

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 80005 / February 9, 2017**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-17838**

**In the Matter of**

**JAYPEE**  
**INTERNATIONAL, INC.**  
**AND SORABH ARORA,**

**Respondents.**

**ORDER INSTITUTING**  
**ADMINISTRATIVE AND CEASE-AND-**  
**DESIST PROCEEDINGS, PURSUANT TO**  
**SECTIONS 15(b) AND 21C OF THE**  
**SECURITIES EXCHANGE ACT OF 1934,**  
**MAKING FINDINGS, AND IMPOSING**  
**REMEDIAL SANCTIONS AND A CEASE-**  
**AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Jaypee International, Inc. (“Jaypee”) and Sorabh Arora (collectively, “Respondents”).

**II.**

In anticipation of the institution of these proceedings, Respondents have submitted a joint Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

**III.**

On the basis of this Order and Respondents’ Offer, the Commission finds that:

## **Respondents**

1. Jaypee International, Inc., located in Chicago, Illinois, has been registered with the Commission as a broker-dealer since November 2005. Throughout the relevant period, Jaypee was wholly owned by Jaypee Capital Services Ltd. (“Jaypee Capital”), a foreign broker-dealer based in India.

2. Sorabh Arora, age 33, is the President, Chief Compliance Officer (“CCO”), and Financial and Operations Principal (“FINOP”) of Jaypee. Arora has been associated with Jaypee since 2005. From September 2003 through June 2004, Arora was a registered representative associated with other broker-dealers registered with the Commission.

## **Background**

3. Jaypee engages in proprietary trading of American Depository Receipts, commodity futures, and equity options. Jaypee also serves as an introducing broker for a small number of customers. Jaypee’s source of capital during the relevant period was Jaypee Capital. Since its inception, Jaypee has received capital contributions from Jaypee Capital, which offset Jaypee’s significant trading losses and allowed Jaypee to maintain required capital levels.

4. All of Jaypee’s operations, including trading and regulatory compliance, were managed by Arora, the firm’s President, CCO and FINOP. Arora was responsible for, among other things, calculating and monitoring Jaypee’s net capital and for ensuring the firm’s compliance with minimum net capital requirements and related reporting obligations.

### **Jaypee Failed to Comply with Net Capital, Notification, and Books and Records Requirements**

5. On multiple occasions between March 2012 and December 2014 (“the relevant period”), Jaypee had a series of failures relating to the firm’s minimum net capital requirements. Specifically, during this period, Jaypee: (i) did not adhere to its minimum net capital requirements on several occasions; (ii) did not provide timely notification to the Commission of net capital deficiencies; and (iii) filed inaccurate FOCUS reports that overstated the firm’s net capital. The details of each of these instances are set forth below.

6. From March 31, 2012 through April 8, 2012, Jaypee failed to maintain adequate net capital. The deficiency occurred when Jaypee experienced a loss in the commodities market, causing its net capital to fall below required levels by \$223,576. Jaypee discovered the deficiency on April 2, 2012. On April 9, 2012, Jaypee received a wire transfer of funds from Jaypee Capital to correct the net capital deficiency. Although Jaypee did not conduct any securities transactions during this time, Jaypee failed to notify the Commission of the deficiency until April 10, 2012, after the deficiency had been corrected. During this period, Arora was responsible for calculating net capital and for filing notifications with the Commission on Jaypee’s behalf.

7. At periodic times between April and June 2014, Jaypee once again fell below its required net capital levels due to its improper treatment of funds it received from Jaypee Capital.

In January 2014, Jaypee entered into an agreement to provide consulting services to an affiliated broker-dealer in Singapore in exchange for \$750,000 due by March 31, 2014. The affiliated broker-dealer had not made any payments by the March 31 deadline. On April 10, 2014, Jaypee Capital wired \$443,210 to Jaypee, which temporarily covered a portion of the balance owed under this consulting agreement. Jaypee Capital had no obligation to Jaypee under the consulting agreement, and this payment was made without any agreement between Jaypee Capital and Jaypee and without any indication that the payment was in partial satisfaction of the Singapore affiliate's obligations. For the purpose of net capital calculation, Jaypee treated these funds as an allowable asset with no offsetting liability, even though there was no indication that Jaypee Capital was paying on behalf of the Singapore affiliate. In fact, between May 23 and June 24, 2014, the Singapore affiliate made payments to Jaypee totaling \$750,000, and on June 13, 2014, Jaypee returned the \$443,210 to Jaypee Capital. Since Jaypee returned the funds advanced from Jaypee Capital within three months of the advance, the funds should have been deducted from Jaypee's net capital calculation. This misclassification of funds resulted in inaccurate net capital computations and in inaccurate record-keeping by Jaypee from the day of the advance from Jaypee Capital until the advance was paid back. Arora was responsible for this misclassification. Taking into account the advance, Jaypee was undercapitalized on certain days between April 22, 2014 and May 19, 2014, during which time Jaypee was operating a securities business. Jaypee failed to timely notify the Commission of the net capital deficiencies during this period. As a result of this misclassification, Jaypee filed an inaccurate FOCUS report on April 30, 2014 which overstated Jaypee's net capital on that day by more than \$400,000 and failed to report a \$40,487 net capital deficiency. On May 31, 2014, Jaypee filed an inaccurate FOCUS report that overstated its net capital, although the firm was still adequately capitalized on that day. Arora prepared and filed the inaccurate FOCUS reports for Jaypee.

