Mumbai – 400 001

**Subject: NSEL Matter and ongoing support by our Associations**

Dear Sirs,

With reference to the subject matter, certain steps taken by our Associations earlier and in recent past and a member's letter dated January 5, 2018 circulating in the public domain,

we would like to make the following submissions:

1. I am a broker with a small set-up, and a member of both the associations and also a registered member of major exchanges including NSEL (I have exposure of my family and friends at NSEL and others of our loyal clients as well).

2. I am writing this letter on behalf of a few other members as well those who are in our group and as such, all representations done here are on behalf of all of us. Rather, we all believe, these are the views of the majority members except for a few who might be at fault. However, in case, the association wants all members to send their representations individually, we will be more than happy to provide the same.

3. Just so that we save time, let us declare here that we all are in cent per cent agreement with all the points raised in the Open Letter and hence, we are not repeating those here.

4. First, we are surprised or rather shocked by the ongoing support of our Associations to a handful of members in the NSEL matter. As we all know, NSEL is a very complex matter and till date, multiple investigating agencies / bodies have investigated matter and, which is still going on. As investigations by the EOW, SEBI and SFIO have revealed, the top 5 brokers of NSEL have been found to be involved in large-scale malpractices and market misconduct such as

- a) **False assurances and misrepresentations to clients**
- b) **Misuse of Unique Client Code**
- c) **Trading without client's authority**
- d) **Trades not matching with the records of applicant**
- e) **Manipulation of ledger accounts**
- f) **Funding with/without consent of trading clients**
- g) **Non-receipt of pay-outs**
- h) **Fabrication and forgery of documents**
- i) **Some clients privately settling/undermining the recovery mechanism, etc.**

5. At this stage, supporting these accused few members and trying to interrupt the fact-finding process would be great injustice to not only all of us, but our investors and the country at large.

**6. Association supporting these accused members at this stage can be compared with FICCI or CII supporting Kingfisher / Vijay Mallya or any other NPA or wilful defaulter or Bullion / Jewellery associations supporting Nirav Modi / Mehul Choksi!!!**

7. In case members who are being investigated have truth of their side, let them pass through the process of investigation and judicial scrutiny. On the other hand, the interference of the association at this stage creates doubt in the mind of the agencies as well as the public because of which we all are looked upon as culprits. It also leads many among us to doubt that there is something more than what meets the eye and the association is trying to hide something to save a few influential members.

8. We note with pride that our association has taken many excellent steps in past for the growth of the industry. However, in this case, it seems all these steps are being taken to only save a few members.

9. As members of the association, it is our legitimate right to know the due process followed before the association decided to take certain steps in the NSEL matter. We request you to keep this communication as well as all other communication in this regard, including the Open Letter, in the public domain or send it to all members including material requested for in other part of this letter.

10. We humbly request you to explain the following in respect of the NSEL matter:

a. Before the association decided to step into the NSEL matter, who all were the members to write to the association seeking support and what communications were done in this regard?

b. In which meeting were such proposals considered, who were the office bearers present in such meetings, what were the discussions done and, what were the objections raised, if any, and the decisions taken

c. Whether the association considered it necessary to call for a meeting of all members before such an important decision was taken to represent all of us?

d. Whether, as per the objective of association the office bearers have the right to represent association for a few members in such a serious matter that is being investigated by investigative agencies and the market regulator?

e. On what basis was the amount of financial contribution derived at?

f. On what basis, was it decided that each member's contribution will be equal despite the fact that the exposure of each member is different, and the risk/wrongdoing of different members can be different?

g. On what basis was it decided that members who do not contribute will not be represented legally?

h. Will the association furnish the names and details of all those who were involved in all the communication and the decision-making process?

11. When we, as members, are an SRO, we expect complete transparency in the matter and we do not want to be party of this representation unless due process is followed and it is decision of all the members.

12. In case few office bearers or members are interested in supporting few members who are being investigated by the agencies and the regulator, they can do so in their individual capacity. However, the association should refrain from representing the accused members since doing that is against the very spirit of the association.

13. Did the association, at any point of time, consider representing to SEBI or other investigating agencies, when a handful of members are being investigated for insider trading or price rigging or any other such matters? As per our knowledge, for all such cases, respective members must prove their innocence without any support of the association and come out clean or face the consequences. Then, why such differential treatment in this particular case?

14. Such differential treatment in this case proves that our association is in the hands of a few individuals and they are using it to their own illegitimate and wrongful benefit.

15. We all want genuine claimants to get their dues of NSEL and that is the ultimate motive. However, this will not be possible without full investigation and bringing the culprits to book. And if that leads to our own members, then be that so since the law must be allowed to take its own course.

16. Our associations should whole-heartedly support the investigative agencies and the regulator since that will ultimately help in resolving the matter and strengthen our business in future. And in the process, if some of our members are found guilty, then it will cleanse our industry and give more business to remaining members earn us the valuable trust of our clients and the regulator.

We hope, this letter will help register the feelings of the majority of the members and the association will take the required corrective steps immediately.

However, in case the office bearers unfortunately decide to follow undemocratic process and favour a handful of members, we would be left with no option but to explore other remedies including approaching all exchanges, SEBI, media and other alternatives.

We will be more than happy to reveal our identity at the time in the interest of justice for all. However, we believe there are of course some upright office bearers in our association who would hear the voice of the majority and correct the mistakes now to bring out the truth.

Please find attached the following documents for your kind perusal and circulation to all office-bearers and members of our associations, along with this letter, too.

Thanks & Regards,  
Your's sincerely,

**Annexures:**

A: Mr Rajvardhan Sinha's Interim Reports on Role of Brokers

B: Transcript of Mr Rajvardhan Sinha's Interim Report on Role of Brokers

**Cc:**

**1) Shri. Narendra Modi**  
Prime Minister of India,  
South Block, Raisina Hill,  
New Delhi – 110 011

**2) Shri. Arun Jaitley**  
Finance Minister of India,  
North Block,

New Delhi – 110 011

**3) Shri. Devendra Fadnavis**

Chief Minister,  
Mantralaya, Dr. Madam Cama Road,  
Mumbai – 400 032

**4) Shri. Pon. Radhakrishnan**

Minster of State (Finance & Shipping),  
Ministry of Finance, Department of Revenue,  
North Block,  
New Delhi – 110 011

**5) Shri. Shiv Pratap Shukla**

Minster of State (Finance),  
Department of Revenue,  
North Block,  
New Delhi – 110 011

**6) Shri. Ajay Narayan Jha**

Finance Secretary,  
Ministry of Finance,  
Department of Revenue,  
North Block,  
New Delhi – 110 011

**7) Shri. Injeti Srinivas**

Secretary, Ministry of Corporate Affairs,  
A' Wing, Shastri Bhawan,  
Rajendra Prasad Road,  
New Delhi – 110 011

**8) Shri. Subhash Chandra Garg**

Secretary, Ministry of Finance,  
Department of Economic Affairs,  
North Block,  
New Delhi – 110 011

**9) Shri. Amitabh Gupta**

Principal Secretary, (Special), Home Department,  
Government of Maharashtra, Madam Cama Road, Mantralaya,  
Mumbai – 400 032

**10) Shri. Sunil Porwal**

ACS, Home Department,  
Chief Minister's Office,  
Mantralaya, Dr. Madam Cama Road,  
Mumbai – 400 032

**11) Shri. Ajay Tyagi**

Chairman, Securities and Exchange Board of India,  
SEBI Bhavan, Plot No.C4-A,  
G Block, BKC, Bandra (East),  
Mumbai – 400 051

**12) Ms. Madhabi Puri Buch**

Whole-Time Member, Securities and Exchange Board of India,  
SEBI Bhavan, Plot No.C4-A,  
G Block, BKC, Bandra (East),  
Mumbai – 400 051

**13) Shri. G. Mahalingam**

Whole-Time Member, Securities and Exchange Board of India,  
SEBI Bhavan, Plot No.C4-A,  
G Block, BKC, Bandra (East),  
Mumbai – 400 051

**14) Shri. N. S. Vishwanathan**

Part-Time Member, Securities and Exchange Board of India,  
SEBI Bhavan, Plot No.C4-A,  
G Block, BKC, Bandra (East),  
Mumbai – 400 051

**15) Shri. Arun P. Sathe**

Part-Time Member, Securities and Exchange Board of India,  
SEBI Bhavan, Plot No.C4-A,  
G Block, BKC, Bandra (East),  
Mumbai – 400 051

**16) Shri. Pankaj Kumar Mishra**

Director, Financial Intelligence Unit,  
6th floor, Hotel Samrat Kautilya Marg, Chanakyapuri,  
New Delhi – 110 021

**17) Shri. Nageshwar Rao**

Director (Acting), Central Bureau of Investigation,  
Plot No. 5-B, 6th Floor,  
CGO Complex, Lodhi Road,  
New Delhi – 110 003

**18) Shri. Sanjay Kumar Mishra, IRS**

Director, Enforcement Directorate,  
6th Floor, Lok Nayak Bhawan,  
Khan Market,  
New Delhi – 110 003

