

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 11(1), 11(4), 11B AND 11D OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992.

IN RESPECT OF M/S SRI GANESH STOCKS AND SHARES, MR. VENKATESAN CHANDRAN (PAN: AADPC7641J) AND MS. KRISHNAMURTHY VIJAYA BHARATHI (PAN: ABZPV9915D).

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI") received a report from National Stock Exchange of India Limited (hereinafter referred to as "NSE") in respect of M/s Sri Ganesh Stocks and Shares (hereinafter referred to as "*Ganesh Stocks*") alleging, *inter alia*, that:
 - (a) In advertisements issued in some newspapers (viz. "*Nanganallur Talk*") by Mr. Venkatesan Chandran (hereinafter referred to as "*Venkatesan*"), he has inviting general public to make investments and get assured monthly returns.
 - (b) He has claimed himself to be a sub-broker and affiliated to Saravana Stocks P. Ltd. (hereinafter referred to as "*Saravana*"), a Trading Member of NSE to the officials of NSE who had visited his office for enquiry on advertisement.
 - (c) In these advertisements, *Venkatesan* has used the trade name "*Sri Ganesh Stocks and Shares*", and invited the general public to make investments and get assured monthly returns.
 - (d) *Venkatesan* is acting as business partner of *Saravana* and a business partner agreement has been entered into between them.
 - (e) *Venkatesan* had informed officials of NSE who had visited his office for enquiry about the advertisement that there were 2 ways in which the amount can be invested in the stock market –
 - (i) become a direct client of *Saravana*; or
 - (ii) the clients can deposit the money with *Ganesh Stocks* who in turn will invest the same in the stock market on their behalf.
 - (f) The investors desirous of opening the account with *Ganesh Stocks* were required to enter into a private agreement with *Venkatesan*.
 - (g) As per the arrangement between *Venkatesan* and the investors, the return on investments was directly transferred to the bank account of the individual investors and in few cases, it was paid in cash.

- (h) Some of the covenants of the said agreement are as under:
- (i) the sub-broker will do transactions such as buying/selling on behalf of the client in the trading account in equity market/derivative market/commodity market;
 - (ii) the sub-broker is at liberty to do buy/sell transactions with any main broker whom he may deem fit;
 - (iii) the client being assured monthly returns for the investments made, which would be transferred to the client's bank account by way of NEFT transfers after deduction of the brokerage and other government levies;
 - (iv) the sub broker indemnifying the client for any losses in the capital invested by the client and towards this end the sub broker issuing a post dated cheque to the investor for an amount of ₹1 lakh and any disputes arising out of the agreement will have jurisdiction in the Court of Chennai, etc.
- (i) *Venkatesan* has collected an amount of around ₹4.36 crores from his clients.
- (j) *Venkatesan* had entered into a "Business Partner Agreement" with *Saravana*. *Venkatesan* had informed that there are more than 25 clients registered with *Ganesh Stocks* while he had referred the following two clients to *Saravana* under the Business Partner Agreement:

S. No.	Name of the client	Client code
1	VijayaBharathi.k	14V50
2	Padmavathy	32V1

- (k) *Venkatesan* had received the following two more account opening forms that were to be submitted to *Saravana*:

S. No.	Name of the client	Client code
1	Rajarajeswari	32V2
2	Purushothaman	32V3

- (l) Between November 2013 and June 2014 *Venkatesan* had introduced 21 clients to *Saravana* out of which only five clients with client codes 14V1, 14V2, 14V50, 32V1 and 32V2 have traded through *Saravana* and *Saravana* had paid consultation charges amounting to ₹46,795/- to *Venkatesan* for the said period as per the Business Partner Agreement between them.
- (m) *Venkatesan* was using ODIN-DIET terminal, provided by *Saravana*, for placing orders.
- (n) *Venkatesan* was associated with another trading member, namely, Nirmal Bang Securities P. Ltd. (hereinafter referred to as "*Nirmal Bang*") where *Venkatesan* and his wife Ms. Krishnamurthy Vijaya Bharathi (hereinafter referred to as "*Vijaya Bharathi*") were registered as clients with Client Codes "S3600006" and "S3600007", respectively in June 2011 and

these client accounts were active till July 2014.

- (o) *Vijaya Bharathi* was also registered as an Authorised Person with *Nirmal Bang* in the Cash and F&O segments with registration no. “AP110576691”.
- (p) *Venkatesan* has admitted that the process flow for dealing with clients through *Nirmal Bang* was similar to that followed in the case of *Saravana* as stated above and the funds collected from various clients were used for trading under the client codes, namely, *Venkatesan* (S3600006) and *Vijaya Bharathi* (S3600007);
- (q) There were 64 investors registered with *Venkatesan* under the private agreement out of which 7 clients have opened the trading account with *Nirmal Bang*;
- (r) *Venkatesan* has informed that out of ₹4.36 Crores collected from his clients with whom he had entered into private agreement, he had invested only around ₹85 Lakhs through the 2 trading accounts maintained with *Nirmal Bang* on behalf of other investors. The remaining fund was used to settle the financial commitment of the investors with whom the assured returns were promised through the private agreement that were entered into with them.
- (s) *Venkatesan* has claimed to have repaid ₹3.71 Crores (which includes principal amount and returns) to some of its investors. However, he did not provide any proof for repayment to NSE.
- (t) The process flow adopted by *Venkatesan* in dealing with his clients is as under:
 - (i) The clients have to enter into a private agreement with *Venkatesan*.
 - (ii) The amount invested and amount of return will be indicated clearly in the agreement.
 - (iii) The clients can give either cheque or cash for the initial investment.
 - (iv) After the receipt of funds from the investor, the same shall be accounted in the bank account of *Vijaya Bharathi* and once the funds are cleared, the same is given to *Saravana* as pay-in and trades are executed in the client code “14V50”, the trading client code of *Vijaya Bharathi* through *Saravana*.
 - (v) There shall not be any individual client codes allotted for the investors who have entered into private agreement with *Venkatesan* and all the transactions shall take place only through client code “14V50” of *Vijaya Bharathi* maintained with *Saravana*.
 - (vi) The returns will be provided either through cash or through NEFT transfers to the investor’s bank account mentioned in the private agreement entered into by the investors with *Venkatesan*.
- (u) *Venkatesan* has admitted to the NSE officials that the process flow for dealing with clients followed by him in case of *Saravana* was followed by him even while dealing with *Nirmal Bang*. The funds received from the investors were collected in the bank account of *Vijaya Bharathi* initially and then the same were transferred to his bank account from where the pay-in and pay-out obligations with the trading member *Nirmal Bang* were met.

