BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

ADJUDICATION ORDER NO. Order/GG/VP/2022-23/19662

UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995

AND

UNDER SECTION 23-I OF THE SECURITIES CONTRACTS (REGULATION) ACT, 1956 READ WITH RULE 5 OF THE SECURITIES CONTRACTS (REGULATION) (PROCEDURE FOR HOLDING INQUIRYAND IMPOSING PENALTIES) RULES, 2005.

In respect of:
Ambalal Share and Stocks Private Limited
(Stock Broker and Depository Participant)

SEBI Registration No-INZ000219137

In the matter of inspection of Ambalal Shares and Stocks Private Limited

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A. BACKGROUND OF THE CASE

1. Ambalal Shares and Stocks Private Limited (hereinafter referred to as **"Noticee"**) is registered with Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") as a Stock broker at BSE, MSE, MCX, ICEX, and Depository Participant**(DP)** at CDSL having SEBI registration number INZ000219137. SEBI carried out an inspection of books of accounts of Noticee for the period April 2019 to September 2020 (hereinafter referred to as the **"Inspection period"**).

2. The irregularities observed during the inspection were divided in seven parts given as under:

   a. Part-1: - Irregularities with respect to Client Funds
      i. Mis-utilisation of Client Funds
      ii. Enhanced Supervision of Stock Brokers.
   b. Part-2: - Irregularities with respect to Clients' Securities
      i. Stock Reconciliation – Comparison of Register of Securities with Data provided by Depositories:
      ii. Reconciliation of client-wise reporting made to Stock Exchanges
   c. Part-3: -Mismatch in system generated alerts.
   d. Part-4: - Funding of Debit balance clients.
   e. Part-5: - Settlement of client funds and Securities
      i. Delay in Settlement of funds for Active and Inactive clients:
      ii. Delay in Settlement of Securities for Active and Inactive clients.
   f. Part -6: - Verification of Email ID & Mobile numbers.
   g. Part-7: - Client's Order Recording (BSE and MCX)

B. APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI initiated adjudication proceedings and appointed me as the Adjudicating Officer under section 19 read with section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the "**SEBI Act**") read with Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as the "**SEBI Adjudication Rules**") and under section 23-I of Securities Contract (Regulation) Act, 1956 (hereinafter referred to as "**SCRA**") read with Rule 3 of Securities Contract Regulations (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter referred to as the **"SCRA Adjudication Rules"**), conveyed vide communication dated 03.01.2022 to inquire into and adjudge under section 15HB of SEBI Act and section 23D of SCRA, with respect to the allegations against the Noticee.

C. SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

4. A Show Cause Notice dated June 23, 2022 (hereinafter referred to as "**SCN**") was sent through email dated 23.06.2022, however, the same was not delivered. Thereafter the said SCN was again sent through email and the same was delivered on 05 July, 2022. The SCN was issued under Rule 4(1) of the SEBI Adjudication Rules and under Rule 4(1) of the SCRA Adjudication Rules to show cause as to why an inquiry should not be initiated against the Noticee and penalty should not be imposed under Section 15HB of the SEBI Act and under section 23D of SCRA for violations of provisions of certain SEBI Circulars.

5. The Noticee vide email dated 20.07.2022 has submitted its reply to the SCN, the reply of the Noticee is reproduced as under:

"We sincerely thank your good selves for giving this opportunity!!!!!

We hereby inform your good selves that we started this business in semi urban area of Vellore District and we have expanded our business in and around Tamil Nadu State at earlier stages to bring small/retail investors into the capital market.

For the past 11 years we at Ambalal conducted several awareness programs in many colleges, business schools and also conducted lot of investor awareness programs with the support of SEBI, exchanges and depository to create awareness about capital market among masses in our surrounding area. In spite of all our efforts we were unfortunate to garner maximum business and our working capital eroded in expansion of our business network. During initial days, lack of operational systems and compliance and shrinking working capital where the major concern for debits in client accounts. ***There is no single complaint from any client during the business period.***

In view of the above there is no intention to misuse client funds and whatever happened was without our knowledge and misreporting by then compliance officer.