**19) Shri. Amardeep Singh Bhatia**

Director, Serious Fraud Investigation Office,  
2nd floor, Deendayal Antyodaya Bhawan,  
CGO Complex, Lodhi Road,  
New Delhi – 110 003

**20) Shri. Subodh Kumar Jaiswal**

Commissioner of Police,  
Police Commissionerate,  
Mumbai – 400 002

**21) Shri. Satyabrata Kumar**

Joint Director, Directorate of Enforcement,  
Zonal Office, Kalser-1-Hind,  
Currimbhoy Road, Ballard Estate,  
Mumbai – 400 001

**22) Shri. Vinod Choubey**

Joint Commissioner of Police (EOW),  
Police Commissionerate,  
Mumbai – 400 002

**23) Shri. Vikram Limaye**

Managing Director,  
National Stock Exchange,  
Exchange Plaza, Block G, C-1 BKC  
Bandra (East),  
Mumbai – 400 051

**24) Shri. Ashish Chauhan**  
The Managing Director,  
Bombay Stock Exchange,  
Phiroze Jeejeebhoy Towers,  
Dalal Street, Kala Ghoda, Fort,  
  
Mumbai – 400 001

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**2 attachments**



**Mr Rajvardhan Sinha's Interim Reports on Role of Brokers.pdf**

2415K



**Transcript of Mr Rajvardhan Sinha's Interim Report on Role of Brokers.pdf**

425K



Ex 11211

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Recd Today 06/04/15  
G.F

~~Amman~~



~~Supl Chairman~~

Pl. present & put up for necessary action

MPJ-OLK  
8/4/15

जा. क्र.  
अपर पोलीस आयुक्त  
आर्थिक गुन्हे विभाग  
बृहन्मुंबई याच कार्यालय, मुंबई

दिनांक  
O. W. NO. 789  
Office of the  
Addl. Commissioner of Police  
Economic Offences Wing  
Brihan Mumbai

Date: 4-4-2015

To

The Chairman,  
Forward Market Commission  
Everest Bldg.,  
100, New Marine Lines,  
Mumbai.

DD (AK)

8/4/15

AD (Ch)

Pl put up on file

Sir,

This is regarding the investigation being conducted by this office to identify the role played by broking houses in EOW C.R. No. 89/2013 (NSEL case). An interim report has been prepared by this office which also contains a list of broking houses and their money exposure. The same is annexed for your kind perusal.

It is submitted that this office is only taking cognizance of criminality under provisions of IPC, however, as far as violation of Code of Conduct or Licensing Terms is concerned, your intervention may be required.

You are, therefore, requested to take necessary action in this regard.

Yours Sincerely,

(Rajvardhan)  
Addl. Commissioner of Police,  
EOW, Mumbai.

CHAIRMAN F.M.C.  
No. 283  
07/4/15

True Copy  
Rc

National Spot Exchange Limited (NSEL)

Investigation Report: Role of the brokers

Prepared by Economic Offences Wing, Mumbai Police

Contents:

- Backdrop
- Entities involved
- Typical pair trade transaction
- Nature of the fraud
- Objective of the investigation into brokers' role
- Statutory compliance issues and issues in general
- Important findings of certain major brokers
- List of 139 broking houses/brokers with client exposure & money exposure is annexed

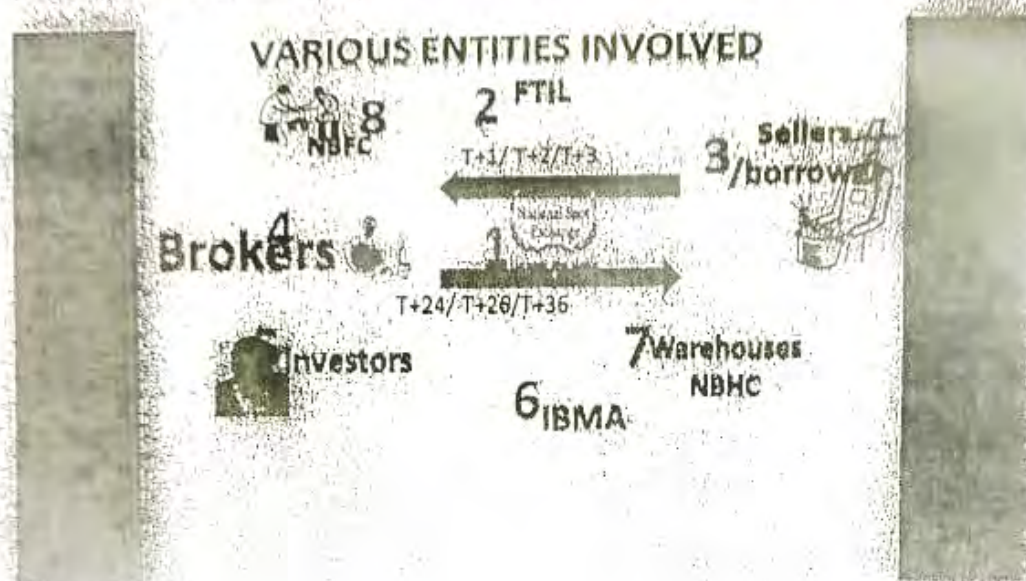
I. Backdrop

The NSEL scam is estimated to be a Rs.5600 crore fraud that came to light after the National Spot Exchange failed to pay its investors in commodity pair contracts after 31 July 2013. National Spot Exchange Limited is based in Mumbai, India. It was discovered after the exchange defaulted on 31 July 2013 that most of the underlying commodities did not exist and the buying and the selling of commodities like steel, paddy, sugar, ferrochrome etc. was being only conducted only on paper.

An estimated number of 15000 investors, along with public sector units like Metals and Minerals Trading Corporation of India (MMTC) and Project and Equipment Corporation (PEC), were victims of this NSEL scam.

## II. Entities Involved:

The following are the various entities in a typical commodity pair trade transaction where this fraud has been perpetrated.



1. NSEL itself is the main entity which served as 'Exchange' on which commodity pair trade transactions took place.
2. FTIL which was the holding company of NSEL which held 99+ % of its shares
3. Defaulters or borrowers were those members who offered their commodities for trading on the exchange platform for which they got paid from time to time. For example N-K Proteins was one of the largest defaulters who owed over Rs 900 crores to the exchange in July 2013.
4. Brokers were members of NSEL who brought in investors to trade on the exchange. Examples are Anandias Motilal Oswal, JPL, Geojit, etc who traded in huge volumes on the NSEL.

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5. Investors were clients of broker –members who invested on NSEL and who have been defrauded and are victims in the scam.
6. IBMA which was the subsidiary company of NSEL. This company was a member of NSEL and acted as Brokers and also actually offered trading for those brokers who did not have VAT registrations and apart from that it also traded on its own account.
7. Warehouses where commodities were supposed to be kept before trading. NBHC was also a subsidiary of FTIL which offered warehousing services along with other such companies.
8. NBFC companies belonging to individual brokers who funded and financed investors to trade on the exchange. Even brokers funded clients in their broking books by allowing debits to continue well beyond settlement cycle.

III. Typical Pair Trade Transaction:

A. A typical pair trade transaction is represented in the picture shown earlier where the first leg of the transaction on a day is effected on the exchange (due on T+1,2,3). In the first leg of the transaction the seller (defaulter) is supposed to have kept the commodity with the warehouse of NSEL before offering it for trading. The first leg is therefore purchase by a broker member on behalf of an investor from the defaulter on the exchange platform at the rate available on the trading platform. On the same day the second leg of the transaction reverses the purchase (settlement on T+25, 36) by the broker member at a different rate whereby the investor gains a profit (typically a certain percentage which may be akin to interest for that period). The stocks presumed to be in the NSEL warehouse are retained there and eventually to be collected by the defaulter after the 25/36 day period when he fulfils his settlement value by paying the exchange. The entire process of delivery of goods was simplified through Warehouse Allocation receipts which were supposed to represent goods in warehouse and the allocated goods belonged to the buyer client (investor). However, the lure of waiving margin on goods sold and deposited with NSEL made the clients choose this option (known as early pay in or obligation) and thereby client lost complete control over goods. He had to compulsorily depend on Exchange's ability to make the pay out to realise his due.

Nature of the fraud:

The Borrower –members could not pay the outstanding amounts that it owed to the exchange and consequently NSEL exchange defaulted in its payments obligations after July 2013, and investors to the extent of Rs 5,600 crores were unable to get the amounts due on settlement dates thereafter. NSEL did not have these commodities in the warehouses and therefore there was no security as promised to the investors. NSEL also had not kept aside sufficient funds in the Settlement Guarantee Fund. Therefore investors did not have any way to get back their investment and eventually a complaint was lodged by them with the EOW for recovery of this money. The MPID court is currently hearing this case.

The EOW is investigating this case from all the following angles:

- Role of NSEL, the Exchange, its promoter company, its employees, FTIL, and the Directors
- Role of the sellers and Defaulter- Members and the money trail
- Role of the brokers/members
- Role of the auditors
- Role of IBMA

Warehousing, NBHC and other entities within the FTIL group have not been taken up yet. This report deals with the role of the brokers in this fraud.