8. From October 2014 through December 2014, Arora incorrectly calculated Jaypee's net capital by understating the appropriate "haircuts" on Jaypee's short put options. As part of its net capital calculation, Jaypee was required to apply a discount of \$250 per put option contract to its net capital. Jaypee failed to apply this haircut, and Arora was responsible for these calculations. When taking into account the proper haircut, Jaypee was below the \$100,000 minimum net capital requirement on twenty-one days between October 17, 2014 through December 18, 2014. Jaypee was operating a securities business during this period. Over the course of these twenty-one days, when accounting for the proper haircut, Jaypee had net capital ranging from (\$515,856) to \$47,475, and daily net capital deficiencies ranging from \$52,525 to \$615,856. Jaypee failed to timely notify the Commission of these net capital deficiencies during this period. Due to these miscalculations, Jaypee filed inaccurate FOCUS reports on October 31, 2014 and November 30, 2014 that overstated Jaypee's net capital on those days. Jaypee's October 31, 2014 FOCUS report should have reflected a net capital deficiency of \$282,048. Arora prepared and filed the inaccurate FOCUS reports during this period.

## Violations

9. As a result of the conduct described above, Jaypee willfully<sup>1</sup> violated Section 15(c)(3) of the Exchange Act and Rule 15c3-1 thereunder, which require registered brokers and dealers to maintain a certain minimum net capital at all times while effecting transactions in securities.

10. As a result of the conduct described above, Jaypee willfully violated Section 17(a) of the Exchange Act and Rules 17a-3, 17a-5, and 17a-11 thereunder, which require registered brokers and dealers to: (i) make and keep current books and records relating to their business, including an accurate computation of net capital; (ii) file accurate FOCUS reports that include net capital computations; and (iii) give same-day notice to the Commission of net capital deficiencies.

11. As a result of the conduct described above, Arora caused Jaypee's violations of Sections 15(c)(3) and 17(a) of the Exchange Act and Rules 15c3-1, 17a-3, 17a-5, and 17a-11 thereunder.

12. As a result of the conduct described above, Arora willfully made and caused to be made false statements in reports required to be filed with the Commission under the Exchange Act.

## Undertakings

13. Jaypee shall retain, within sixty (60) days after the entry of this Order, an independent consultant ("Independent Consultant") not unacceptable to the Commission staff. Jaypee shall require the Independent Consultant to review and evaluate the supervisory, compliance and other policies and procedures and controls of Jaypee concerning compliance with net capital requirements, calculation of net capital, maintaining and keeping books and records concerning net capital, and reporting of net capital and any deficiencies relating to net capital. Jaypee will cooperate fully with the Independent Consultant and will provide reasonable access to firm personnel, information, and records as the Independent Consultant may reasonably request for the Independent Consultant's reviews and evaluations. Jaypee will provide the Commission staff a copy of the engagement letter detailing the scope of the Independent Consultant's responsibilities.

14. Within ninety (90) days of being retained, Jaypee will require the Independent Consultant to issue a report (the "Report") to Jaypee: (a) summarizing the Independent Consultant's review and evaluation; and (b) making recommendations, where appropriate, reasonably designed to ensure that Jaypee's internal accounting procedures comply with

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<sup>1</sup> A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

Commission regulations. At Jaypee's direction, the Independent Consultant will provide a copy of the Report to the Commission staff when the Report is issued.

15. Jaypee will adopt, as soon as practicable, the recommendations of the Independent Consultant in the Report. Provided, however, that within thirty (30) days of issuance of the Report, Jaypee may advise the Independent Consultant in writing of any recommendation that it considers to be unnecessary, unduly burdensome, or impractical. Jaypee need not adopt any such recommendation at that time, but instead may propose in writing to the Independent Consultant and the Commission staff an alternative policy or procedure designed to achieve the same objective or purpose. Jaypee and the Independent Consultant will engage in good-faith negotiations in an effort to reach agreement on any recommendations objected to by Jaypee.

16. In the event that the Independent Consultant and Jaypee are unable to agree on an alternative proposal within thirty (30) days, Jaypee will abide by the determinations of the Independent Consultant.

17. Jaypee will require the Independent Consultant to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Jaypee, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Independent Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in performance of his/her duties under this Order shall not, without prior written consent of the Commission's Chicago Regional Office, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Jaypee, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

18. Jaypee shall establish, implement and enforce policies and procedures designed to provide reasonable assurances that Jaypee's officers and FINOPs participate in professional development activities in accordance with firm guidelines, in subjects that are relevant to their responsibilities, and will contribute to their technical training and proficiency as officers of a registered broker or dealer. Jaypee shall require its current officers holding Series 27 licenses to undergo a minimum of 20 hours of continuing education in broker-dealer compliance. Of the 20 hours, 6 hours shall relate to issues affecting Financial and Operations Principals including but not limited to the net capital rule.

19. Jaypee shall certify, in writing, compliance with the undertaking(s) set forth above. The certification shall identify the undertaking(s), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Jeffrey A. Shank, Assistant Regional Director, Securities and Exchange Commission, 175 W. Jackson Blvd., Suite 900, Chicago, IL 60604, with a copy to the

Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

#### IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondents' Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondents Jaypee and Arora cease and desist from committing or causing any violations and any future violations of Sections 15(c)(3) and 17(a) of the Exchange Act, and Rules 15c3-1, 17a-3, 17a-5, and 17a-11 promulgated thereunder.

B. Respondents Jaypee and Arora are censured.

C. Respondent Jaypee shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$25,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

D. Respondent Arora shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$10,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

E. Payment of the civil penalties described in Paragraphs C and D must be made in one of the following ways:

- (1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondents may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondents may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Jaypee and Arora as Respondents in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Jeffrey A. Shank, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Blvd., Suite 900, Chicago, IL 60604.

F. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agrees that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agrees that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

G. Respondent Jaypee shall comply with the undertakings enumerated in Section III Paragraphs 13 – 19 above.

## V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent Arora, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent Arora under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent Arora of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields  
Secretary