(v) When an incognito call was made by the officials of NSE to listed phone number of *Venkatesan*, the person answering the call had refused to identify himself but provided an address where further details regarding investments, etc. could be obtained. Upon a visit to the said address, the NSE officials found *Venkatesan* available at the said address. *Venkatesan* also explained his investment schemes to the NSE officials. When the NSE officials disclosed their true identity *Venkatesan* disclosed further information about his investment schemes.

2. NSE has furnished the copies of the following documents along with its report in support of their findings:

Sl. No.	Document
1	Sample copy of private agreement provided by <i>Venkatesan</i>
2	Business Partner agreement with <i>Saravana</i> provided by <i>Venkatesan</i>
3	Investment deposit proof and other miscellaneous documents
4	Bank statement of <i>Venkatesan</i> and <i>Vijaya Bharathi</i>
5	Advertisement related details provided by <i>Venkatesan</i>
6	Investor Master details provided by <i>Venkatesan</i>
7	Self-declaration provided by <i>Venkatesan</i>
8	Sample Executed copy of agreement provided by <i>Venkatesan</i>
9	Business partner agreement with <i>Venkatesan</i> provided by <i>Saravana</i>
10	Brokerage sharing details with <i>Venkatesan</i> by <i>Saravana</i> .
11	Pay-in Pay-out details of clients and copy of the bank statement.
12	Copy of KYC executed documents provided by <i>Saravana</i>
13	Copy of A.P. agreement between <i>Vijaya Bharathi</i> and <i>Nirmal Bang</i>
14	Brokerage sharing details by <i>Nirmal Bang</i>
15	Financial ledger of clients mapped with <i>Vijaya Bharathi</i>
16	Copy of KYC executed documents provided by <i>Nirmal Bang</i>

3. I note from the above that *Venkatesan* had entered into private agreements with certain investors who had approached him upon noticing advertisements issued by him in several newspapers. It is observed from a sample copy of one such agreement (entered into between *Venkatesan* and an investor, namely, Ms. Devika Salam on February 16, 2014) that the contents clearly stated the amount of money collected from the investor and mode of collection of money. In this case, Ms. Devika Salam had issued a cheque bearing no. “0000000044” and deposited on February 17, 2014 drawn on Karur Vysya Bank for ₹1 lakh. The bank statement pertaining to HDFC bank A/C No. “18641930001915” of *Venkatesan* reflects the realisation of the said amount on February 18, 2014. Similarly, on perusal of the private agreement entered into by *Venkatesan* with Ms. Sunitha on April 19, 2012, it is seen that the client had invested a sum of ₹1 lakh upon a promise of an assured monthly return of ₹7,000/-. It is seen from the bank statement of *Venkatesan* maintained with HDFC bank A/C No. “18641930001915” that the assured returns were paid to the client for three months, as mentioned below:

Date	Narration	Cheque No.	Value Dt	Withdrawal Amt	Closing Balance
20/07/2012	CHQ PAID- MICR CTS-CH-K SUNITHA	98189	20/07/2012	7,000	1,501.80
22/08/2012	CHQ PAID- MICR CTS-CH-K SUNITHA	99228	22/08/2012	7,000	9,116.40
21/09/2012	CHQ PAID- MICR CTS-CH-K SUNITHA	98191	21/09/2012	7,000	139.70

4. As observed in the pre-paragraphs *Venkatesan* had entered into private agreements with certain investors who had approached him presumably after noticing the advertisements issued by him in various newspapers, as aforesaid. From the perusal of some of these agreements, it is noted that *Venkatesan* has claimed himself to be a sub-broker attached to the *Nirmal Bang* whereas the fact is that he is not registered with SEBI as a sub-broker or for that matter in any other capacity as a market intermediary. The covenants of the said agreement entered into between *Venkatesan* and his clients are indicative of manipulative and deceptive devices employed by him to trap gullible and unsuspecting investors. The statements made by him through the private agreements entered into with various investors are untrue and untenable in as much as *Venkatesan* is not a SEBI registered sub-broker in the first place or for that matter he was not even a registered market intermediary to transact business in the securities market on behalf of investors. It is evident from the covenants of the said agreement that *Venkatesan* has deliberately and with an intention to deceive the gullible investors to part their money with him, has misrepresented to them with untrue and false statements and has succeeded to lure investors to make investments through him at least to the extent reported in the report of NSE, if not more.
5. The Business Partner Agreement entered into by *Venkatesan* with the trading member, viz. *Saravana*, is totally illegal considering the fact that such an agreement entitle *Venkatesan* to carry out all acts including execution of orders on behalf of clients, which only a SEBI registered sub-broker or an Authorised person duly licensed by the stock exchange or a dealer/approved user and employee of the affiliated stock broker alone could do and whereas *Venkatesan* is neither a SEBI registered sub-broker, nor the stock exchange licensed Authorised Person or an approved user/dealer or an employee of *Saravana*. For that matter, *Venkatesan* is not even registered as a client of *Saravana*. It is important to note that like a typical stock broker and sub-broker agreement or a stock broker and authorised persons agreement, the Business Partner Agreement entered into between *Venkatesan* and *Saravana* also had enabling provisions for sharing of brokerage on monthly basis by *Saravana* with *Venkatesan* after deducting statutory charges.