**IV. Objectives of this Investigation into the brokers' role:**

A scam of this magnitude would be difficult to continuously occur for 3 years without some of the large brokers' gross negligence or perhaps active participation.

**The actual role of the brokers was:**

- To bring in investors to invest in 'pair trades' promising them assured returns and the investors got about 13-16 % p.a. for investing in the commodity
- The sellers got finance at 18-20 or more % by pledging their commodity in NSEL warehouses

They got brokerage from investors on the NSEL platform and those brokers who had their NBFCs got additional revenue by financing investors for investing on NSEL.

Though the matter is still under investigation, brokers have also received back from the exchange certain charges collected from investors such as transaction fees, delivery and warehousing charges, etc. It is suspected that these are indirect motivation incentives for brokers to generate huge volumes. It is also possible that brokers may have benefitted from or compensated by the sellers or defaulters.

The higher the trading turnover, the higher revenues for the exchange and the brokers. Therefore both wanted to increase turnover at the exchange.

In light of the foregoing, the objective of BOW in investigating brokers was to inquire whether they had been involved in any wrongdoing connected with trading on the NSEL, specifically to determine whether they participated in



a) Any activities which were detrimental to the investors, NSEL, or third parties. To determine whether they had made false and misleading representations, offered inducement, financing, and deliberately made wrongful assertions purely to get brokerage and facilitate NSEL in generating higher volumes.

b) Whether they had any illegitimate personal enrichment, or, there has been have been knowing dereliction in their duties as clearing and forwarding agents towards the commodities and protect the investors.

c) It was also deemed necessary to ensure that their activities were within the framework of the law.

**V. Statutory non compliances and matters under investigations and general issues arising therefrom**

The brokers are being investigated for the following:

1. IPC-Sec 420 Cheating, Definition: Whoever cheats and thereby dishonestly induces the person deceived to deliver any property to any person, or to make, alter or destroy the whole or any part of a valuable security, or anything which is signed or sealed, and which is capable of being converted into a valuable security, shall be punished with imprisonment of either description for a term which may extend to seven years, and shall also be liable to fine.
2. IPC-Sec 463: Definition: Whoever makes any false documents or false electronic record or part of a document or electronic record, with intent to cause damage or injury, to the public or to any person, or to support any claim or title, or to cause any person to part with property, or to enter into any express or implied contract, or with intent to commit fraud or that fraud may be committed, commits forgery.
3. NSEL bye laws- UCC code changes, SGF, Warehousing matters. Some of these matters may be applicable to brokers who undertook market capturing. Applicability of SEBI's circulars regarding UCC modifications also need to be reviewed particularly since NSEL's circulars were inchoate in many respects.

4. Ministry of Finance- Financial Investigation Unit matters (FIU). Suspicious transactions being moved through multiple accounts by certain employees and client investors of brokers will have to be reported to the FIU /SEBI for further questioning
5. VAT payments, A thorough VAT investigation needs to be done to determine whether all brokers have paid fully the VAT collected on the NSEL trading platform from investors or from borrowers
6. Criminal liability in case some charges have been refunded by NSEL to brokers and if they have not been repaid to investors. Similarly if defaulters have compensated brokers, then they have abetted with them to defraud the investors
7. Compliance of NBFC regulations, and possibility of wrongdoings under other laws for Benami or Hawala transactions, income tax violations also may be reported.
8. FEMA, IT, PMLA may also be attracted.
9. ECOW is investigating in ambit of IPC offences and has not gone into Code of conduct or licensing term violation on behalf of these brokers, which may be separately enquired into, by SEBI/FMC as the case may be.

- Brokers had repeatedly made false statements to investors and are also liable for action under the Indian Penal Code. Some of them falsely presented NSEL as an exchange regulated by FMC & the investment secured by stocks and Settlement Guarantee Fund.
- Defaulted in verifying the authenticity of warehouses receipts, existence of warehouse and goods. This was their responsibility wherever C & F agency agreements were signed by them. They even gave out contract notes to investors which were backed against warehouses receipts. (In the case of IICL they were providing warehouse receipts when demanded by investors only. The broker, by not providing warehouse receipts to all investors on settlement day or immediately thereafter failed to complete a very important aspect of the settlement process (i.e. vis a vis the client).)
- Several brokers confirmed to the auditors of NSEL, in writing, the stock position as at the year end on 31 March 2012.
- Financing: Certain brokers financed investors through their sister concerns to encourage them to trade on NSEL. Certain brokers also provided funds to employees which were used to trade on the exchange. And certain brokers allowed debits of the client to continue in their broking books thereby indirectly funding the client, may be even using up funds in pool account remaining to due credit balances of other clients.

- Instances of suspicious transactions to be reported to the Financial Investigation Unit of Ministry of Finance: Certain investors moved funds through multiple accounts within a day or two before trading on NSEL. In one instance funds have even been given to a foreign branch and then rotated through multiple accounts before being traded in NSEL
- Market capturing: Instances of broker involved in mass trading (bulk buying) in investor's name without permission and then distributing trades to other clients through code changes
- Back office code changing done without consent of the Exchange
- Maintaining dual transaction details & accounting
- Manipulated trading volumes
  - Benami Tradings
  - Hawala Transactions
  - Illegal transactions using front entities

VI. Findings related to some major brokers

Broker: AnandRathi and his group companies (AR)

Started trading on the NSEL platform in 2009, 12,900 clients & trading worth ₹ 19,130.2 crores, (in the past 4 years) Around 16% of the overall turnover on NSEL. Total Brokerage earned: \_\_\_\_\_

Collection of evidence and Information till December 31, 2014 which appear to support the following:

- False assurance to investors as regards NSEL with wrongful and misleading statements and assurances
- Failure in responsibility to act as a C & F agent, which would include responsibility to ensure existence of stocks in NSEL warehouses, conduct periodic verifications and conduct overall due diligence to protect investors as their agent
- Possible nexus with M/s. N K Proteins (largest defaulter)
- Possible tie up with NSEL / FTIL / or its Directors indicating conflict of interests and absence of transparency and impartiality.
- Misleading submissions to EOW regarding signed agreements for C & F services
- Market Capturing practices by large scale UCC manipulations
- Short Selling on the Exchange
- Suspicious Transactions of funding through multiple accounts which need to be reported to FIU
- Illegal back office charges in UCC
- Fairly assured investors of due diligence & secured its settlement guarantee funds.

- Acted as clearing and forwarding agents, and gave NSEL auditors false information about adequate goods being in warehouses.
- Masqueraded as its client to do large deals (known as UCC manipulation).
- Carried out suspicious transactions of funding through multiple accounts, and to increase the volumes on NSEL platform, indulged in circular funding by transferring funds into various accounts of their own employees and relatives.

#### **Broker: Geojit Comtrade Limited**

Total Turnover during the last 3 years period: Rs. 5540.91 crores.

Collection of evidence and information till 13<sup>th</sup> January 2015 which appear to support the following:

- 1) Details regarding name of company, its registered office and name of directors responsible for commodity exchange at Geojit Comtrade Limited
- 2) Evidence regarding membership certificate approval letter, membership application form and board resolution authorizes to transact in NSEL product.
- 3) Year wise brokerage and turnover as well as C&F charges and other for NSEL paired contract.
- 4) False assurance to investors as regards NSEL with wrongful and misleading statements and assurances.
- 5) Possible tie up between NSEL
- 6) Market capturing practices by large scale UCC manipulation.
- 7) Short selling on the exchange

- 8) Suspicious transaction of funding through multiple accounts and written off 128.26 Crores as bad debt provision in F.Y. 2013-14
- 9) Stock lying certificate to Auditor 23/03/2012
- 10) Lurement by way of financing through sister concern and also writing off Rs.160 crores worth of bad loans in single financial year.

**Broker: India Infoline Commodity Limited (IICL)**

Total Turnover during the last 4 years period: Rs. 9183.48 crores.

Collection of evidence and information till 15<sup>th</sup> January, 2013 which appear to support the following:

- False assurance to investors as regards NSEL with wrongful and misleading statements and assurances.
- Possible tie up between NSEL??
- Market capturing practices by large scale UCC manipulation.
- Transaction of funding through NBFC and directly by the broking entity (multiple accounts)
- Stock verification confirmation as on 31-3-2012.

About the company: India Infoline Commodity Limited  
 India Infoline Commodity Limited (IICL) was incorporated in the year March 2004. Its office is at 181, Connaught Place, Senapati Bapat Marg, Lower Parel, Mumbai - 400016 India. Infoline Commodity Limited is a member of IMEX, NSE, NCDEX, NCDEX spot exchange. It offers commodity trading activity online to clients across India. Board of Directors



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(BOD) consists of Mr. Nirmal Jain, Mr. R Venkat Raman, and Mr. Chintan Modi.