Violations happened because of our then Compliance Officer and his wrong reporting to our management regarding the client funds and also he independently took such decisions without management knowledge. During the inspection and internal auditing, our management came to know about the client funds shortfall. Management immediately acted and taken disciplinary action against Compliance Officer and he was terminated. We immediately appointed new compliance officer and management infused additional funds as capital. We immediately took steps to collect client debits.

Our vision and mission is to follow and live business ethics. SEBI also streamlined the rules and regulation and confirms 100 % protection of the client assets. Currently the SEBI and Exchanges have system in place to generate the alerts if any shortfall in clients funds.

Once again to Confirm, all the Mistakes and Violations happened on non-understanding of Rules and regulations and there is no intention to breach the regulatory norms. After inspection our Operation Department participated Several Compliance programs for updating the Rules and Regulations along with the new implementation. Currently we are equipped and understood the current Compliance.

We humbly request you to ***condone*** *our mistakes. We always assure and ensure 100% compliance.*

Part I-

1. Mis-utilization of client funds

First we accept the above observations, the shortfall in client funds mainly due to debit balance of clients and now there are no shortfall of client funds and G is positive, as per NSE and SEBI instructions, we bring to your good selves that we are maintaining sufficient client funds and ensuring no shortfalls. Even in pandemic from April 2020 onwards we reduced the shortfall on weekly basis, we recovered the client debit balances. The total debit balance of Mar 31, 2020 is Rs.4,23,45,387.80 and the total debit balance of Mar 31, 2021 is Rs 2,32,75,629.14 and in March 2022 Rs 81,80,458.85, nearby 3.4 Crores have been reduced in client debits. Hence we are very careful that no such deviation take place.

Also from April 2020 onwards week on week we drastically reduced the shortfalls and from Sep 2020 onwards we have met the client payoff without any shortfall. For April 2020 1st week the total shortfall was 1.64 Cr, on weekly basis reduced the shortfalls around 20 lakhs to 30 lakhs as per NSE instruction and the September 2020 last week we have cleared the total shortfalls.

Additionally we infused 2 Cr working capital on Mar 31, 2022. Now we are in surplus to meet client payoffs.

2. Enhance Supervision of Stocks Brokers

We had made a mistake in compilation of data, we have considered the Exchanges Base minimum capital amount in CC balance and NFO, CD security deposit amount considered into CM balance and one more non releasing expired BG also considered in Non funded portion So the reporting impact which is wrong. Hence we understand how we can prepare the reports and upload to the exchanges, accordingly we strictly adhered and reported correctly.

In view of the above we request your good selves that our mistake in wrong reporting may be condoned as a special case.

Part II

Stock Reconciliation mismatch

1. Table No.6: *There is no mismatch securities for beneficiary accounts 1207600000043468, 1207600000106103, 1207600000107694 mentioned in Table No.6. In this mismatch alerts out of 52 stocks, 32 stocks are matched in given ROS table stocks and CDSL holdings statements as on 30.06.2020 in our system as well as CDSL statements received from you as Annexure No.3. And another 19 stocks of beneficiary account 1207600000042071, 1207600000102421 were transferred to clearing member collateral account for collateral which is in NSDL dp account. We enclosed herewith clearing member holdings statements as on 30.06.2020.*

Finally there is only one mismatch stock in beneficiary account 1207600000042046 which was available in CDSL holdings and not reflected in ROS due to corporate action of Inactive ISIN stock.

2. Table No.7: *All mentioned 21 instances collateral stocks were transferred to clearing member account and classified as Pledged securities and reported to exchanges correctly. In Register of securities statement generated by our back office system as Opening balances and Running balances are reflected as pledged status balance and closing balance are reflected as free balances by mistake in our back office ROS. During the inspection, noticed the same and corrected our back office Register of securities statement correctly.*

Now we came to know the mismatch details and corrected the same adhered to SEBI guidelines strictly.

