

## **1993 Court Case against Khalsa Financial Services Inc. et al.**

SECURITIES AND EXCHANGE COMMISSION V. KHALSA FINANCIAL SERVICES INC., ET AL. (U.S. District Court, Eastern District of Virginia, Alexandria Division, Civil Action No. 92-1367-A)

SECURITIES AND EXCHANGE COMMISSION

LITIGATION Release No. 13498

1993 SEC LEXIS 170

January 25, 1993

TEXT: [\*1]

On September 29, 1992, the Securities and Exchange Commission (Commission) filed a Complaint in the U.S. District Court for the Eastern District of Virginia against Khalsa Financial Services Inc. (Khalsa), a registered investment adviser located in Sterling, Virginia, Gurujot Singh Khalsa (Gurujot), the president and sole shareholder of Khalsa, and Darshan Singh Khalsa (Darshan), the vice-president, secretary and treasurer of Khalsa. The Commission seeks a permanent injunction, an order of accounting, disgorgement and civil penalties. The Complaint alleges that Khalsa and Gurujot, aided and abetted by Darshan, violated numerous provisions of the Investment Advisers Act of 1940 (Advisers Act). Specifically, the Complaint alleges that the defendants violated the antifraud provisions of Sections 206(1) and 206(2); the custody provisions of Section 206(4) and Rule 206(4)-2(a) thereunder; the recordkeeping and reporting provisions of Section 204 and Rules 204-1(b)(1), 204-1(b)(2), 204-1(c), 204-2(a), 204-2(b), and 204(3)(a) thereunder; and the filing provisions of Section 207.

In its Complaint, the Commission alleges that from January 1988 to the present, Khalsa, through Gurujot and [\*2] Darshan, engaged in a scheme to defraud nine advisory clients of approximately \$ 481,000 that was placed with Khalsa for investment. Both Gurujot and Darshan are part of the American Sikh community and the majority of Khalsa's clients are part of the Sikh community. In approximately January 1988, Gurujot and Darshan caused Khalsa to open a money market account in Khalsa's name at a bank in Virginia. Khalsa characterized this account in its books and records as a "Time Deposit Account" (TDA) and used the TDA as a general operating account in which client funds were pooled. The Complaint alleges that Khalsa informed its advisory clients through quarterly investment statements that their funds placed into the TDA were investments in "Time Deposits" when, in fact, the supposed "Time Deposits" were never invested in certificates of deposit, treasury bills or notes, or any type of term investment. Rather, Gurujot and Darshan took these funds out of the TDA, treated the funds as loans to Khalsa, and used them to make loans to affiliated entities; to repay funds previously borrowed from affiliated entities; to pay the operating expenses of affiliated limited partnerships; and to return [\*3] principal and make interest payments to certain clients. The Complaint further alleges that the defendants failed to disclose these actions to Khalsa's clients. Moreover, Khalsa never disclosed the use of client funds, as required by its investment advisory agreement.

The Commission further alleges that the defendants failed to safeguard funds of Khalsa's advisory clients in its custody; failed to make and keep true, accurate and current certain books and records relating to Khalsa's investment advisory business; and failed to make and disseminate certain reports relating to Khalsa's investment advisory business.