Became a member of NSEL in 2010, trading worth ₹ 9,183.48 crores. Brokerage earned Rs. \_\_\_\_\_

- False assurances to investors of expect returns between 19 to 21%. (? may be on funded transactions)
- Misled investors that the trades were guaranteed by exchange and contingency funds to protect any losses.
- Risk free product as it was arbitrage.
- Goods in NSEL accredited warehouses (this would lend a sense of security as exchange was handling stocks like other exchanges handling Equity/ Debt instruments)
- Depiction that goods would be insured by NSEL
- While all the above gave a sense of security and a sense of relief regarding secured nature of transaction, the Member-client agreement contained a clause (9 of liCL agreement) that NSEL was only providing a platform to carry out trades and the client himself would personally liable to each other

for all obligations, etc...Pl refer extract below

The Constituent acknowledges that all trades/ transactions entered on the trading system of NSEL for purchase and sale of commodities would be between the Constituents i.e. buyers and sellers inter-se and the Constituents would be personally liable to each other/ counter party Constituent for the fulfillment of all obligations pertaining to the transactions/trades executed by them through their respective members and NSEL has only a limited role of facilitating the trading and settlement thereof and regulating the contract and relationships which are governed by the Rules, Regulations, Terms & Conditions, instructions and directions framed/issued by NSEL. The Constituent acknowledges and agrees that in case of any difference/dispute arising between the Constituent and the member or the Counter party Constituent pursuant to the dealings under this agreement, NSEL shall have no role in the dispute and the Constituent shall settle the same with the other party without making the Exchange a party to the dispute.

- Traded in clients' names without permission.
- They have denied existence / availability of recorded conversations with clients for trades, as well as trade changes.
- Making mis statements about trading by the company (prop trading done using client codes), Directors, their relatives and their group / associate companies.
- So far not cooperated by not providing data exclusively for NSEL segment. Despite requests ledgers/ Bank accounts etc are provided for the company instead of for NSEL segment.
- Not providing details of how clients were funded in brokers book and how broker's own stock of Rs 7 crore got added to NSEL and total stock of Rs 176 crore as on 31-8-2012 was

funded. Possibility of misuse of client funds in pool account or funding from NSEL related entities?

- It does not appear that broker carried out any exercise to check if the NSEL product was suitable for a client. Even persons with very low income / wealth were enrolled as client and made to participate in this trading.
- Though NSEL was supposed to be SPOT exchange, the product was being marketed as a financing transaction.

*As of 19.3.2015, the brokers were accused of not providing the investor details, and said going by the number of details it got so far the total number of investors who have claimed to have lost money looked bogus. The investigation is on.*

Clearing Member Name	
CFA BROKING PVT LTD	1,780,900
VIJAY T PATEL	628,400
CHIMANLAL POPATLAL COMM. BROKER P. LTD	370,041,387
JHAVERI CREDITS AND CAPITAL LTD	18,262,062
PURVAG COMMODITIES AND DERIVATIVES P LTD	1,325,879,150
NARAYAN COMMODITY BROKERS PVT LTD	110,623,510
PINNACLE BROCOM PVT LTD	27,612,610
RELIGARE COMMODITIES LTD	48,042,240
SSE COMMODITIES PVT LTD	125,441,390
GANDHI COMMODITIES PVT LTD	10,672,500
VIJETA MULTI COMMODITIES PVT LTD	8,931,314
INDIA INFOLINE COMMODITIES LIMITED	3,262,431,371
KARVY COMTRADE LTD	344,610,656
INDIRA COMMODITIES PVT LTD	30,317,171
CHAMUNDA COMMODITY PRIVATE LTD	21,104,220
RAGHUNANDAN INDUSTRIES PVT LTD	35,111,454
MS MILIND VIJAYBHAI THAKKAR	11,765,235
AUM COMMODITY PRIVATE LIMITED	2,147,581,528
HTS COMMODITIES PVT LTD	1,739,976
DAGA COMMODITIES PVT LTD	1,026,980
SIHL COMMODITIES LTD	58,874,517
ANAND RATHI COMMODITIES LTD	6,428,208,685
DANI COMMODITIES PVT LTD	143,335,742
P C S COMMODITIES PVT LTD	93,076,394
RR COMMODITY BROKERS PVT LTD	490,264,222
HARDIK MULTI.COM BROKING PVT LTD	61,909,329
CHONA COMMODITY TRADING SERVICES PVT LTD	54,929,957
RAINBOW COMMODITY & DERIVATIVES P. LTD	359,114,060
VACHI COMMODITIES AND DERIVATIVES P LTD	795,375
BALIT METALS PVT LTD	97,040,403
ASHIKA COMMODITIES & DERIVATIVES PVT	343,908,926
SSI COMMODITIES PVT LTD	208,511,185
LEO GLOBAL COMMODITIES PVT. LTD.	165,439,530
R K GLOBAL COMMODITY BROKING LTD.	51,239,958
TIME LEVERAGE INSTRUMENTS PVT LTD	1,579,500
GAUTAM LABDHI COMMODITIES PVT LTD	3,194,850
EUREKA COMMODITY BROKERAGE PVT LTD	74,245,953
CHINMAY FINANCIAL SERVICES	1,322,475
HITECH BPO SOLUTION PVT LTD	32,543,338
J V COMMODITY PVT LTD	37,643,292
LALKAR COMMODITIES PVT LTD	22,603,027
PRITHVI BROKING PVT LTD	79,210,653
HL SQV COMMODITIES PVT LTD	2,107,980
SHREE BAHUBALI COMMODITIES PVT LTD	209,913,571
FRESH RATHI COMMODITIES PVT LTD	377,053,756
RHANT FUTURE & COMMODITIES LTD	558,770,169
CUMEN COMMODITIES INDIA LTD	4,372,703
INVESTSMART COMMODITIES LTD	40,845,134
VARAYANDAS ASAWA AND COMPANY	15,464,149

KEDIA COMMODITY COMTRADE PVT LTD	8,718,395
MAVJI HARIBHAI COMMODITIES	84,768,434
FIVE SQUARE AGRO GOLD PVT LTD	30,707,612
OHM COMMODITIES	7,957,370
BONANZA COMMODITY BROKERS PVT LTD	41,682,467
MANSUKH COMMODITY FUTURES PVT LTD	4,262,970
VIKSON COMMODITIES PVT LTD	8,530,982
EMKAY COMMOTRADE LTD	1,005,656,999
BANKA BULLIONS PVT LTD	4,947,750
A B COMMODITIES	88,962,250
SIDDIHI VINAYAK COMMODITIES PVT LTD	1,416,140
PEC LTD	1,225,509,100
LUDHIANA COMMODITIES TRADING SERVICES LT	346,523,448
SHREEJI KOSH SERVICES PVT LTD	24,587,213
MULTIGAIN COMMODITIES PVT LTD	91,120,125
ADITYA BIRLA COMMODITIES BROKING LTD	81,545,559
KOMAL CREATION	24,254,229
GEOJIT COMTRADE LTD	3,132,554,993
SHAREWEALTH COMMODITIES PVT LTD	430,178
SHAREKHAN COMMODITIES PRIVATE LIMITED	3,059,175
PAGE COMMODITY BROKERS PVT LTD	101,011,832
GUINNESS COMMODITIES PVT LTD	3,279,885
FORT COMTRADE PVT LTD	86,449,954
MARWADI COMMODITY BROKER PVT LTD	147,334,372
NIRMAL BANG COMMODITIES PVT LTD	466,434,654
SAMRIDDHI BUSINESS PVT LTD	68,633,670
VERTEX COMMODITIES AND FINPRO PVT LTD	4,612,810
INTEGRATED COMMODITY TRADES (P) LTD	291,150,498
ALPHA COMMODITY PVT LTD	133,079,220
EF COMMODITIES PVT LTD	8,964,464
POH NTOJ ERUCH SHOFF	14,286,944
DALAJI COMMODITY FUTURES PVT LTD	13,962,475
PROGRESSIVE COMTRADE PVT LTD	42,639,333
HEM MULTI COMMODITIES PVT LTD	22,453,728
PARWATI COMMODITY MARKET PVT LTD	1,291,800
INDIA NIVESH COMMODITIES PVT LTD	379,208,476
JOINDRE COMMODITIES LTD	9,824,300
SPEL COMMODITIES PVT LTD	554,740,329
RATNAKAR COMMODITIES PVT LTD	105,914,298
LATIN MATI HARJAL COMMODITIES PVT LTD	212,878,493
CD COMMOSEARCH PVT LTD	947,102,578
EXCEL COMMODITY & DERIVATIVE PVT LTD	19,918,023
ASIT C MEHTA COMMODITY SERVICES PVT LTD	57,276,596
REFINED METALS	1,313,270
BIJ RATEI COMTRADE PVT LTD	49,828,613
CO SMORUTAN COMMODITY PVT LTD	7,651,550
GLOBAL COMMODITIES PVT LTD	7,109,842
GIGANTIC COMMODITIES PVT LTD	21,679,622
ACHAAR COMMODITIES & DERIVATIVES (P) LT	77,692,241
MATALIA COMMODITY	134,778,540
SETHIA & SONS PVT LTD	155,613,708