PART III

Mis-match in system generated Alerts

Table No.9: *These mismatch alerts belongs to particular two trading accounts which accounts has other NSDL DP accounts. For other DP accounts payin obligations are routed through NSDL Pool account which is in other depository participant and which transactions are settled in back office by manual process. Due to being unaware of the entire system transaction cycle entry process, manual entries of pool account to clearing member account entries are not reflected correctly in the system. This causes some wrong reporting alerts and subsequent dates reporting also mismatch of those two accounts.*

Now we came to know that the compliance impact of all reporting alerts and system and adhered compliance process strictly.

PART IV

Funding of debit balance clients

The three client instances were happened on before August 2019 and we allowed only intraday for the clients at the same time two client having sufficient Securities in margin. We were of the opinion the funding of client violation norms will apply to T+5 delivery taking clients only. We thought it will not apply to client who traded in intraday. Then we understood the circular of funding that further exposure should not granted, so accordingly already we have stopped giving the further exposures, as per our policy who are having debit balance for more than 5 days, RMS will not give further exposure.

PART V

Delay in settlement of funds for Active Clients and Inactive Clients

We hereby confirm that we had taken adequate steps for effecting the Quarterly settlements in full sprits and we made separate systems for processing the settlements on regular basis and daily will monitor the days of last settlement of all accounts and accordingly we done the payouts within stipulated time period and then there is no settlement pending for both active and inactive clients from last quarters.

It is observed that funds were not settled for 2584 inactive active clients.

The back office we use (tech-Excel) had a provision for retention of funds and securities to the tune of Rs.10000/(Ten Thousand Only) as per NSE norms. But it had omitted to exclude inactive accounts in that category. Thus the clients with a balance of Rs.10,000/- and were not settled but as per above statement now all the accounts have been reviewed and have been settled there is no pending for both active and inactive.

Delay in settlement of securities

In settlement of securities part, we settled the same once in Quarter but not settled within 90 days gap between two settlements due to back office system not considered 90 days gap between two settlements in that time for securities retention process. Later we came to know this correct process and rectified procedures and adhered compliances.

PART VI

Mismatch in email ids and mobile nos.

It is observed in 547 instances of mis-match between the email Id's and 283 instances of mobile numbers uploaded on the exchanges and the details in the client master were observed.

This mismatch details belongs to Old and Inactive trading accounts. However we came to know the mismatch details during inspection time, we updated the details in exchanges as per our back office record and completed the same.

PART VII

No voice recordings systems

We hereby confirm during inspection we had produced all the order/trade confirmation for all the sample dates and there are no observations in order confirmation, only the recording facility is not available at Authorized Person level but they maintained Physical confirmations. We at "AMBALAL" always follow the tradition of business ethics, corporate governance, statutory compliance and law abiding citizens. We humbly request your good selves to consider our views, we regret for our mistakes. We assure and ensure 100% compliance on all aspects.

6. An opportunity of personal hearing was granted to the Noticee on 15.07.2022 vide Hearing Notice dated 04.07.2022. Mr. Gopal Sriramulu, Managing Director, and Mr. Saravanan. R, Operation Head of the Noticee appeared in person and submitted that they would like to submit their written reply by 21.07.2022 and requested another opportunity of hearing on 26.07.2022 at 3:00 p.m. Accordingly, the next hearing was provided to the Noticee on

26.07.2022 at 3:00 p.m. in the matter.Mr. Gopal Sriramulu, Managing Director, and Mr. Saravanan. R, Operation Head of the Noticee appeared in person and reiterated the submissions made vide email dated 20.07.2022.

D. CONSIDERATION OF ISSUES AND FINDINGS

7. I have perused the submissions put forth by the Noticee regarding alleged violations stated in the SCN. The issues that arise for consideration are as under:-

   i. Whether the Noticee had violated provisions of Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. If yes, whether the Noticee is liable for monetary penalty under section 23D of SCRA?

   ii. Whether the Noticee had violated provisions of Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016;

   Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008;

   Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIR SD2/CIR/P/2016/95 dated September 26, 2016 read with Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRS D2/CIR/P/2017/64 dated June 22, 2017;

   SEBI Circular SEBI/MIRSD/SE/Cir-/19/2009 dated December 03, 2009 and Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIR SD2/CIR/P/2016/95 dated September 26, 2016;

   Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011;

   Clause III and IV of SEBI Circular CIR/HO/MIRSD/MIRS D2/CIR/P/2017/108 dated September 26, 2017.