6. It is further noted from the NSE report that prior to dealing with *Saravana*, *Venkatesan* was dealing through *Nirmal Bang* with client code “S3600006” and the volume of business done is as under:

Client code	A/c Opening date	Income declared (₹ in Lakhs)	Volume of trades (₹)					
			2011-12		2012-13		2013-14	
			CM	FO	CM	FO	CM	FO
S3600006	24/06/2011	10 to 25	16,37,966	14,85,14,939	4,51,366	183,60,89,906	Nil	5,69,50,640

7. The amount of pay-in and pay-out received/settled between *Nirmal Bang* and *Venkatesan*, as reported by NSE for the above period are as under:

Client Code	2011-12		2012-13		2013-14	
	Pay-in (₹)	Pay-out (₹)	Pay-in (₹)	Pay-out (₹)	Pay-in (₹)	Pay-out (₹)
S3600006	17,00,000	Nil	1,10,00,000	34,60,839	9,03,000	5,86,159.50

8. *Venkatesan* was provided with a trading terminal with terminal ID S26802 by *Nirmal Bang* and located at his residence at Door No.2, Subramanian Iyer Street, 4th Floor, FF-2, West Mambalam, Chennai-600033, Tamil Nadu by virtue of his spouse *Vijaya Bharathi*, being an Authorised Person of the trading member and had declared *Venkatesan* to be the approved user of the terminal for her.
9. It is noted that *Venkatesan* has admitted to the NSE officials that the process flow for dealing with clients followed by him in case of *Saravana* was exactly followed by him even while dealing with *Nirmal Bang* and that the funds received from the investors were collected in the bank account of *Vijaya Bharathi* initially and then the same were transferred to his bank account from where the pay-in and pay-out obligations with *Nirmal Bang* were met. For e.g., it was observed that one Mr. N. T. Suresh has entered into a private agreement with *Venkatesan* on February 09, 2012, i.e., while *Venkatesan* was dealing with *Nirmal Bang*. Mr. N.T. Suresh had invested an amount of ₹25000/-. The said cash payment of ₹25,000/- made by Mr. Suresh was deposited into the IDBI Bank Account A/c No. “630104000111607” on February 16, 2012 of *Vijaya Bharathi*.
10. In addition to above, it is noted from the cash deposits made in his bank account maintained with City Union Bank, Tambaram that *Venkatesan* has been collecting money from the investors directly and deposited the same in his bank account. Further, money was collected from investors by way of cash and also by way of cheques and NEFT and deposited directly into his bank account and from this bank account maintained with City Union Bank, Tambaram some payments were also seen made to the clients either towards the monthly assured returns or as

part payment of the amount etc. Some of such instances that were observed are as under:

Instances of receipts and payments from/to investors - Bank A/c No. CA - 172056 of City Union Bank -Tambaram Branch of *Venkatesan*:

Instances of Receipt				Instances of Payments			
Transaction date	Description	Cr/Dr	Transaction Amount (₹)	Transaction date	Description	Cr/Dr	Transaction Amount (₹)
18/09/2012	Sudha Ambikadas SB30697:15065 717:001	Cr	1,00,000	15/05/2012	425693: NEFT - K. Mahadevan	Dr	40,000
31/03/2013	Ganesh: 16374586:104	Cr	2,00,000	29/05/2012	4341957: NEFT Hameed Nazeer	Dr	25,000
				21/06/2012	4531104: NEFT CS Rithadhama	Dr	45,000
				10/07/2012	NEFT - CS Rithadhama	Dr	50,000
				02/05/2013	Transfer- Janakiraman Chq No.1166	Dr	10,000
				-do-	To clg - Ganesh Chq No.1153	Dr	25,000
				-do-	To Ganesh chq No.1159	Dr	10,000

Instances of receipts and payments - Bank A/c No. 0630102000010797 of IDBI Bank of *Venkatesan*:

Instances of Receipt				Instances of Payments			
Transaction date	Description	Cr/Dr	Transaction Amount (₹)	Transaction date	Description	Cr/Dr	Transaction Amount (₹)
04/09/2013	M.	Cr	1,00,000	05/09/2013	NEFT	Dr	25,000

	Geethalakshmi				Vijayalakshmi		
31/03/2013	Ganesh: 16374586:104	Cr	2,00,000	08/08/2013	-do-	Dr	25,000

Instances of cash deposits received from investors towards their investments and deposited into the bank account of *Venkatesan*:

Bank A/c No. CA - 172056 of City Union Bank - Tambaram			
Date	Amount (₹)	Date	Amount (₹)
15/05/2012	4,00,000	25/07/2012	25,000
13/08/2012	2,00,000	14/08/2012	5,00,000
16/06/2012	5,00,000	17/08/2012	5,00,000
15/12/2012	1,00,000	18/12/2012	50,000
24/01/2013	10,00,000	29/01/2013	10,00,000

11. It was further observed that in many cases, the cash deposits received in his City Union Bank account from the investors with whom *Venkatesan* had entered into private agreement were in turn transferred to *Nirmal Bang* either immediately or after a day or two, details of which are mentioned below:

Bank A/c No. CA-172056 of City Union Bank – Tambaram			
Particulars of cash deposits received		Particulars of amount transferred to <i>Nirmal Bang</i> after receipt of cash deposit	
Date	Amount (₹)	Date	Amount (₹)
14/08/2012	5,00,000	23/08/2012	15,00,000
16/06/2012	5,00,000		
17/08/2012	5,00,000		
15/12/2012	1,00,000		
24/01/2013	10,00,000	28/01/2013	10,00,000
29/01/2013	10,00,000	30/01/2013	10,00,000

12. It is evident from the above facts on record that *Venkatesan* has been soliciting funds from the public by luring them with huge, assured and fixed monthly returns through advertisements, entering into private agreement with such clients for carrying out transactions in securities on their behalf and executing such transactions either through his own trading account or through his spouse's trading account and settling the transactions with the respective trading members, viz. *Nirmal Bang* and *Saravana*, as the case may be. It was also observed that money towards the investments were collected from the investors by *Venkatesan* through modes such as cash or cheque or NEFT as per the convenience of the investors and deposited into his bank account and/or were deposited into the bank account held in his spouse's name.

13. As such, it is evident that *Venkatesan*, while dealing in securities have functioned in his capacity as an unregistered sub-broker by dealing with ultimate clients, had entered into separate private agreements with clients for dealing in securities on their behalf without appropriate registration from SEBI. I also find from the contents mentioned in the advertisements issued by *Venkatesan* as stated in the pre paragraphs and also from the various covenants of the private agreements that were entered into with the investors by *Venkatesan* that the investors were promised unrealistic and assured monthly returns. The private agreement which *Venkatesan* had apparently entered into with investors had enabling clauses whereby the investors were assured about the management of their investments and also the fact that they would not interfere with the investment strategies employed by *Venkatesan*, etc. These ingredients contained in the private agreement are typical of a discretionary portfolio management activity undertaken by *Venkatesan* on behalf of the investors. I, therefore, *prima facie* find that *Venkatesan* has not only functioned in his capacity as an unregistered sub broker in the securities market but have also indulged in unregistered portfolio management activities. The entire act of *Venkatesan* is, therefore fraudulent, illegal and unauthorised.
14. Regarding the role of *Vijaya Bharathi* in the matter, it is seen from the report of NSE that *Vijaya Bharathi*, who is also the wife of *Venkatesan* had functioned in her capacity as an authorised person of the trading member *Nirmal Bang* since September 30, 2011 having Registration No. “AP110576691” and in this capacity was also provided with CTCL terminal for both Cash and F&O segment with CTCL ID “600033001001” and login ID "S26802". The said terminal was operated by her spouse *Venkatesan* as the approved user.
15. Further, *Vijaya Bharathi* in addition to being an Authorised Person was also registered as client with *Nirmal Bang* and had traded as client with the above trading member in significant volumes. In addition, it is also seen that *Vijaya Bharathi* is also registered as client to *Saravana* with whom *Venkatesan* had entered into a business partner agreement, and had traded significantly. As per the report of NSE, the following are the details of volume of business done by *Vijaya Bharathi* with both the trading members:

Trading Member Code	Member Name	Client Code	Turnover – CM (24/06/2011 to 31/03/2014) (in ₹)	Turnover – FO (24/06/2011 to 31/03/2014) (in ₹)
9391	<i>Nirmal Bang</i>	S3600007	4,47,074.55	19,67,002.50
Trading Member Code	Member Name	Client Code	Turnover – CM (22/11/2013 to 25/06/2014) (in ₹)	Turnover – FO (22/11/2013 to 25/06/2014) (in ₹)

11221	<i>Saravana</i>	14V50	-	14,71,59,292.50
-------	-----------------	-------	---	-----------------

16. Around 13 clients were introduced by *Vijaya Bharathi* to *Nirmal Bang* in her capacity as the Authorised Person to the trading member and she had earned a commission/share of brokerage of ₹58.53 lacs during the period from November 4, 2011 to March 03, 2014.

17. In terms of the provisions of SEBI circular No. MIRSD/DR-1/Cir-16/09 dated November 06, 2009, an Authorized Person shall not receive or pay any money or securities in its own name or account. All receipts and payments of securities and funds shall be in the name or account of the stock broker. However, it was observed from the bank statements of *Vijaya Bharathi* and other records such as the list of clients from whom money has been collected by *Venkatesan* and *Vijaya Bharathi* that there were both receipt and payment of money received/made to several clients from her bank account and a few of such receipts/payments made are mentioned below:

Axis Bank A/c No.: 911010067723281

Transaction date	Particulars	Credit (₹)	Balance (₹)
10/07/2013	Kannan B	98,500	190719.81
30/08/2013	Narayan Parthasarathy	1,00,000	101979.61

IDBI Bank A/c No.: 630104000111607

Transaction date	Chq No.	Particulars	Debit (₹)	Credit (₹)	Balance (₹)
25/04/2014	NEFT-N115140014310607	Viswanathan		20,000	39,273.83
09/02/2012	By Cash	N. T. Suresh		25,000	
14/08/2013	37273	S. Sivakumar	23,500		53,387.00
26/08/2013	37274	I. Manikantan	50,000		3,307.00

18. Apart from the above, it is also seen from the report of NSE that *Vijaya Bharathi* had also accepted cash deposits in her various bank accounts as detailed below:

S. No.	Bank Name & Account No.	Name of the Account holder	Amount collected in Cash (₹)	Amount collected other than Cash (₹)	Total (₹)	Bank Statement provided & verified for the period
1.	HDFC Bank A/c No. 821050351339	<i>Vijaya Bharathi</i>	1,36,000	14,36,935	15,72,935	01/07/2013 to 23/06/2014
2.	HDFC Bank A/c No. 18642000000425	<i>Vijaya Bharathi</i>	-	25,57,141	25,57,141	01/07/2013 to 23/06/2014