NORTHEAST COMMODITIES PVT LTD	7,233,030
ADROIT COMMODITIES SERVICES PVT LTD	3,900,046
MODEX COMMODITY TRADES PVT LTD	44,889,041
SYSTEMATIX COMMODITIES SERVICES PVT LTD	2,777,924,664
VCK COMMODITY SERVICES PVT LTD	101,558,800
MOTILAL OSWAL COMMODITIES BROKERS PVT LT	2,629,322,317
ASHLAR COMMODITIES PVT LTD	115,029,090
PHILLIP COMMODITIES INDIA PVT LTD	1,400,900,431
SHIKAGO TRADE PVT LTD	760,672
VENTURA COMMODITIES PVT LTD	672,130,684
SUSHIL GLOBAL COMMODITIES PVT LTD	234,708,768
NDA COMMODITY BROKERS PVT LTD	342,890
AIRAN COMMODITIES PVT LTD	99,978,319
CIL COMMODITIES PVT LTD	147,455,200
PUNE E COMMODITIES BROKING PVT LTD	197,281,504
AJAY NATWARLAL COMMODITIES PVT LTD	62,398,897
JM FINANCIAL COMTRADE LTD	836,056,632
ARCADIA COMMODITIES AND TRADING	962,450
INTEGRATED REGISTRY SERVICES LTD	62,901,950
GOLDCREST SECURITIES & COMMODITIES PVT L	54,445,000
GRESHMA COMMODITIES PVT LTD	345,944,457
ANUGRAH COMMODITIES PVT LTD	9,445,232
GOLDMAN GOLD LTD	3,272,540
K N SECURITIES	1,884,931
INDO THAI COMMODITIES PVT LTD	9,809,182
SKUNG COMMPERTS LTD	72,037,113
SUGAL COMMODITY BROKERS PVT LTD	228,673,919
QUADEYE TRADING	14,070,670
SHRI PARASRAM COMMODITIES PVT LTD	266,627,223
DHARITA STOCK DEALS PVT LTD	26,246,638
CHOICE MERCHANDISE BROKING PVT LTD	3,570,320
GEPL COMMODITIES PVT LTD	29,300,723
CELEBRUS COMMODITIES LIMITED	7,526,890
MK COMMODITY BROKERS LIMITED	189,737,876
BAJAJ COMMODITIES TRADING PVT. LTD.	36,385,027
ATRIVAL INFRASTRUCTURE PVT. LTD.	66,280,436
BARUBAL COMMODITY SERVICES PVT LTD	14,069,035
WAYS WEALTH COMMODITIES PVT LTD	87,225,747
VEEZ COMMODITIES PVT LTD	11,898,326
ANVIL COMMODITIES PVT LTD	253,302,666
GCM COMMODITY AND DERIVATIVES PVT LTD	168,970,202
PYNE COMMODITIES SERVICES PVT LTD	184,467,325
MMTC LIMITED	200,827,845
SINCERE COMMODITES & DERIVATIVES LTD	198,10,038
BMC COMTRADE LTD	47,523,674
INDOVISION COMMODITIES LTD	43,909,895
INDIAN BILLION MARKET ASSOCIATION LTD	11,705,62,054
	4,085,988,794

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TM/Supplier Name	Amount
CFA BROKING PVT LTD	1,780,900
VIJAY T PATEL	628,400
CHIMANLAL POPATLAL COMM. BROKER P.	370,041,387
JHAVERI CREDITS AND CAPITAL LTD	18,262,062
PURVAG COMMODITIES AND DERIVATIVES P LTD	1,325,879,150
NARAYAN COMMODITY BROKERS PVT LTD	110,623,510
PINNACLE BROCOM PVT LTD	27,612,610
RELIGARE COMMODITIES LTD	48,042,240
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GANDHI COMMODITIES PVT LTD	10,672,500
VIJETA MULTI COMMODITIES PVT LTD	8,931,314
INDIA INFOLINE COMMODITIES LIMITED	3,262,431,371
KARVY COMTRADE LTD	344,610,656
INDIRA COMMODITIES PVT LTD	30,317,171
CHAMUNDA COMMODITY PRIVATE LTD	21,104,220
RAGHUNANDAN INDUSTRIES PVT LTD	35,111,454
MS MILIND VIJAYBHAI THAKKAR	11,765,235
AUM COMMODITY SERVICES PRIVATE LIMITED	2,147,581,528
HTS COMMODITIES PVT LTD	1,739,976
DAGA COMMODITIES PVT LTD	1,026,980
SIHL COMMODITIES LTD	58,874,517
ANAND RATHI COMMODITIES LTD	6,428,208,685
DANI COMMODITIES PVT LTD	143,335,742
P C S COMMODITIES PVT LTD	93,076,394
RR COMMODITY BROKERS PVT LTD	490,264,222
HARDIK MULTI COM BROKING PVT LTD	61,909,329
CHONA COMMODITY TRADING SERVICES PVT LTD	54,929,957
RAINBOW COMMODITY & DERIVATIVES P. LTD	359,114,060
VACHI COMMODITIES AND DERIVATIVES P LTD	795,375
BAJIT METALS PVT LTD	97,040,403
ASHIKA COMMODITIES & DERIVATIVES PVT LTD	343,908,926
SSJ COMMODITIES PVT LTD	208,511,185
LEO GLOBAL COMMODITIES PVT LTD	165,439,530
R K GLOBAL COMMODITY BROKING LTD	51,239,958
TIME LEVERAGE INSTRUMENTS PVT LTD	1,379,800
GAL TAM LABDH COMMODITIES PVT LTD	3,194,880
EUREKA COMMODITY BROKERAGE PVT LTD	74,245,953
CHINMAY FINANCIAL SERVICES	1,322,475
HITECH BRO SOLUTIONS PVT LTD	32,513,938
I V COMMODITY PVT LTD	17,543,292
LALKAR COMMODITIES PVT LTD	22,603,027
PRITHVI BROKING PVT LTD	70,240,555
ITL COMMODITIES PVT LTD	2,107,980
SHREE BAPUBHAI COMMODITIES PVT LTD	100,913,877
SURESH RATHI COMMODITIES PVT LTD	87,098,766
ARHANT FUTURES & COMMODITIES LTD	558,770,169
ACUMEN COMMODITIES INDIA LTD	4,372,704

INVESTSMART COMMODITIES LTD	40,849,134
NARAYANDAS ASAWA AND COMPANY	15,464,149
KEDIA COMMODITY COMTRADE PVT LTD	8,718,395
MAVJI HARIBHAI COMMODITIES	84,768,434
FIVE SQUARE AGRO GOLD PVT LTD	30,707,612
OHM COMMODITIES	7,957,370
BONANZA COMMODITY BROKERS PVT LTD	41,682,467
MANSUKH COMMODITY FUTURES PVT LTD	4,262,970
VIKSON COMMODITIES PVT LTD	8,530,982
EMKAY COMMODITY LTD	1,005,656,999
BANKA BULLIONS PVT LTD	4,947,750
A B COMMODITIES	88,962,250
SIDDHI VINAYAK COMMODITIES PVT LTD	1,416,140
PEC LTD	1,225,509,100
LUDHIANA COMMODITIES TRADING SERVICES LT	346,523,448
SHREEJI KOTI SERVICES PVT LTD	24,587,213
MULTIGAIN COMMODITIES SERVICES PVT LTD	91,120,125
ADITYA BIRLA COMMODITIES BROKING LTD	81,545,559
KOMAL CREATION	24,254,229
GEOJIT COMTRADE LTD	3,132,554,993
SHAREWEALTH COMMODITIES PVT LTD	430,178
SHAREKHAN COMMODITIES PRIVATE LIMITED	3,059,175
PACE COMMODITY BROKERS PVT LTD	101,011,832
GUINNESS COMMODITIES PRIVATE LTD	3,279,885
FORT COMTRADE PVT LTD	86,449,954
MARWADI COMMODITY BROKER PVT LTD	147,334,377
NIRMAL BANG COMMODITIES PVT LTD	466,434,654
SAMRIDDHI BUSINESS PVT LTD	68,633,670
VERTEX COMMODITIES AND FINPRO PVT LTD	4,612,810
INTEGRATED COMMODITY TRADES (P) LTD	291,150,498
ALPHA COMMODITY PVT LTD	133,079,220
EF COMMODITIES PVT LTD	5,564,464
ROHINTON ERUCH SHROFF	14,286,944
BALAJI COMMODITY FUTURES PVT LTD	13,962,475
PROGRESSIVE COMTRADE PVT LTD	42,639,833
HEM MULTI COMMODITIES PVT LTD	22,453,728
RABWATI COMMODITY MARKET PVT LTD	1,241,800
INDIA NIVESH COMMODITIES PVT LTD	379,206,876
JOINDRE COMMODITIES LTD	5,824,200
SPFL COMMODITIES PVT LTD	554,740,829
RATNAKAR COMMODITIES PVT LTD	105,914,298
LATIN MANHARLAL COMMODITIES PVT LTD	212,878,493
CD COMMOSEARCH PVT LTD	947,102,571
EXCEL COMMODITY & DERIVATIVE PVT LTD	19,918,023
ABE COMBETA COMMODITY SERVICES PVT LTD	87,776,596
REEMER MET	19,827,713
B N RATHI COMTRADE PVT LTD	7,651,530
COSMOPOLITAN COMMODITY PVT LTD	7,199,842
IDEAL COMMODITIES PVT LTD	