   If yes, whether Noticee is liable for monetary penalty under section 15HB of SEBI Act?

8. I note from the SCN that it is alleged that the Noticee had violated certain provisions of SEBI Circulars given as under:

8.1. In the months of April 2019 and August 2019, the value of 'G' was negative on all 39 sample days of the inspection period and the value of 'J' was positive on two days. As the value of 'G' was negative on all 39 days, sample size was increased including the months of May 2019, June 2019 and July 2019 i.e., total of 5 months continuously from April 2019 to August 2019 (103 days). It was alleged that the value of 'G' was negative on 101 of the 103 sample days. It is observed from the compilation of the instances where 'G' was negative (compilation of instances observed by SEBI and NSE) that there was a shortfall of Rs. 1.98 crore on March 31, 2020. As per the revised calculation, value of G was found to be negative on 147 out of 160 sample dates (counting common dates only once) with misutilization value ranging from Rs. 7.73 lakhs to 1.98 crore. Hence, it was alleged that the Noticee had misutilized the client funds to settle the debit balance clients and also towards the margin of debit balance clients on 7 days. It was further alleged that there was a shortfall to pay-off credit balance clients in 67 days out of 78 days and the Noticee had misutilized the credit balance client's funds to meet the margin obligation of debit balance clients in 5 days out of 78 days. Hence it is alleged that the Noticee had violated Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and thereby liable to be proceeded under section 23D of SCRA.

8.2. The Noticee had incorrectly uploaded the weekly monitoring of client funds data to Exchanges for all the selected 78 days. Hence, it was alleged that the Noticee had violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 thereby liable to be proceeded under section 15HB of SEBI Act.

8.3. The quantities of the list of securities were not matching with the details given in CDSL Statements, Register of Securities and Reporting done by the Noticee to NSE due to which the records maintained by the Noticee was not reflecting the actual figures of securities held in the demat accounts of Noticee in 52 stocks. Hence, it was alleged that the Noticee has violated Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 and thereby liable to be proceeded u/s 15HB of SEBI Act.

8.4. Further, the Noticee had reported different figures to exchanges as pledged quantity. However, as per the Register of Securities (RoS) maintained, the closing balance of client-wise scrip-wise balance was shown as free balance due to which there was mismatch between RoS and quantities reported to the exchanges for 11 clients (21 instances). Hence, it was alleged that the Noticee had violated Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 and thereby liable to be proceeded u/s 15HB of SEBI Act.

8.5. It was alleged that there were mismatches in the alerts that occurred either due to wrong calculations, wrong reporting of client securities by the Noticee or due to ISIN freeze issue of Yes Bank. Further, in 24 instances Noticee had wrongly reported the client securities under weekly holdings to exchanges. Hence, it was alleged that the Noticee has violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, thereby liable to be proceeded u/s 15HB of SEBI Act.

8.6. The Noticee had allowed three clients to trade beyond T+2+5 and also trading was allowed for 3 debit balance clients beyond T+2+5 in 8 days. Hence, it was alleged that the Noticee has violated Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIR SD2/CIR/P/2016/95 dated September 26, 2016 read with Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRS D2/CIR/P/2017/64 dated June 22, 2017.

8.7. With respect to delay in Settlement of funds for Active clients, it was observed that there were instances where the gap between two settlements of account was more than 90 days and further it was observed that funds were not settled for 23 active clients and there was delay in settlements for 25 active clients. With respect to inactive clients, it was observed that funds were not settled for 2584 inactive clients. Hence, it was alleged that the Noticee has violated SEBI Circular SEBI/MIRSD/SE/Cir-/19/2009 dated December 03, 2009 and Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIR SD2/CIR/P/2016/95 dated September 26, 2016.