S. No.	Bank Name & Account No.	Name of the Account holder	Amount collected in Cash (₹)	Amount collected other than Cash (₹)	Total (₹)	Bank Statement provided & verified for the period
3.	Axis & Bank A/c No. 842402053	<i>Vijaya Bharathi</i>	1,57,000	32,19,863	33,76,863	01/07/2013 to 25/06/2014
4.	IDBI Bank A/c No. 630104000111607	<i>Vijaya Bharathi</i>	6,67,700	13,88,883	20,56,583	16/02/2012 to 02/07/2014

19. On perusal of the bank statements of various bank accounts operated by *Vijaya Bharathi* it was observed that there were several cash receipts that were made into her account and on many occasions such receipts were huge, details of which are as mentioned below:

IDBI bank A/c No.: 630104000111607		HDFC Bank A/c No.: 821050351339	
Transaction date	Credit (₹)	Transaction date	Credit (₹)
13/03/2014	2,25,000	27/11/2013	40,000
04/06/2014	3,00,000	06/01/2014	16,000
27/05/2014	50,000	02/05/2014	33,000
31/05/2014	50,000	04/06/2014	25,000
21/06/2014	1,25,000		

Axis Bank A/c no.: 911010067723281

Transaction date	Credit (₹)
25/07/2013	50,000
20/05/2014	25,000

20. A perusal of the documents furnished by NSE along with their report indicated that *Vijaya Bharathi* had been indulging in direct clientele dealing by executing trades through her own account and settling the transactions by receipt and payment of funds, which is not permitted for a licensed authorised person as stated above. The same is amply corroborated from the observations made in the pre-paragraphs regarding deposit of money both in cash and by way of cheque receipts from various investors and deposit of the same into her bank account.

21. From the evidences on record furnished by NSE in its report such as the bank statements of *Vijaya Bharathi*, other records furnished by *Venkatesan* to the officials of NSE during their visit to his office for enquiry, I am convinced that *Vijaya Bharathi* has acted beyond her scope as an Authorised Person to *Nirmal Bang* in as much as having direct clientele dealing in securities transactions, settling such transactions through receipts and payments and having an ultimate

clientele dealing thereby acting as an un registered sub-broker. Further, I also note that while being registered as a client with *Saravana* she had ultimate clientele dealings and had actively connived with *Venkatesan* in his dealings with the investors with whom he had entered into private agreement.

22. It is seen from few of the bank statements of *Vijaya Baharathi* as furnished by NSE that on several occasions, there were transfer of funds between the bank accounts of *Vijaya Bharathi* and *Venkatesan*. A few instances of such transfers that were observed in *Vijaya Bharathi's* Axis Bank account No – “911010067723281” with Customer Id- “842402053” to *Venkatesan's* HDFC Bank Account No. – “18642000000373” with Customer Id - “25318543” is given below:

Date	Narration	Debit (₹)
11/07/2013	NEFT/IR/AXIR131920226425/C VENKATESAN	1,00,000
18/07/2013	NEFT/IR/AXIR131990516813/C VENKATESAN	35,000
19/07/2013	NEFT/IR/AXIR132000561095/C VENKATESAN	20,000
06/08/2013	NEFT/IR/AXIR132180818759/C VENKATESAN	40,000
06/08/2013	NEFT/IR/AXIR132180818932/C VENKATESAN	2,00,000
07/08/2013	NEFT/IR/AXIR132240211834/C VENKATESAN	50,000
06/09/2013	NEFT/IR/AXIR132490621902/C VENKATESAN	60,000

23. It was further observed that after the receipt of funds by *Venkatesan* from the account of *Vijaya Bharati* the funds were transferred by *Venkatesan* from his bank account to the accounts of ultimate investors with whom he had private arrangement. The above fund movement clearly suggests the role of both *Venkatesan* and his spouse *Vijaya Bharati* in their dealings with ultimate investors. Details of the flow of funds that have taken place from *Venkatesan's* different bank accounts to various investors account is explained as under:

IDBI Bank A/c No.: 0630102000010797

Transaction date	Chq No.	Particulars	Debit (₹)	Credit (₹)	Balance (₹)
04/09/2013		M. Geethalakshmi		1,00,000	1,02,085.43
04/09/2013	337506	V. Govindarajulu	1,00,000		2,085.43
14/10/2013	337511	B. G. Suresh	1,000		1,085.43

City Union Bank A/c No.: CA - 172056

Transaction date	Chq No.	Particulars	Debit (₹)	Credit (₹)	Balance (₹)
15/05/2012	NEFT	K. Mahadevan	40,000		4,60,000
29/05/2012	NEFT	A. Hamed Nazeer	25,000		5,25,000
21/06/2012	NEFT	C S Rithadhama	45,000		75,523
19/03/2013	1061	Raja	7000		6175.26
19/03/2013	1068	Jayanthi	3500		2675.26
31/03/2013	16374588:104	Ganesh		2,00,000	2,07,334.26
15/04/2013	1030	Sowrirajan	10,000		8765.26