2013

GIGANTIC COMMODITIES PVT LTD	21,679,522
AGRAHAR COMMODITIES & DERIVATIVES (P) LT	77,602,241
MATALIA COMMODITY	131,775,044
SETHIA & SONS PVT LTD	155,613,108
NORTHEAST COMMODITIES PVT LTD	7,233,030
ADROIT COMMODITIES SERVICES PVT LTD	3,900,046
MODEX COMMODITY TRADES PVT LTD	44,889,041
SYSTEMATIX COMMODITIES SERVICES PVT LTD	2,777,924,664
VCK COMMODITY SERVICES PVT LTD	101,558,800
MOTILAL OSWAL COMMODITIES BROKERS PVT LT	2,629,322,317
ASHLAR COMMODITIES PVT LTD	115,029,090
PHILLIP COMMODITIES INDIA PVT LTD	1,400,900,431
SHIKAGO TRADE PVT LTD	760,672
VENTURA COMMODITIES PVT LTD	672,130,684
SUSHIL GLOBAL COMMODITIES PVT LTD	234,708,768
NDA COMMODITY BROKERS PVT LTD	342,890
AIRAN COMMODITIES PVT LTD	99,978,319
CIL COMMODITIES PVT LTD	147,455,200
PUNE E COMMODITIES BROKING PVT LTD	197,281,504
AJAY NATWARLAL COMMODITIES PVT LTD	62,398,897
JM FINANCIAL COMMTRADE LTD	836,056,632
ARCADIA COMMODITIES AND TRADING	962,450
INTEGRATED REGISTRY SERVICES LTD	62,901,950
GOLDCREST SECURITIES & COMMODITIES PVT L	54,445,000
GRESHMA COMMODITIES PVT LTD	345,944,457
ANUGRAH COMMODITIES PVT LTD	9,445,232
GOLDMAN GOLD LTD	3,272,540
K N SECURITIES	1,884,931
INDO THAI COMMODITIES PVT LTD	9,809,182
SKUNG COMMXPERTS LTD	72,037,113
SUGAL COMMODITY BROKERS PVT LTD	228,673,919
QUADEYE TRADING	14,070,670
SHRI PARASRAM COMMODITIES PVT LTD	266,627,223
DHARITA STOCK DEALS PVT LTD	26,246,638
CHOICE MERCHANDISE BROKING PVT LTD	3,670,870
GEPL COMMODITIES PVT LTD	29,500,723
CELEBRUS COMMODITIES LIMITED	7,536,990
MK COMMODITY BROKERS LIMITED	189,737,876
BAJAJ COMMODITIES TRADING PVT LTD	36,985,027
ATRIWAL INFRASTRUCTURE PVT. LTD.	66,281,436
BAHUBALI COMMODITY SERVICES PVT LTD	14,069,055
WAY2WEALTH COMMODITIES PVT LTD	87,225,717
VEEZ COMMODITIES PVT LTD	11,893,326
ANVIL COMMODITIES PVT LTD	253,302,666
GCM COMMODITY AND DERIVATIVES PVT LTD	168,976,262
PYNE COMMODITIES SERVICES PVT LTD	184,467,325
MMTC LIMITED	2,200,817,845
SINCERE COMMODITIES & DERIVETIVES MARKET	298,210,038
SKI CONSULTANCY SERVICES LTD	1,371,320

SMC COMTRADE LTD	26,148,352
ACHIEVERS COMMERCIAL PVT LTD	42,909,535
GANESH COMMODITIES PVT LTD	32,950,850
TWENTY20 COMMODITIES PVT LTD	162,123,450
ADINATH COMMTRADE (P) LTD	9,229,610
K R CHOKSEY COMMODITY BROKER PVT LTD	972,560,780
CAMCO COMMODITIES (P) LTD	1,035,000
CAPITAL FIRST COMMODITIES LIMITED	791,082,260
R WADIWALA COMMODITIES PVT LTD	23,425,413
KK COMTRADE PVT LTD	33,424,345
MLAP COMMODITIES LLP	21,067,100
CLASSONE EXPORTS PVT LTD	229,195,350
NARIMAN COMMODITY SERVICES PVT LTD	75,433,018
INDIAN BULLION MARKET ASSOCIATION LTD	2,561,969,299
JAIN CREATIONS	26,435,525
ALMONDZ COMMODITIES PVT LTD	169,725,451
CHACHAN COMMODITIES BROKING PVT LTD	1,139,450
FAIRDEAL COMMODITIES	434,602
KAILASH MANSAROVAR COMMODITIES	11,811,972
ABIS COMMODITIES TRADING PVT LTD	129,257,740
MOUNT SHIKHAR COMMODITIES PVT LTD	396,688,210
BLUE CREST COMMODITIES PVT LTD	94,111,749
BORUNDIA HOLDINGS	8,460,592
DAYAVANT ADVISORY SERVICES PVT LTD	4,201,248
MPC COMMODITIES PVT LTD	26,081,613
DSHIYAMA SOLUTIONS	12,096,050
PATERSON COMMODITIES PVT LTD	84,874,950
DIPAL FINANCE	42,153,687
DEVASHISH COMMODITIES PVT LTD	138,405,620
ROONGTA COMTRADE PVT LTD	115,040,538
CASTLE BUSINESS SOLUTIONS (P) LTD	48,244,740
SHAUNAK SERVICES PVT LTD	1,045,800
DOUBLEPLUS WEALTH MANAGEMENT	2,882,400
OM ASSOCIATES	1,717,120
SHREENATH COMMODITY & DERIVATIVES P LTD	29,916,795
SUNTECK WEALTHMAX COMMODITIES PVT LTD	402,000
PADMAKSHI COMMODITIES PVT LTD	239,820,999
ANIRUDH COMMODITIES PVT LTD	53,449,320
CAPSTOCKS COMMODITIES PVT LTD	342,240
RAY TRADING PVT LTD	228,299,491
HAREN TEXTILES PVT LTD	191,433,050
DAGA OVERSEAS	1,945,300
DHWANI TRADING & INVESTMENTS PVT LTD	48,186,130
SKP COMMODITIES LTD	34,175,763
MEI COMMODITIES	59,408,297
SV COMMODITIES	498,125
ITI INVESTOR SERVICES LTD	1,131,960
JAINAM COMMODITIES PVT LTD	86,303,133
JADE COMMODITIES PVT LTD	167,175,495

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COMMODITY GURU TRADING SERVICES	1,565,472
LORDSWAY COMMTRADE INDIA LTD	492,390
FIDELITY COMMODITIES (P) LTD	50,821,742
SAGAR INVESTMENT	927,030
LECMEC COMMODITIES BROKING PVT LTD	364,315,766
SUJASH ENTERPRISES PVT LTD	191,911,674
VIBRANT COMMODITIES TRADING PVT LTD	157,821,652
RIKHAV COMMODITY BROKERS PVT LTD	29,912,350
BALAJI STAR FINANCE COMPANY	869,568
NATSONS SECURITIES	376,185,366
KUSHAL HOLDINGS PRIVATE LIMITED	99,485,800
TRADEBULLS COMMODITIES BROKING PVT LTD	67,136,478
GRISHMA INTERMEDIARIES PVT LTD	4,346,740
PHOENIX COMMODITIES PVT LTD	131,041,600
TRUE VALUE COMMODITIES PRIVATE LIMITED	19,464,870
JAVERILAL OSWAL COMMODITIES PVT LTD	665,197,931
PRUDENT COMDER PRIVATE LIMITED	191,732,606
K B COMSTOCK	17,966,854
BEST DEAL COMMODITY BROKERS PVT LTD	51,715,670
PDEVIDAS COMMODITIES PVT LIMITED	151,754,880
ADITYA COMMODITIES PVT LTD	80,228,232
OMKAM COMMODITIES PVT LTD	6,035,023
KUNAL COMTRADE PVT LTD	383,059,080
J G A SHAH COMMODITIES	525,197,016
BANGALORE COMMODITIES LIMITED	31,466,766
ORANGE COMMODITY SERVICES PVT LTD	796,950
LFS COMMODITIES PVT LTD	2,355,940
MODISONS COMMERCIAL PVT LTD	32,617,570
HASMUKH MULCHAND COMMODITIES	67,597,430
ARVIND C CHOKSHI COMMODITIES	72,927,915
NALANDA COMMODITIES PVT LTD	68,203,761
VAPP VENTURES LLP	3,993,750
KALYANBHAI MAYABHAI FINANCIAL SERVICES P	24,924,669
ARIHANT COMMODITIES	1,469,350
GHANSHYAM PATEL INVESTMENT & COMMODITIES	24,169,819
PJS ENTERPRISES	91,476,000
INDIAN PORTFOLIO LTD	16,646,522
CREATION COMMODITY SERVICES LTD	343,200
GYAN COMMODITIES PVT LTD	2,784,610
DRISHTI COMMODITIES	1,378,600
A.C.AGARWAL COMMODITIES PVT LTD	5,491,182
INCREDIBLE ADVISORY SERVICES PVT LTD	34,134,430
AKC FINANCIAL CONSULTANTS (P) LTD	342,650,776

54,035,938,793

**National Spot Exchange Limited (NSEL)**

**Investigation Report: Role of the brokers**

**Prepared by Economic Offence Wing, Mumbai Police**

**Contents:**

- Backdrop
- Entities involved
- Typical pair trade transaction
- Nature of fraud
- Objective of the investigation into brokers role
- Statutory compliance issues and issues in general
- Important findings of certain major brokers
- List of 139 broking houses/brokers with client exposure & money exposure is annexed.