8.8. With respect to delay in Settlement of Securities in 14 instances, the gap between two settlements was more than 90 days for Active clients and settlement of securities was delayed for 14 active clients and 4 inactive clients. Hence, it was alleged that the Noticee violated SEBI Circular SEBI/MIRSD/SE/Cir-/19/2009 dated December 03, 2009 and Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIR-SD2/CIR/P/2016/95 dated September 26, 2016.

8.9. It was observed from the UCC data downloaded from the exchanges and the Client Master downloaded from back office of the Noticee that there were mismatches between the E-mail IDs in 547 instances and of mobile numbers in 283 instances. Hence, it was alleged that the Noticee has violated Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011.

8.10. That voice recording system was not available at the location of 11 Authorized Persons(AP) out of the 29 APs of MCX. Hence, it was alleged that the Noticee violated Clauses III and IV of SEBI Circular CIR/HO/MIRSD/MIRS D2/CIR/P/2017/108 dated September 26, 2017.

9. The issues herein are regarding non-compliance of provisions of certain SEBI Circulars and the Noticee has broadly admitted and accepted that the non-compliances in the SCN were correct, except with respect to the allegation of Stock Reconciliation – Comparison of Register of Securities with Data provided by Depositories. Hence I do not find it necessary to consider each violation point wise. However, I would like to consider and assess the extent of violation in each case.

10. For this purpose, the admissions of the allegations are point-wise enumerated herein below:

10.1. With respect to allegation of Irregularities with respect to Client Funds- Mis-utilization of Client Funds, the Noticee has admitted by submitting that,

‘First we accept the above observations, the shortfall in client funds were mainly due to debit balance of clients and now there is no shortfall of client funds and G is positive.’

10.2. With respect to allegation of non-compliance of provision regarding Enhanced Supervision of Stock Brokers, the Noticee has admitted by submitting that,

‘We had made a mistake in compilation of data, we have considered the Exchanges Base minimum capital amount in CC balance and NFO, CD security deposit amount considered into CM balance and one more non releasing expired BG also considered in Non funded portion. So the reporting impact which is wrong.’

10.3. With respect to allegations of non-compliances of provisions regarding Reconciliation of client-wise reporting made to Stock Exchanges, the Noticee has admitted by submitting that,

‘In Register of securities statement generated by our back-office system as Opening balances and Running balances are reflected as pledged status balance and closing balance are reflected as free balances by mistake in our back office ROS.’

10.4. With respect to allegations of Mismatch in system generated alerts the Noticee has admitted by submitting that,

‘These mismatch alerts belongs to particular two trading accounts which accounts have other NSDL DP accounts. For other DP accounts pay in obligations are routed through NSDL Pool account which is in other depository participant and which transactions are settled in back office by manual process. Due to being unaware of the entire system transaction cycle entry process, manual entries of pool account to clearing member account entries are not reflected correctly in the system. This causes

some wrong reporting alerts and subsequent dates reporting also mismatch of those two accounts. Now we came to know that the compliance impact of all reporting alerts and system and adhered compliance process strictly.'

10.5. With respect to allegations of funding of debit balance clients, the Noticee has admitted by submitting that,

'The three client instances happened on before August 2019 and we allowed only intraday for the clients at the same time two client having sufficient securities in margin. We were of the opinion the funding of client violation norms will apply to T+5 delivery taking clients only. We thought it will not apply to client who traded in intraday. Then we understood the circular of funding the further exposure should not granted, so accordingly already we have stopped giving the further exposures, as per our policy who are having debit balance for more than 5 days, RMS will not give further exposure.'

10.6. With respect to allegations of delay in Settlement of client funds for Active and Inactive clients, the Noticee has admitted by submitting that,

'We hereby confirm that we had taken adequate steps for effecting the Quarterly settlements in full spirits and we made separate systems for processing the settlements on regular basis and daily will monitor the days of last settlement of all accounts and accordingly we done the payouts within stipulated time period and then there is no settlement pending for both active and inactive clients from last quarters. It is observed that funds were not settled for 2584 inactive active clients. The back office we use (tech-Excel) had a provision for retention of funds and securities to the tune of Rs.10000/(Ten Thousand Only) as per NSE norms. But it had omitted to exclude inactive accounts in that category. Thus the clients with a balance of Rs. 10,000/- and more were not settled but as per above statement now all the accounts have been reviewed and have been settled. There is no settlement pending for both active and inactive clients.'