24. It is thus demonstrated from the observations made above and particularly from the flow of funds that have taken place between *Vijaya Bharathi* and *Venkatesan's* bank account and further from the account of *Venkatesan* to the accounts of the ultimate investors that *Vijaya Bharathi* has clearly aided and abetted *Venkatesan* and have indulged in unauthorised sub broking activities under the guise of a private agreement which *Venkatesan* had entered into with the gullible investors. There were no complaints received by SEBI or by NSE against *Venkatesan* or *Vijaya Bharathi*. Quite obviously, in the specific case of unauthorised intermediation activities, it is absurd to expect complaints coming from unsuspecting investors who were not even aware of the fraud that were played on their investments by both *Venkatesan* and *Vijaya Bharathi*. Even if complaints arise, steps would be immediately taken by *Venkatesan* and *Vijaya Bharathi* to silence them by compensating them appropriately in order to dissuade them from lodging complaints with the concerned authorities.
25. Such transfer of funds as explained above also corroborates the findings of NSE in their report in which *Venkatesan* is stated to have mentioned that funds from the public would be collected in the bank account of *Vijaya Bharathi* and from there it would then be transferred to his account, which would in turn be used towards the pay in and pay out obligations with the trading members as regards the settlement of the transactions done on behalf of ultimate clients who had deposited their money with them under a private agreement for securities dealings.
26. The familial relationship of *Vijaya Babarathi* as the spouse of *Venkatesan* is established beyond doubt from the documents such as the KYC form of *Vijaya Bharathi* and its supporting enclosures such as copies of ration card, passport, etc. Further, *Vijaya Bharathi* had also nominated *Venkatesan* as the Nominee in her IDBI Bank account bearing no. "630104000111607". As per the document submitted by *Venkatesan* and *Vijaya Bharathi* in support of their address proof, their residential address is Door No. 2, Subramanian Iyer Street, 4th Floor, FF-2, West Mambalam, Chennai-600033, Tamil Nadu. Further, *Vijaya Bharathi* had also taken the trading terminal as an Authorised Person from *Nirmal Bang* in the name of her

spouse *Venkatesan* as the approved user with terminal ID “S26802” and the terminal was also located in the above said residential address as per the stock exchange records.

27. It is noted from the report of NSE that *Vijaya Bharathi* had shifted the trading terminal to a new address located at No. 19/4, 12th Avenue, Near Grand Sweets, Ashok Nagar, Chennai without intimating the change of address of the terminal location to *Nirmal Bang*. The new address to which the terminal was shifted is the location that had been traced by the NSE officials based on their telephonic enquiry made to the mobile number “9840017104”, the contact number that was mentioned in the advertisement published by *Venkatesan* in the newspapers soliciting funds from the public.
28. From the above facts and circumstances, it is clear that the schemes/devise operated by *Venkatesan* were with the complete knowledge, collusion and connivance of *Vijaya Bharathi* as she is not only equally responsible for misleading the investors with whom they had private agreement but also guilty of collecting funds from them and trading on their behalf through her broking account. I, therefore, find that *Vijaya Bharathi*, in total breach of the conditions laid down for Authorised Persons by SEBI and Stock Exchange, has functioned beyond the scope of a licensed Authorised Person and has functioned as an unregistered sub broker as well.
29. In light of the aforementioned facts and circumstances of the case, NSE Report and evidence/documents available on record, I am convinced that both *Venkatesan* and *Vijaya Bharathi* have indulged in an act of soliciting money from the public using a fake trade name of *Ganesh Stocks*, and by luring gullible investors with promise of huge and assured fixed monthly returns against their investments. They managed to collect huge amount of money both by way of cheques and also by cash deposits in a fraudulent and deceitful manner by executing private agreements with the investing public. The duo operated in such a manner where investors would not be suspicious of their activities and an element of genuineness was injected into their operations, which gullible investors were not aware of. The trading in shares for and on behalf of the investors used to be carried out through the trading account of *Vijaya Bharathi* and/or *Venkatesan* and money from the investors were collected by *Venkatesan* under private agreements with the investors.
30. I find that the activities devised by *Ganesh Stocks*, *Venkatesan* and *Vijaya Bharathi* had sufficient material so as to give an impression to the investors that the money collected from them were getting invested in the securities market and the persons/entity mentioned above were managing their investments properly. The advertisement issued by *Ganesh Stocks* contained information wherein investors were promised unrealistic monthly returns and as such was aimed at luring the gullible investors. The facts brought out above *prima facie* indicate that:

- (a) *Ganesh Stocks* alongwith *Venkatesan* and *Vijaya Bharathi* solicited and collected funds/deposits from its clients/other investors for making investments on their behalf and functioned as a stock broker by virtue of a private agreement and by executing transactions for clients through their own trading account and settling the transactions by receipt and payment of funds, without obtaining registration as a stock broker as stipulated in aforesaid section 12(1) of the Securities and Exchange Board of India Act, 1992 (the SEBI Act) read with regulation 5 of the SEBI (Stock Broker and Sub-broker) Regulation, 1992 (the Stock Brokers Regulations);
- (b) *Ganesh Stocks* alongwith *Venkatesan* and *Vijaya Bharathi* solicited and collected funds/deposits from its clients/other investors for making investments on their behalf even when it was neither registered as a sub-broker nor as any other intermediary and as such acted in contravention of section 12(1) the SEBI Act, 1992 read with regulation 11(1) of the Stock Brokers Regulations;
- (c) *Ganesh Stocks* alongwith *Venkatesan* and *Vijaya Bharathi* solicited and collected funds/deposits from their clients and other investors to make investment in certain schemes and entered into private agreements with these clients to that effect that were in the nature of portfolio management schemes without obtaining registration as a portfolio management services as required in terms of section 12(1) of the SEBI Act read with regulation 3 of the SEBI (Portfolio Managers) Regulations, 1993 (the Portfolio Managers Regulations);
- (d) *Vijaya Bharathi*, while functioning as an Authorised Person to *Nirmal Bang*, have functioned beyond the scope and duties of an Authorised Person thereby breaching the conditions prescribed in terms of SEBI circular No. MIRSD/DR-1/Cir-16/09 dated November 06, 2009 and more particularly para 5(c) therein, by directly dealing with the clients in buying and selling securities for them through her own account and settling the same by receipts and payments thereby breaching the conditions subject to which such license had been granted to her. Thus, *Vijaya Bharathi* as an Authorised Person to *Nirmal Bang*, *prima facie*, has violated the provisions of the above cited circular.