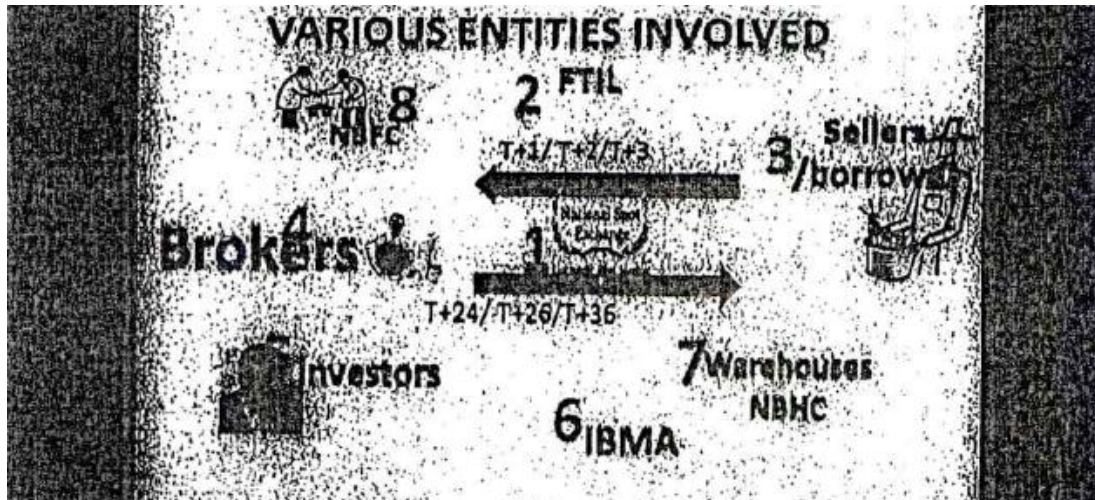
## **I.Backdrop**

The NSEL scam is estimated to be a Rs.5600 crore fraud that came to light after the National Spot Exchange failed to pay its investors in commodity pair contracts after 31 July 2013. **National Spot Exchange Limited** is based in Mumbai, India. It was discovered after the exchange defaulted on 31 July 2013 that most of the underlying commodities did not exist and the buying and the selling of commodities like steel, paddy, sugar, ferrochrome etc. was being only conducted only on paper.

An estimated number of 15000 investors along with public sector units like **Metals and Minerals Trading Corporation of India (MMTC)** and **Project and Equipment Corporation (PEC)** were victims of this NSEL scam.

## II. Entities Involved:

The following are the various entities in a typical commodity pair trade transaction where this fraud has been perpetrated.



1. NSEL itself is the main entity which served as Exchange on which commodity pair trade transactions took place.
2. FTIL which was the holding company of NSEL which held 99+% of its shares.
3. Defaulters or borrowers were those members who offered their commodities for trading on the exchange platform for which they got paid from time to time. For example N.K. Protein was one of the largest defaulters who owed over Rs. 900 crores to the exchange in July 2013.
4. Brokers were members of NSEL who brought in investors to trade on the exchange. Examples are Anandrathi, Motilal Oswal, IIFL, Geojit etc. who traded in huge volume on the NSEL.

5. Investors were clients of brokers- members who invested on NSEL and who have been defrauded and are victims in the scam.
6. IBMA which was the subsidiary company of NSEL. This company was a member of NSEL and acted as Brokers and also actually offered trading for those brokers who did not have VAT registrations and apart from that it also traded on its own account.
7. Warehouse where commodities were supposed to be kept before trading. NBHC was also a subsidiary of FTIL which offered warehousing services along with other such companies.
8. NBFC companies belonging to individual brokers who funded and financed investors to trade on the exchange. Even brokers funded clients in their broking books by allowing debits to continue well beyond settlement cycle.

### **III. Typical Pair Trade Transaction:**

A. A typical pair trade transaction is represented in the picture shown earlier where the first leg of the transaction on a day is effected on the exchange (due on T+1,2,3) in the first leg of the transaction the seller (defaulter) is supposed to have kept the commodity with the warehouse of NSEL before offering it for trading. The first leg is therefore purchase by a broker member on behalf of an investor from the defaulter on the exchange platform at the rate available on the trading platform. On the same day the second leg of the transaction reverses the purchase (settlement on T+25, 36) by the broker member at a different rate whereby the investor gains a profit (typically a certain percentage which may be akin to interest for that period). The stocks presumed to be in the NSEL warehouse are retained there and eventually to be collected by the defaulter after the 25/36 day period when he fulfills his settlement value by paying the exchange. The entire process of delivery of goods was simplified through Warehouse. Allocation receipts which were supposed to represent goods in warehouse and the allocated goods belonged to buyer client (investor). However the lure of waiving margin on goods sold and deposited with NSEL made the clients choose this option (Known as early payin of obligation) and thereby client lost complete control over goods. He had compulsorily depended on Exchange's ability to make the payout to realise his dues.



**Nature of the fraud:**

The Borrower-members could not pay the outstanding amounts that it owed to the exchange and consequently NSEL exchange defaulted in its payments obligation after July 2013, and investors to the extent of Rs. 5600 crores were unable to get the amounts due on settlement dated thereafter. NSEL did not have these commodities in the warehouses and therefore there was no security as promised to the investors. NSEL also had not kept aside sufficient funds in the Settlement Guarantee Fund. Therefore investors did not have any way to get back their investment and eventually a complaint was lodged by them with the EOW for recovery of this money. The MPID court is currently hearing this case.

The EOW is investigating this case from all the following angles:

- Role of NSEL the Exchange, its promoter company, its employees, FTIL and the Directors
- Role of the Seller and Defaulter –Members and the money trail
- Role of brokers-members
- Role of the auditors
- Role of IBMA

Warehousing, NBHC and other entities within the FTIL group have not been taken up yet. This report deals with the role of brokers in this fraud.

#### **IV. Objectives of this Investigation into the brokers' role:**

A scam of this magnitude would be difficult to continuously occur for 3 years without some of the large brokers' gross negligence or perhaps active participation.

#### **The actual role of the brokers was:**

- To bring in investors to invest in 'pair trades' promising them assured returns and the investors got about 13-16% p.a. for investing in the commodity.
- The sellers got finance at 18-20 or more % by pledging their commodity in NSEL warehouse. They got brokerage from investors on the NSEL platform, and those brokers who had their NBFCs got additional revenue by financing investors for investing on NSEL. Though the matter is still under investigation brokers have also received back from the exchange certain charges collected from investors such as transaction fees, delivery and warehousing charges, etc. It is suspected that these are indirect motivation incentives for brokers to generate huge volumes. It is also possible that brokers may have benefited from or compensated by the sellers or defaulters. The higher the trading turnover, the higher revenues for the exchange and the brokers. Therefore both wanted to increase turnover at the exchange.

In light of the foregoing the objective of EOW in investigating brokers was to inquire whether they had been involved in any wrong doing connected with trading on the NSEL. Specifically to determine whether they participated in.

a) Any activities which were detrimental to the investors, NSEL, or third parties. To determine whether they had made false and misleading representations, offered inducement, financing and deliberately made wrongful assertions purely to get brokerage and facilitate NSEL in generating higher volumes.

b) Whether they had any illegitimate personal enrichment or, there has been, have been knowing dereliction in their duties as clearing and forwarding agents towards the commodities and protect the investors.

c) It was also deemed necessary to ensure that their activities were within the frameworks of the law.

## **V. Statutory non compliances and matters under Investigations and general issues arising therefrom**

**The brokers are being investigated for the following:**

1. IPC-Sec 420 Cheating, Definition: Whoever cheats and thereby dishonestly induces the person deceived to deliver any property to any person, or to make, alter or destroy the whole or any part of a valuable security, or anything which is signed or sealed, and which is capable of being converted into a valuable security, shall be punished with imprisonment of either description for a term which may extend to seven years, and shall also be liable to fine.
2. IPC-sec 463, Definition: Whoever makes any false documents or false electronic record or part of a document or electronic record with intent to cause damage or injury, to the public or to any person, or to support any claim or title, or to cause any person to part with property, or to enter into any express or implied contract or with intent to commit fraud or that fraud may be committed, commits forgery.
3. NSEL bye laws-UCC code changes, SGF, warehousing matters. Some of these matters may be applicable to brokers who undertook market capturing. Applicability of SEBI's circulars regarding UCC modifications also need to be reviewed particularly since NSEL's circulars were inchoate in many respects.

4. Ministry of Finance- Financial Investigation Unit matters (FIU). Suspicious transactions being moved through multiple accounts by certain employees and client investors of brokers will have to be reported to the FIU/SEBI for further questioning.
5. VAT payments, A thorough VAT investigation needs to be done to determine whether all brokers have paid fully the VAT collected on the NSEL trading platform from investors or from borrowers.
6. Criminal liability in case some charges have been refunded by NSEL to brokers and if they have not been repaid to investors. Similarly if defaulters have compensated brokers, then they have abetted with them to defraud the investors.
7. Compliance of NBFC regulations and possibility of wrongdoings under other laws for Benami or Hawala transactions, income tax violations also may be reported.
8. FEMA, I Tax, PMLA may also be attracted.
9. EOW is investigating in ambit of IPC offences and has not gone into code of conduct or licensing term violation on behalf of these brokers, which may be separately enquired into by SEBI/FMC as the case may be.

- Brokers had repeatedly made false statements to investors and are also liable for action under the Indian Penal Code. Some of them falsely presented NSEL as an exchange regulated by FMC & the investment secured by stocks and Settlement Guarantee Fund.
- Defaulted in verifying the authenticity of warehouses receipts, existence of warehouse and goods. This was their responsibility wherever C & F agency agreements were signed by them. They even gave out contract notes to investors which were backed against warehouses receipts. (In the case of IICL they were providing warehouse receipts when demanded by the investors only. The broker, by not providing warehouse receipts to all investors on settlement day or immediately thereafter failed to complete a very important aspect of the settlement process vis a vis the client)
- Several brokers confirmed to the auditors of NSEL, in writing the stock position as at the year end on 31 March 2012.
- Financing certain brokers financed investors through their sister concerns to encourage them to trade on NSEL. Certain brokers also provided funds to employees which were used to trade on the exchange. And certain brokers allowed debits of the client to continue in the broking books thereby indirectly funding the client may be even using up funds in pool account remaining to due credit balances of other clients.

- Instances of suspicious transactions to be reported to the Financial Investigation Unit of Ministry of Finance: Certain investors moved funds through multiple accounts within a day or two before trading on NSEL. In One instance funds have been given to foreign branch and then rotated through multiple accounts before being traded in NSEL.
- Market capturing: instances of broker involved in mass trading (bulk buying) in investor's name without permission and then distributing trades to other clients through code changes.
- Back office code changing done without consent of the Exchange.
- Maintaining dual transaction on details & accounting.
- Manipulated trading volumes.
  - Benami Tradings
  - Hawala Transactions
  - Illegal transactions using front entities

## **VI. Finding related to some major brokers**

### **Broker: AnandRathi and his group companies (AR)**

Started trading on the NSEL platform in 2009, 12900 clients & trading worth Rs. 19,130.2 crores, (in the past 4 years) Around 16% of the overall turnover on NSEL. Total Brokerage earned: \_\_\_\_\_

#### **Collection of evidence and information till December 31, 2014 which appear to support the following:**

- **False assurance to investors** as regards NSEL with wrongful and misleading statement and assurances.
- **Failure in responsibility to act as a C & F agent**, which would include responsibility to ensure of stocks in NSEL warehouses conduct periodic verifications and conduct overall due diligence to protect investors as their agent.
- Possible nexus with M/S N.K. Proteins (largest defaulter)
- Possible tie up with NSEL/FTIL/or its Directors indicating conflict of interests and absence of transparency and impartiality
- Misleading submissions to EOW regarding signed agreement for C & F services
- **Market capturing** practices by large scale UCC manipulations
- **Short selling** on the Exchange
- **Suspicious Transaction of funding through multiple accounts which need to be reported to FIU**
- **Illegal back office changes in UCC**
- **Falsely assured inventors of due diligence & sufficient settlement guarantee funds**



- Acted as clearing and forwarding agents, and gave NSEL auditors false information about adequate goods being in warehouses.
- Masqueraded as its client to do large deals (known as UCC manipulation)
- Carried out suspicious transactions of funding through multiple accounts, and to increase the volumes on NSEL platform, indulged in circular funding by transferring funds into various accounts of their own employees and relatives.

**Broker: Geojit Comtrade Limited**

Total turnover during last 3 years period: Rs. 5540.91 crores.

Collection of evidence and information till 13<sup>th</sup> January 2015 which appear to support the following:

- 1) Details regarding name of company, its registered office and name of directors responsible for commodity exchange at Geojit Comtrade Limited
- 2) Evidence regarding membership certificate approval letter, membership application form and board resolution authorizes to transect in NSEL product.
- 3) Year wise brokerage and turnover as well as C&F charges and other for NSEL paired contract.
- 4) False assurance to investors as regards NSEL with wrongful and misleading statements and assurances.
- 5) Possible tie up between NSEL
- 6) Market capturing practices by large scale UCC manipulation
- 7) Short selling on the exchange

8) Suspicious transaction of funding through multiple accounts and written off 128.26 Crores as bad debt provision in F.Y.2013-14.

9) Stock lying certificate to Auditor 23/03/2012

10) Lurement by way of financing through sister concern and also writing off Rs. 160 crores worth of bad loans in single financial year.

**Broker: India Infoline Commodity Limited (IICL)**

Total Turnover during the last 4 years period: Rs. 9183.48 crores.

Collection of evidence and information till 15<sup>th</sup> January 2015 which appear to support the following:

- False assurance to investors as regards NSEL with wrongful and misleading statements and assurances.
- Possible tie up between NSEL ??
- Market capturing practices by large scale UCC manipulation.
- Transaction of funding through NBFC and directly by the broking entity (multiple accounts)
- Stock verification confirmation as on 31-3-2012

**About the company India Infoline Commodity Limited**

India Infoline Commodity limited (IICL) was incorporated in the year March 2004, its office is at IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai-400013. India Infoline Commodity Limited is a member of MCX, NSEL, NCDEX, NCDEX spot exchange. It offers commodity trading activity online to clients across India. Board of Director

(BOD) consists of Mr. Nirmal Jain, Mr. R. Venkat Raman, and Mr. Chintan Modi.

Become a member of NSEL in 2010, trading worth Rs. 9183.48 crores. Brokerage earned Rs. \_\_\_\_\_

- False assurances to investors of expect returns between 19 to 21%. (? may be on funded transactions)
- Misled investors that the trades were guaranteed by exchange and contingency funds to protect any losses.
- Risk free product as it was arbitrage.
- Goods in NSEL accredited warehouses (this would lend a sense of security as exchange was handling stocks like other exchange handling Equity/Debt instruments)
- Depiction that goods would be insured by NSEL
- While all the above gave a sense of security and sense of relief regarding secured nature of transaction, the Member-Client agreement contained a clause (9 of IICL agreement) that NSEL was only providing a platform to carry out trades and the client himself would personally liable to each other.

for all obligations, etc...Pl refer extract below

The Constituent acknowledges that all trades/transaction entered on the trading system of NSEL for purchase and sale of commodities would be between the Constituent i.e, buyers and sellers inter-se and the Constituents would be personally liable to each other/counter party Constituent for the fulfillment of all obligation pertaining to the transactions/trades executed by them through their respective members and NSEL has only a limited role of facilitating the trading and settlement thereof and regulating the contract and relationships which are governed by the Rules, Regulations, Terms & Conditions, instructions and directions framed/issued by NSEL. The Constituent acknowledges and agrees that in case of any difference dispute arising between the Constituent and the member or the Counter party Constituent pursuant to the dealings under this agreement. NSEL shall have no role in the dispute and the Constituent shall settle the same with the other party without making the Exchange a party to the dispute.

- Trades in Client names without permission.
- They have denied existence /availability of recorded conversations with client for trades as well as trade changes.
- Making mis statements about trading by the company, (prop trading done using client codes), Directors their relatives and their group/ associates companies.
- So far not cooperated by not providing data exclusively for NSEL segment, Despite requests ledgers/ bank accounts etc. are provided for the company instead of for NSEL segment.
- Not providing details of how clients were funded in brokers book and how brokers own stock of Rs. 75 crores pertaining to NSEL and total stock of Rs. 176 crores as on 31.3-2012 was

funded. Possibility of misuse of client funds in pool account or funding from NSEL related entities?

- It does not appear that broker carried out any exercise to check if the NSEL product was suitable for client. Even persons with very low income/ wealth were enrolled as client and made to participate in this trading.
- Though NSEL was supposed to be SPOT exchange, the product was being marketed as a financing transaction.

***As of 19.3.2015, the brokers were accused of not providing the investor details, and said going by the number of details it got so far the total number of investors who have claimed to have lost money looked bogus. The investigation is on.***