10.7. With respect to allegations of delay in settlement of client securities for active and inactive clients the Noticee has admitted by submitting that, *'In settlement of securities part, we settled the same once in Quarter but not settled within 90 days gap between two settlements due to back office system not considered 90 days gap between two settlements in that time for securities retention process. Later we came to know this correct process and rectified procedures and adhered compliances.'*

10.8. With respect to allegation of non-verification of email ID & mobile numbers the Noticee has admitted by submitting that, *'It is observed in 547 instances of mis-match between the email Id's and 283 instances of mobile numbers uploaded on the exchanges and the details in the client master were observed. This mismatch details belongs to Old and Inactive trading accounts. However, we came to know the mismatch details during inspection time, we updated the details in exchanges as per our back office record and completed the same.'*

10.9. With respect to the allegation that Noticee had not maintained Client's Order Records which were received over phone as required under SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated 26.09.2017, the Noticee has admitted by submitting that, *'We hereby confirm that during inspection we had produced all the order/trade confirmation for all the sample dates and there are no observations in order confirmation, only the recording facility is not available at Authorized Person level but they maintained Physical confirmations. We at "AMBALAL" always follow the tradition of business ethics, corporate governance, statutory compliance and law abiding citizens. We humbly request your good selves to consider our views, we regret for our mistakes. We assure and ensure 100% compliance on all aspects.'*

11. In view of the above admission of charges by the Noticee, it is not necessary for me to adjudicate each and every violation alleged in the SCN so as to give a finding against the Noticee. Instead, I find it appropriate to note that the

Noticee having admitted to the alleged violations has accepted the allegations without unnecessarily trying to dispute the charges. Hence all the allegations stand established but for the allegation of violation of Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 pertaining to non-maintenance of proper records due to which the actual figures of securities held in the demat accounts of Noticee in 52 stocks was not reflecting.

12. I note from the allegation in the SCN that in respect of 6 demat accounts, the number of shares shown in CDSL and the Register of Securities maintained by the Noticee differed. The details of mismatches are shown below:

Table No.1

As on 30.06.2020				
Demat Account No:	ISIN	CDSL (Qty.)	ROS (Qty.)	Difference
1207600000042046	INE028B01029	30	0	30
1207600000042071	INE039C01032	0	1000	-1000
	INE040H01021	0	5500	-5500
	INE061F01013	0	10000	-10000
	INE062A01020	0	200	-200
	INE127D01025	0	100	-100
	INE154A01025	0	16000	-16000
	INE160A01022	0	4001	-4001
	INE179A01014	0	60	-60
	INE199A01012	0	95	-95
	INE255A01020	0	500	-500
	INE260D01016	0	1300	-1300
	INE274J01014	0	1000	-1000
	INE415I01015	0	6000	-6000
	INE473D01015	0	842	-842
	INE548A01028	0	25775	-25775
	INE683A01023	0	460000	-460000
	INE752E01010	0	300	-300
	INE998I01010	0	10000	-10000
1207600000043468	INF732E01037	0	131	-131
1207600000102421	INE415I01015	0	1500	-1500
1207600000106103	INE019A01038	0	6	-6
	INE045J01026	0	500	-500
	INE050E01027	0	200	-200
	INE062A01020	0	20	-20
	INE075A01022	0	2	-2
	INE095A01012	0	1	-1
	INE141K01013	0	429	-429
	INE148I01020	0	101	-101

	INE208A01029	0	640	-640
	INE245A01021	0	3	-3
	INE257A01026	0	28	-28
	INE452O01016	0	5	-5
	INE498L01015	0	28	-28
	INE669E01016	0	200	-200
	INE683A01023	0	1595	-1595
	INE733E01010	0	108	-108
	INE783X01023	0	53	-53
	INE854D01024	0	25	-25
	INE982F01036	0	1920	-1920
	INE999K01014	0	1690	-1690
1207600000107694	INE036D01028	0	10000	-10000*
	INE090A01021	0	105	-105
	INE246B01019	0	3000	-3000
	INE295F01017	0	3000	-3000
	INE301A01014	0	1000	-1000
	INE397D01024	0	500	-500
	INE415I01015	0	4000	-4000
	INE528G01035	0	10000	-10000
	INE619I01012	0	105685	-105685
	INE669E01016	0	60000	-60000
	INE805C01028	0	10000	-10000

13. I note with respect to demat account no. 1207600000042046 for International Securities Identification Number INE028B01029, the number of shares appearing in CDSL is 30 shares and in register of securities maintained by the Noticee, it is shown as 0. I note from the reply of the Noticee submitted to the inspection team that for ISIN (demat account — 1207600000042046), that the mismatch had arisen due to corporate actions. However, the Noticee had not provided the details of the corporate action and has admitted that there was mismatch of stock in beneficiary Account No. 1207600000042046.

14. I note that with respect to Demat Account Nos.1207600000042071 & 12076000000102421, the Noticee had accepted that there were mismatching issues in back office systems of the Noticee. I note that the Noticee in its reply to the SCN has submitted that in 19 stocks of beneficiary account nos. 1207600000042071 and 1207600000102421 were transferred to clearing member collateral account for collateral which is in NSDL DP account and submitted that they have enclosed clearing member holdings statements as

on 30.06.2020. I note from the holding statement submitted by the Noticee that the details of shares are shown as collateral. However, as it is submitted by the Noticee that the shares were available in some other DP account and not in beneficiary account no. 1207600000042071 and 1207600000102421. The mismatch in these accounts stands established.

15. I note from the submissions made by the Noticee to the inspection team for the remaining 32 ISINs (3 demat accounts), that the Noticee had submitted to the inspection team that there was no mismatch for the remaining ISINs. I note that the Noticee had not provided evidences supporting his argument to the inspection team. The Noticee has submitted similar reply to the SCN that there are no mismatches in securities for beneficiary accounts 1207600000043468, 1207600000106103, 1207600000107694. I note that the Noticee has not provided any proof supporting its arguments in respect of the said 32 ISIN instances. Hence the submissions of the Noticee is not acceptable. In view of the same, I find the Noticee has violated provision of violation of Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.

Quantification of penalty

16. I note that the provisions invoked for imposing penalty against the Noticee herein are Section 23D of SCRA and Section 15HB of SEBI Act. Under Section 23D of SCRA, the minimum penalty prescribed is one lakh and maximum is one crore. Likewise, Section 15HB of SEBI Act prescribes a minimum penalty of one lakh and maximum one crore. While imposing monetary penalty, it is important to consider the factors stipulated in Section 15J of SEBI Act and the analogous provision in section 23J of the SCRA, which includes amongst other factors such as the disproportionate gains made or loss caused to investors, the repetitive nature of the default. I find that basically the allegation of mis-utilisation of client funds seems to be the most serious charge along with the charge of funding of debit balance clients and also the delay committed in settlement of funds of clients. The shortcoming in

verification of email ids and mobile numbers of clients and the fact of non-maintenance of client order records are also admitted.

17. I note that the Noticee has submitted, during the hearing that NSE and MCX had taken action against the Noticee and levied penalty on the Noticee in the past for the same violations.

    a. I note from the order dated 07.05.2020 passed by MCX that a penalty of Rs. 1,00,000/- (Rupees One Lakh only) was imposed for violating the provision of SEBI Circular Ref No. Ref: SMD/SED/CIR/93/23321 dated 18.11.1993 read with SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated 26.09.2016 and Exchange Master Circular No. MCX/INSP/325/2016 dated 29.09.2016 for non-submission of weekly report as on April 3, 2020, April 9, 2020, April 17, 2020 and April 24, 2020 with respect to client fund lying with Noticee.
    b. I note from the order dated 09.06.2020 passed by NSE that a penalty of Rs. 1,00,000/- (Rupees One Lakh only) was imposed on the Noticee for uploading incorrect data with respect to Holding Statement on a weekly bases, Unexplained use of funds raised by pledging clients securities and Non-Settlement of client funds & securities for the period 01.07.2018 to 30.06.2019.
    c. I note from the order dated 16.09.2021 passed by MCX that a penalty of Rs. 1,54,654/- (Rupees One Lakh Fifty-Four Thousand Six Hundred and Fifty-Four only) was imposed for violation of provisions of Enhanced Supervision related weekly submission(s) with respect to Client Funds Lying with the Member as on April 3, 9, 17 and 24, 2020.

    I note from the above orders of the exchanges that some of the violations stated in the SCN were for the same period covered in the above orders of the exchanges and the Noticee has already been penalized for the violations.

18. The Noticee has submitted that it had also carried out corrective steps and that the Noticee has brought down the amount of debit balance for Mar 31, 2020

from Rs.4,23,45,387.80 to Rs 2,32,75,629.14 at the end of Mar 31, 2021 and it was further brought down to Rs 81,80,458.85 at the end of March 2022 post the inspection i.e. nearly 3.4 Crores of client debits balance have been brought down. It is also submitted by the Noticee that they had infused 2 Cr working capital on Mar 31, 2022 and they were in surplus to meet client payoffs. I note that vide email dated 22.09.2022, the Noticee has provided calculation of G for 01.04.2021 and 01.04.2022. I note from its submissions that G is positive for the said two dates (i.e. for 01.04.2021, the G figure is 15,51,243.71 and for 01.04.2022, the G figure is 1,87,68,408.64). Thus, the Noticee appears to be in compliance with the mandate of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. Further, I note form email dated 24.09.2022 of the Noticee that out of 29 Authorized Persons(AP) only 16 APs are active and others were closed. It was submitted that 15 Aps client had placed their order online on their own and only one AP had placed the order on phone and voice logger facility was available. Hence, I note that the compliance of the SEBI Circular CIR/HO/MIRSD/MIRS D2/CIR/P/2017/108 dated September 26, 2017 has been met with. It has also stated that there are no pending complaints against it from any client. This has been independently verified too.

ORDER

19. Having considered all the facts and circumstances of the case, the material available on record, the submissions made by the Noticee and also the factors mentioned in Section 15J of SEBI Act and Section 23J of the SCRA and in exercise of the powers conferred upon me under Section 15 I and under Section 23-I of the SCRA read with Rule 5 of the Adjudication Rules and SCRA Adjudication Rule, I hereby impose a penalty of Rs 5,00,000/- (Rupees Five Lakh only) under section 23D of SCRA and Rs 3,00,000/- (Rupees Three Lakh only) under section 15HB of SEBI Act (Total Rs 8,00,000/- (Rupees Eight Lakhs only)) on the Noticee. I am of the view that the said penalty is commensurate with the lapse/omission on the part of the Noticee.

20. The Noticee shall remit / pay the said total amount of penalty within 45 days of receipt of this order in either of the way, such as by following the path at SEBI website www.sebi.gov.in, ENFORCEMENT >Orders >Orders of AO >PAY NOW; OR by using the web link https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html. In case of any difficulties in payment of penalties, the Noticee may contact the support at portalhelp@sebi.gov.in.

21. The Noticee shall forward Demand Draft or the details/confirmation of penalty so paid to theDivision Chief, Enforcement Department-I, DRA-3, SEBI. The Noticee (s) shall provide the following details while forwarding DD/payment information:

a) Name and PAN of the entity (Noticee)
b) Name of the case / matter
c) Purpose of Payment –Payment of penalty under AO proceedings
d) Bank Name and Account Number
e) Transaction Number

22. In terms of the provisions of Rule 6 of the AO Rules, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

Date: September 26, 2022
Place: Mumbai

GEETHA G
ADJUDICATING OFFICER