31. I find that the schemes devised/offered and operated by *Venkatesan* through his connected/related entities, namely, *Ganesh Stocks* and *Vijaya Bharathi* were with their complete knowledge and as such they were not only responsible for misleading the clients of *Ganesh Stocks* and other general investors from the public but also for collecting funds from them and promising unrealistic returns and for other contraventions as mentioned hereinabove. The relevant provisions of the SEBI Act, the Regulations and circular are reproduced as following:-

Section 12(1) of the 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 regulations made under this Act:

The SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992

“Registration as sub-broker.

11. (1) No sub-broker shall act as such unless he holds a certificate granted by the Board under these regulations.

.....”

SEBI (Portfolio Managers) Regulations, 1993

Regulation 3–

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

....."

SEBI Circular No. MIRSD/DR-1/CIR-16/09 dated November 06, 2009

Para 5 - Conditions of Appointment

(a)

(b)

(c) "the authorised Person shall not receive or pay any money or securities in its own name or account. All receipts and payments of securities and funds shall be in the name or account of stock broker."

32. By their acts and omissions, *Ganesh Stocks* alongwith *Venkatesan* and *Vijaya Bharathi* have solicited, enticed and induced their clients and other investors to deal in securities and have also collected funds and deposits from their clients and other general investors through misrepresentation and allurement of high returns through various schemes to such clients and investors. They also solicited investments from the clients and other investors claiming to give high returns even when *Ganesh Stocks* alongwith *Venkatesan* and *Vijaya Bharathi* were not a SEBI registered intermediary. This *prima facie* appears to be a representation made in a reckless and careless manner. In my view the *modus operandi* of *Ganesh Stocks* alongwith *Venkatesan* and *Vijaya Bharathi* indicates a scheme, plan, device or artifice or contrivance that is, besides being in contraventions of the SEBI Act, the Regulations and the circular as discussed above, is 'fraudulent' as defined in regulation 2(1)(c) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as "the PFUTP Regulations") which reads as under:-

Definition of “fraud” – Regulation 2(1)(c).

(c) “fraud” includes any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person with his connivance or by his agent while dealing in securities in order to induce another person or his agent to deal in securities, whether or not there is any wrongful gain or avoidance of any loss, and shall also include—

(1) a knowing misrepresentation of the truth or concealment of material fact in order that another person may act to his detriment;

(2) a suggestion as to a fact which is not true by one who does not believe it to be true;

(3) an active concealment of a fact by a person having knowledge or belief of the fact;

(4) a promise made without any intention of performing it;

(5) a representation made in a reckless and careless manner whether it be true or false;

(6) any such act or omission as any other law specifically declares to be fraudulent;

(7) deceptive behaviour by a person depriving another of informed consent or full participation;

(8) a false statement made without reasonable ground for believing it to be true;

(9) the act of an issuer of securities giving out misinformation that affects the market price of the security, resulting in investors being effectively misled even though they did not rely on the statement itself or anything derived from it other than the market price.

And “fraudulent” shall be construed accordingly;

.....”

33. In the light of the aforesaid observations, I, *prima facie*, find that *Ganesb Stocks* alongwith *Venkatesan* and *Vijaya Bharathi* not only contravened the provisions of the SEBI Act, the Stock Brokers Regulations, the Portfolio Managers Regulations and SEBI circular as discussed hereinabove but have also acted in fraudulent and deceitful manner which attracts prohibitions enshrined in section 12A (a) (b) and (c) of the SEBI Act and regulation 3 (b), (c) and (d) and regulation 4(1) and 4(2) (k) of the PFUTP Regulations which read as following:-

Section 12A of the SEBI Act-

“Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

12A. No person shall directly or indirectly -

(a) 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 this Act or the rules or the regulations made thereunder;

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

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;”

Regulation 3 of the PFUTP Regulations -

"3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

- (a).....*
- (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 fraudulent or an unfair trade practice in securities.

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—

-*
- (k) an advertisement that is misleading or that contains information in a distorted manner and which may influence the decision of the investors;*
-"*

34. Since the conduct of *Ganesh Stocks* alongwith *Venkatesan* and *Vijaya Bharathi* are not in the interest of investors in the securities market, necessary action has to be taken against them immediately, else it may lead to loss of investor's confidence and trust in the securities market. I find from the material available that *Venkatesan* and *Vijaya Bharathi* acting together in concert and using the brand name of *Ganesh Stocks* and shares have resorted to misdeeds which do not meet the eyes of law and its requirements and had made unrealistic claims of returns to the investors as brought out in the pre paragraphs. By means of a coordinated artifice they have managed to entice and lure the investors to deal in securities market. As a regulator of the capital markets, SEBI has the duty to safeguard the interest of the investors and protect the integrity of the securities market. I am convinced that this is a fit case where stern regulatory action is required to be taken not only to prevent any further harm to the investors but also to send a strong signal to the market at large in order to prevent any person or entity from indulging in acts as observed in this case.

35. On perusing the NSE report and the observations made therein, it is difficult to presume that

both the trading members viz., *Saravana* and *Nirmal Bang* would have been ignorant of the unlawful activities carried out by *Venkatesan* and *Vijaya Bharathi*. If so, it only reflects poorly on the monitoring mechanism of the trading members, especially in the instant case where the individual clients with a declared income range of ₹1-5 lacs/₹5-10 lacs per annum were bringing in substantial trading/business volume to the trading members, which were observed to be grossly disproportionate to their disclosed income levels. This aspect itself should have triggered an alert on the part of the trading members to examine the veracity behind the transactions of these clients and as a prudent trading members they should have ascertained from the clients the factual position regarding their financial capabilities. Further, the trading members should have discreetly enquired from the clients if the trading volume generated by them were commensurate with their income levels disclosed in their respective KYC forms, etc. For example, in the case of *Nirmal Bang*, the occupation and the income range disclosed by *Venkatesan* and *Vijaya Bharathi* were self employed - ₹10-25 lacs and housewife - ₹5-10 lacs and the business volume generated by them were to the tune of over ₹183.64 cr. Further, I also observe that the trading member *Nirmal Bang* had paid an amount of ₹58,53,761/- as brokerage to *Vijaya Bharathi* as per the Authorised Person agreement entered into with her for the period from November 2011 to March 2014.

36. From the observations made above on pre pages it is amply clear that substantial volumes were generated through the respective trading accounts of *Venkatesan* who had entered into ultimate and illegal clientele dealings with various investors through the private agreement entered into with them. *Vijaya Bharathi*, the spouse of *Venkatesan*, had apparently aided and abetted him in such activities. In light of the observations made above, NSE may examine the activities of the said two clients viz. *Venkatesan* and *Vijaya Bharathi* and whether there were any irregularities that were noticed on the part of the trading member *Nirmal Bang* in sufficiently monitoring the trading activities of the said two clients mentioned above. NSE may also specifically examine whether there were any irregularities that were noticed in the monitoring of the activities of *Vijaya Bharati* as the Authorised Person by the trading member *Nirmal Bang* with specific reference to the requirements laid down in terms of the SEBI Circular dated November 6, 2009 and also the relevant provisions of the rules and bye laws issued by NSE in regard.
37. It is further intriguing to note that on one hand *Saravana* had entered into a Business Partner Agreement with *Venkatesan*, who is not a registered client, a sub-broker or an Authorized Person of the trading member but as per the said agreement it appeared that *Venkatesan* was empowered to carry out all activities which only a SEBI registered sub-broker or an Exchange Licensed Authorised Person alone could carry out. It is even more surprising to note that even though the representative of *Saravana* is a signatory to the aforementioned “Business Partner” agreement

along with *Venkatesan*, *Saravana* has denied to the NSE any knowledge about the existence of *Ganesh Stocks* and/or the person(s) behind such entity/firm which had released the advertisement of soliciting funds from public.

38. The abovementioned Business Partner Agreement had enabling clauses for sharing of brokerage between the trading member and *Venkatesan* to the extent that it was mentioned that the trading member would share the brokerage with *Venkatesan* after deducting the statutory charges, the brokerage accrued will be refunded to the Business Partner on a monthly basis and that the amount would be released on the 1st of every month. It is on the basis of this brokerage sharing agreement that *Saravana* had shared the brokerage amounting to ₹46,795/- with *Venkatesan* for the period November 2013 to January 2014. The amount of ₹46,795 paid to *Venkatesan* by the trading member is nothing but the brokerage that has been shared in respect of the trades done essentially in the client code of *Vijaya Bharathi*. As already brought out above both *Venkatesan* and *Vijaya Bharathi* had ultimate clientele dealings and all such trades were routed through the trading account of *Vijaya Bharathi* maintained with *Saravana*. Thus, *Saravana* shared brokerage with *Venkatesan* for the business brought in through the client code of *Vijaya Bharathi*. As per the extant regulations, a registered stock broker can share brokerage for the transactions executed in various client codes only with his registered sub-broker or with his Authorised Person, as the case may be. NSE has confirmed that neither *Venkatesan* nor *Ganesh Stocks* is registered in its capacity either as a sub-broker or as an Authorised Person with *Saravana*.
39. From the above, it may be noted that, *prima facie*, the role of the two stock brokers, namely, *Saravana* and *Nirmal Bang* in the whole matter has been questionable, therefore, needs to be examined at the earliest. SEBI will examine the role of these stock brokers, separately.
40. In view of the foregoing, in order to protect the interest of investors and the integrity of the securities market, I, in exercise of the powers conferred upon me by virtue of section 19 read with sections 11 (1), 11 (4), 11 B and 11 D of the SEBI Act 1992, by way of this *ex-parte* order:
- (i) restrain Ganesh Stocks and Shares, Mr. C. Venkatesan, (PAN AADPC7641J) and Ms. Vijaya Bharathi K. (PAN ABZPV9951D) from accessing the securities market and further prohibit them from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner;
 - (ii) direct Ganesh Stocks and Shares, Mr. C. Venkatesan and Ms. Vijaya Bharathi K. to cease and desist from undertaking the portfolio management activities or any unregistered activity in securities market, directly or indirectly, in any manner whatsoever;

- (iii) direct Ganesh Stocks and Shares, Mr. C. Venkatesan and Ms. Vijaya Bharathi K. to immediately withdraw and remove all advertisements, representations, literatures, brochures, materials, publications, documents, websites, etc. in relation to the portfolio management activities or any unregistered activity in securities market;
- (iv) prohibit Ganesh Stocks and Shares, Mr. C. Venkatesan and Ms. Vijaya Bharathi K. from mobilizing funds from its clients or other general investors or offering any PMS related activities.

41. The above directions are without prejudice to the right of SEBI to take any other action that may be initiated against Ganesh Stocks and Shares, Mr. C. Venkatesan and Ms. Vijaya Bharathi K. in accordance with law.

42. The entities/persons against whom this Order is being passed may file their objections, if any, within twenty one (21) days from the date of this Order and, if they so desire, may avail themselves of an opportunity of personal hearing before the Securities and Exchange Board of India at its Head Office at SEBI Bhavan, Plot No. C4-A, G Block, Bandra Kurla Complex, Bandra (East), Mumbai- 400051 on a date and time to be fixed on a specific request in writing, to be received in this behalf from the entities/persons.

43. This order shall come into force with immediate effect.

Sd/-

DATE: APRIL 08th, 2015

PLACE: MUMBAI

RAJEEV KUMAR AGARWAL

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA