BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER Ref No. ORDER/SBM/KL/2022-23/ 17216]

UNDER SECTION 15 I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995 AND UNDER SECTION 23I OF SECURITIES CONTRACTS (REGULATION) ACT, 1956 READ WITH RULE 5 OF SECURITIES CONTRACTS (REGULATION) (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 2005

In respect of:
Pantomath Stock Brokers Private Limited
(now known as Pentagon Stock Brokers Private Limited)
Regn no. INZ000068338 (Broker NSE & BSE)
Regn no. IN-DP-CDSL-302-2016 (Depository Participant)

108, Madhava Premises,
Behind Family Court, Bandra Kurla Complex,
Bandra (East), Mumbai 400051

In the matter of inspection of Pantomath Stock Brokers Private Limited

FACTS OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as **'SEBI'**), along with the stock exchanges – the Bombay Stock Exchange (hereinafter referred to as **'BSE'**), the National Stock Exchange (hereinafter referred to as **'NSE'**) and the Depository viz. Central Depository Services Limited (hereinafter referred to as '**CDSL**'), conducted a comprehensive inspection of the stock broker viz. Pantomath Stock Brokers Private Limited (hereinafter referred to as **'Noticee'**) at its corporate office in Mumbai on January 23, 24, 25, 28 and 31, 2018. It is observed that the Noticee is a SEBI registered stock broker having registration number INZ000068338, depository participant having registration number IN-DP-CDSL-302-2016. The Noticee is now known as Pentagon Stock Brokers Private Limited. The period covered in the inspection was from April 2017 to December 2018 (hereinafter referred to as **'inspection period'**). The purpose of the inspection was to examine the Noticee's compliance with various regulatory norms/requirement in respect of its following activities as a SEBI registered stock broker and a depository participant:
   a. *Segregation of clients' funds and securities*
   b. *Settlement of running account*

c. Pledging of clients' securities

d. Reporting of data towards monitoring clients' funds

e. KYC and account opening process, related compliance. Etc.

f. Client registration processes

g. Financial statement analysis

h. Other general observations & NISM certification

2. Based on the findings of the inspection, SEBI observed various non-compliances by the Noticee in respect of its stock broking and depository participant activities during the inspection period and initiated adjudication proceedings against the Noticee under the provisions of Section 15HB of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act'**) and Section 23D of the Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as the '**SCRA'**), for the alleged violations of the provisions of the below mentioned securities laws:

   i. *Section 23D of SCRA*
   ii. *SEBI Circular No. SMD/SED/ClR/93/23321 dated November 18, 1993*
   iii. *Clauses 2.5, 2.6, 3, 3.2, 6.1.1(j) of annexure of SEBI Circular No. SEBl/HO/MlRSD/MlRSD2/ClR/P/2016/95 dated September 26, 2016.*
   iv. *Clause 12 of SEBI Circular SEBl/MlRSD/SE/ClR-19/2009 dated December 03, 2009*
   v. *Clause 2(d) of SEBI Circular CIR/HO/MlRSD/MlRSD2/ClR/P/2017/64 dated June 22, 2017 of NSE Circular NSE/lNSP/20638 dated April 26, 2012*
   vi. *SEBI Circular No. MRD/D0P/SE/ClR -11/2008 dated April 17, 2008*
   vii. *NSE Circular NSE/lNSP/29096 dated March 11, 2015*
   viii. *SEBI Circular No. CIR/DNPD/7/2011 dated August 10, 2011*
   ix. *SEBI Circular No. CIR/MlRSD/66/2016 dated July 21, 2016*
   x. *Clause A(l) & A(2) of the code of conduct, read with Regulation 9(f) of the SEBI (Stock Brokers) Regulation, 1992*
   xi. *Rule 32 of Chapter Ill of Rules of NSE-IL and NSE Circular NSE/MEM/4300 dated July 25, 2003*
   xii. *SEBI Circular No. CIR/MIRSD/16/2012 dated August 22, 2011*
   xiii. *Regulation 3(2) of SEBI (Certification of Associated Persons in the securities Market) Regulations, 2007.*

APPOINTMENT OF ADJUDICATING OFFICER

3. Dr. Anitha Anoop was appointed as the Adjudicating Officer in the matter vide communiqué dated February 14, 2020 under Section 19 of the SEBI Act read with Section 15-I of the SEBI Act and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules 1995'**)

and also under Section 23I of the SCRA read with Rule 4 of Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter referred to as **'Adjudication Rules 2005'**), to inquire into and adjudge under the provisions of Section 15HB of the SEBI Act and also under Section 23D of the SCRA, the aforementioned alleged violations of the provisions of the law by the Noticee. Thereafter, pursuant to the transfer of Dr. Anitha Anoop to another department, the undersigned has been appointed as the Adjudicating Officer in the matter, vide communique dated November 3, 2020.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice ref no. SEBI/EAD1/AA/MKG/0010708/2020 dated May 31, 2020 (hereinafter referred to as **'SCN'**) was issued to the Noticee under the provisions of the Adjudication Rules 1995 and Adjudication Rules 2005 to show cause as to why an inquiry should not be held against the Noticee and why penalty be not imposed on it under the provisions of Section 15HB of SEBI Act and Section 23D of SCRA for the aforesaid alleged violations of the provisions of law by the Noticee. The allegations levelled against the Noticee in the SCN and the submissions/replies of the Noticee are discussed in detail in the following paragraphs of the order and the same are not repeated for the sake of brevity.

5. In the context of the current proceedings, it is also observed that the Noticee had opted for settlement of the proceedings under the provisions of SEBI (Settlement Proceedings) Regulations, 2018 (hereinafter referred to as **'Settlement Regulations'**) and filed a settlement application dated June 26, 2020. However, vide email dated November 4, 2020, the concerned department of SEBI informed the Noticee that the settlement application filed by it has been rejected as the Noticee failed to submit the revised settlement terms within the stipulated time given under the provisions of Regulation 13 (2) (c) of the Settlement Regulations.

6. Thereafter, Noticee filed its submissions to the SCN vide letter dated February 21, 2021. In the interest of natural justice, the Noticee was provided with an opportunity of personal hearing in the matter on June 07, 2021 through online webex platform. Mr. Prakash Shah, Advocate and Mr. Meit Shah, Advocate appeared as the authorized representatives ('**ARs**') on behalf of the Noticee on the stipulated date of hearing and

reiterated its submissions made vide letter February 21, 2021. Further, the Noticee also made additional submissions in the matter, vide letters dated June 15, 2021, September 29, 2021, and vide email dated March 09, 2022.

ALLEGATIONS, REPLY AND CONSIDERATION OF ISSUES

7. I have carefully perused the allegations levelled against the Noticee in the SCN, the replies of the Noticee and also the material / documents available on record. In the instant matter, it is alleged in the SCN that the Noticee has violated the following provisions of securities law: -

I. Section 23D of SCRA

II. SEBI Circular No. SMD/SED/ClR/93/23321 dated November 18, 1993

III. Clauses 2.5, 2.6, 3, 3.2, 6.1.1 (j) of annexure of SEBI Circular No. SEBl/HO/MlRSD/MlRSD2/ClR/P/2016/95 dated September 26, 2016.

IV. Clause 12 of SEBI Circular SEBl/MlRSD/SE/ClR-19/2009 dated December 03, 2009

V. Clause 2(d) of SEBI Circular CIR/HO/MlRSD/MlRSD2/ClR/P/2017/64 dated June 22, 2017 of NSE Circular NSE/lNSP/20638 dated April 26, 2012

VI. SEBI Circular No. MRD/D0P/SE/ClR -11/2008 dated April 17, 2008

VII. NSE Circular NSE/lNSP/29096 dated March 11, 2015

VIII. SEBI Circular No. CIR/DNPD/7/2011 dated August 10, 2011

IX. SEBI Circular No. CIR/MlRSD/66/2016 dated July 21, 2016

X. Clause A(l) & A(2) of the code of conduct, read with Regulation 9(f) of the SEBI (Stock Brokers) Regulation, 1992

XI. Rule 32 of Chapter Ill of Rules of NSE-IL and NSE Circular NSE/MEM/4300 dated July 25, 2003

XII. SEBI Circular No. CIR/MIRSD/16/2012 dated August 22, 2011

XIII. Regulation 3(2) of SEBI (Certification of Associated Persons in the securities Market) Regulations, 2007.

8. I will now proceed to deal with the aforementioned allegations levelled against the Noticee, as mentioned in the SCN, the submissions made by the Noticee in this regard and record my observations /findings as under: -

A: Non –Segregation/mis-utilization of clients' fund and securities

Allegation:

i. Based on the principles and guidelines stipulated in clause 3 of "Enhanced Supervision of Stock Brokers/ Depository Participants" circular dated September 26, 2016, reconciliation of clients' funds lying with the stock broker was done with the total available funds i.e. cash and cash equivalents with the stock broker and with the clearing corporation/clearing member to detect any mis-utilization of clients fund. On 35 out of 37 dates, the broker has misused client *funds. Misuse of funds ranges from 7.68% to 64.38% of funds of credit balance clients. Funds of credit balance clients have been used for the purpose of debit balance clients. The broker appears to have mis-used the credit client's fund in the range of the amount of Rs. 24,31,703 to Rs. 3,84,17,915 for the selected sample days.*

ii. *In view of the above, it is alleged that the Noticee has used funds of credit balance clients for settlement/ margin obligations of making the obligation of debit balance clients, in violation of the provisions of Section 23D of SCRA read with clause 1 of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure to SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016.*

<u>Reply:</u>

i. *At the outset, we submit that we have been regularly furnishing information to stock exchange in compliance with the requirements of "Enhanced Supervision of stock broker" on weekly basis. During the inspection period, the said information was asked from us for every trading day for the month of September 2018 and November 2018 accordingly the inferences were drawn by the inspection team. In fact, while furnishing the details of credit balance of all clients, the credit balance of directors, promoters and shareholders ("PDS") were also included and the same was used to meet with the exigencies of client's fund requirement (if required). In our case, PDS are registered clients and they have permitted to use their funds for client trades if required.*

ii. *Further it's important to note that Inspecting authority has taken collateral deposit with clearing corporation and member in the form of cash and cash equivalent of Rs. 1.82 Crore only instead of Rs. 2.23 crore. The following differences amount was not considered: -*
    - *Deposit of Rs 25,00,000 additionally with NSEIL*
    - *Bank guarantee of ICICI Bank of Rs.8,00,000 for NSE CD segment.*
    - *We had provided additional bank guarantee of 25,00,000 to BSE, funded portion was Rs 12,50,000 which has not been considered previously in cash & cash equivalent.*

iii. *In view of the above, we humbly submit that we have never used any client credit for proprietary use. Moreover, we have sufficient reserves considering PDS credits and exchange deposits, which enable us to meet our financial obligations towards clients adequately. Notably, our net owned funds during the relevant period was around Rs. 11 Crores.*

<u>Finding:</u>

i. Noticee has contended that the funds of the credit balance clients were never utilized for its own purposes. In this regard, it is relevant to mention that the provisions of SEBI

Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 stipulates that the value of 'G' should always be positive i.e. the total available funds and cash equivalents with the stock broker and with the clearing corporation/clearing member should always be equal to or greater than the clients' funds as per the ledger balance.

ii. It is alleged in the SCN that on 35 out of 37 sample dates taken during the inspection period, the value of G (in respect of funds of the Noticee) came out in negative and therefore, the Noticee has misused the client funds on these dates. Further, the misuse of such funds ranged between Rs 3.84 crores to Rs. 24.32 crores i.e. between 7.68% to 64.38% of funds of credit balance clients. In this context, the Noticee has submitted that the promoters/directors/shareholders ('PDS') of the Noticee are its registered clients and they have permitted to use their funds for its client trades, if required. Noticee has contended that the aforesaid funds of PDS clients were not considered by the Inspecting Authority for the purpose of calculation of G. However, I note that there is no provision/clause stipulated in the SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993, in the SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, or in the provisions of the SCRA, which allows the Noticee for such usage of the credit balance of PDS for the purpose of debit balance clients'. Therefore, the contentions/submissions of the Noticee cannot be accepted and set aside.

iii. The Noticee has further submitted that its reporting to the stock exchange in respect of the criteria fulfilling the value of 'G', was done on weekly basis. The Noticee has contended that as the calculation was done by the inspection team on a daily basis, the value of 'G' came out to be negative on the 35 instances, whereas, it had a practice of ensuring the value of 'G' to be positive only on the days of month / week when the reporting was to be done. In this regard, it is relevant to mention that even though the Enhanced Supervision circular dated September 26, 2016 stipulates that the reporting of the clients' funds lying with the stock broker must be done on monthly and weekly basis (according to the time period mechanism), the aforesaid circular along with SEBI Circular CIR/HO/MIRSD/CIR/P/2014/64 dated June 22, 2017 clearly mentions that the stock brokers are required to maintain the value of 'G' to be positive on all the days so that adequate funds of credit balance clients' are available with the stock broker at any point of time. The same is also elucidated in clause 3.3.1 of the Enhanced Supervision

Circular dated September 26, 2016. Therefore, the submissions of the Noticee cannot be accepted in this regard.

iv. Further, in the context of calculation of G, the amount of collateral deposit of the Noticee with the clearing corporation and the member in the form of cash and cash equivalents considered by the Inspecting Authority of SEBI summed up to Rs. 1.82 crore. However, the Noticee submitted that the total collateral amount was Rs. 2.23 crore and the difference amount was due to a Bank guarantee of Rs. 25,00,000/- provided by it to BSE (of which 50% of the amount was not considered in cash and also cash equivalent while calculating G), Bank guarantee (ICICI Bank) of Rs. 8,00,000 provided by it to NSE CD segment and a deposit of Rs. 25,00,000/- additionally made by it with NSE. The contentions of the Noticee cannot be accepted as the aforesaid amount deposited with BSE is the Base Minimum Capital (BMC) and as regards the amount deposited with NSE and ICICI bank guarantee, I hold that the exposure is not given to the Noticee for the purpose of calculation of G. Further, I note that even for argument's sake if the aforesaid additional amount is considered while calculating G and the collateral is taken as Rs. 2.23 crores, it does not absolve the violation on the part of the Noticee as the range of mis-use of funds in this regard (Rs 3.84 crores to Rs. 24.32 crores) is greater than the aforesaid amount.

v. The fact that the value of 'G' being negative in respect of 35 out of 37 instances verified during the inspection and as alleged in the SCN, clearly indicates that the Noticee has mis-utilized the credit balance clients' funds towards meeting the settlement obligations of its debit balance clients to the extent of negative 'G', which is prohibited under the provisions of the Enhanced supervision circular dated September 26, 2016, Circular dated November 18, 1993 and also under the requirements stipulated under section 23D of SCRA. In this regard, I note that the amount of mis-utilization of credit balance client funds ranged between Rs 3.84 crores to Rs. 24.32 crores during the period of inspection. In this regard, it is pertinent to mention the following judgement of the Hon'ble Securities Appellate Tribunal (Hon'ble **'SAT'**):

*"..**In Samco Securtiies Ltd. vs SEBI (Appeal No. 493 of 2021 decided on March 30, 2022) the Hon'ble SAT held as under**:-*

We find that mis-utilization of the clients' credit funds is a grave issue and not in the interest of the securities market. A stockbroker has to treat each of its client as separate and independent entity and ensure that each clients' accounts are settled separately and individually. In this *regard, the appellant was statutorily obliged to abide by the directions issued under the SEBI circulars dated November 18, 1993 and September 26, 2016..”*

vi. In view of the above, I hold that the Noticee has mis-utilized the funds of its credit balance clients for the purpose of settlement/ margin obligations of debit balance clients, and hence violated that provisions of Section 23D of SCRA read with clause 1 of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure to SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016.

B: Non-Segregation/ Mis-utilisation of clients’ securities

C: Pledging of client securities and mis-utilization of clients’ funds and securities for meeting Mark to Market (herein after referred to as ‘MTM’) losses in Proprietary Account/unauthorized pledging

Allegation:

i. An analysis of the bank and demat accounts with highest number of transaction was carried out to check that the accounts are not used for the purposes other than those specified. The following facts emerged from the same: -

Securities: *129 instances have been observed where securities were transferred between (to and fro) client and proprietary account (herein after referred to as ‘**Prop Account**’) resulting in non segregation of securities.*

ii. In view of the above, it is alleged that the Noticee has failed to segregate/ mis-utilised clients’ funds and securities and thus violated the provisions of Section 23D of SCRA read with clause 2 of annexure of SMD/SED/CIR/93/23321, dated November 18, 1993.

*iii. An analysis of the accounts was done considering the dates where Over Draft (herein after referred to as ‘**OD**’) of the highest amount was availed from Bank/ NBFCs. Details of the securities pledged from respective Bank/ NBFCs and client wise segregation of such securities from back-office of the Noticee was taken. The details relating to proportionate securities’ valuation for each client was examined and analysis of the usage of funds raised by pledging the securities were done in respect of such client’s obligations.*

iv. It is observed that the Noticee has pledged client securities and improperly mis-used the same. This is demonstrated from the instances of shares in excess of client’s obligation being pledged and/ or client’s obligation being more than the proportionate amount of funds raised against respective clients pledged shares. It may be noted that such instances were observed on all sample dates. Summary of the observation are as under –

Sr. No.	Sample Date	Total number of clients whose securities have been mis-utilized	Funds raised by mis-utilising clients' securities by pledging the shares
1	28-Apr-17	10	57,76,950.45
2	10-May-17	13	70,47,303.60
3	19-Jun-17	18	61,53,625.96
4	26-Jul-17	12	67,317.83
5	29-Aug-17	23	2,12,35,292.49
6	26-Oct-17	15	20,02,0145.9
7	20-Nov-17	19	2,04,51,479.53
8	18-Dec-17	19	1,88,19,151.82
9	31-Jan-18	16	91,89,766.63
10	15-Feb-18	17	88,85,098.08
11	5-Apr-18	25	83,53,895.92
12	2-May-18	28	1,42,45,583.34
13	7-Jun-18	11	52,62,203.95
14	4-Jul-18	15	1,04,15,361.57
15	6-Aug-18	18	94,73,515.25
16	4-Oct-18	32	1,47,10,008.44
17	6-Nov-18	36	1,58,58,367.98

v. *A scrutiny of the settlement account of the member to verify, how the losses incurred on account of MTM belonging to proprietary trades have been met by the Noticee, was made and it was also checked whether these losses has been borne by using the client funds available in designated client bank accounts or by using the funds from OD/ Loan Against Share (herein after referred to as '**LAS**') account by pledging the client's securities.*

vi. *It was observed that on 5 sample dates, the MTM losses incurred were borne by using money from the client bank account and OD/LAS account by pledging securities of the clients. The range of fund utilization of the clients is in between Rs. 61,197 to Rs. 35.48 Lacs.*

vii. *In view of the above, it is alleged that the Noticee has pledged client's securities and used the clients' funds and securities to cover MTM losses in Proprietary Account, in violation of the provisions of Section 23D of SCRA read with SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993, and Clause 2.5 of Annexure of SEBI circular Ref no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.*

Reply:

i. *In fact, the securities which were first/ initially transferred from proprietary demat account to clients demat account were subsequently received back from the client demat account to proprietary demat account. The number of instances counted in SCN i.e. 129 were counted twice, that once for movement from proprietary account to client account and vice versa. Hence, 129 instances are approximately 65 of such nature; in any case such instances are negligible percentage in comparison to our overall transactions during the Inspection Period. Besides, the securities which were withdrawn from the clients' account were belonging to us.*

ii. *We state that only after obtaining authorization from the client we have pledged the securities of clients. Further, we state that most of the Clients whose shares are pledged are regularly carrying out the transactions with us and therefore, for ease of convenience, to reduce the paper work and to minimise the cost of pledge and un-pledge and in the larger interest of Clients, the shares have been kept with the Banks/ NBFCs. Importantly, in case of default margin collection from the Client, huge penalties are prescribed by the stock exchanges. In view thereof also, clients prefer to keep securities with us.*

iii. *On analysis of the amount alleged to be mis-utilised, we found that the Inspecting Authority has considered market value of securities without any haircut. In fact, funds to the extent of 40% to 50% of the market value of securities are being provided, on an average, by Banks/ NBFCs. In fact, there are certain securities on which no-funds are provided at all and they are purely for additional comfort. Therefore, the calculation of the alleged misutilisation of funds by pledging shares are factually incorrect.*

iv. *The inference drawn as above is purely on assumptions and presumptions since larger own funds are always kept available in the Company by us. Taking the instance involving the highest amount of Rs. 35.48 Lakhs, we respectfully submit that the Company availed Temporary Overdraft (TOD) of Rs. 44.44 Lakhs from ICICI Bank against the personal guarantee of Director (without involving any margin of securities) on 26/11/2018. This own amount was utilised to meet client MTM on 26/11/2018. Further, own funds of Rs. 40 lakhs was transferred to settlement account on 30/11/2018 to meet the alleged shortfall/ net dues towards MTM losses of Rs. 35.48 lakhs incurred on 29/11/2018 (i.e. on T + 1, which is permitted by Exchange). Therefore, in fact excess own amounts were utilized by the Company rather than utilizing client funds in this regard. Further, shares pledged also include the shares belonging to PDS category, which is a permitted transaction.*

v. *Besides, we state that in the client account the own funds are always kept/remain on account of brokerage earned by us and the other statutory amounts collected from the clients. As stated above, whenever funds are required, the funds are transferred from own account to settlement account directly also. Therefore, we state that we have never utilised client funds for pro account* *obligations. In view of the aforesaid, we deny the said allegation as unfounded apprehensive and purely arbitrary, with humble request not to infer any adverse observation against us in this regard.*

Finding:

i. It was observed by the Inspecting Authority that in 129 instances, the securities were transferred between (to and fro) client demat account and proprietary demat account of the Noticee, which resulted in non-segregation of securities. It is an admitted fact by the Noticee that in many instances, transfer of securities (client account to proprietary account) took place during the inspection period. However, Noticee contended that the number of instances were counted twice by the Inspecting Authority and stated that the number of instances were also minimal i.e. around 65 instances. The Noticee in this regard, contended that the aforesaid number of instances involving transfer of securities is a negligible percentage to be considered as a major violation. The fact that the transfer of securities took place itself implies non- segregation of securities i.e. holding securities in its own account apart from the clients' accounts. Further, I note that the understanding of the Noticee is mis-placed regarding the number of instances i.e. transfer of securities to and fro (between client and proprietary account) is counted as two instead of one. It is pertinent to mention the relevant regulatory provisions in this regard and the spirit behind the said regulatory norms, which mandates the segregation of client securities as given under clause 2 of annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993:

"..2. It shall be compulsory for all Member brokers to keep separate accounts for client's securities and to keep such books of accounts, as may be necessary, to distinguish such securities from his/their own securities.

Such accounts for client's securities shall, inter-alia provide for the following:-

a. Securities received for sale or kept pending delivery in the market;

b. Securities fully paid for, pending delivery to clients;

c. Securities received for transfer or sent for transfer by the Member, in the name of client or his nominee(s);

d. Securities that are fully paid for and are held in custody by the Member as security/margin etc. Proper authorization from client for the same shall be obtained by Member;

e. Fully paid for client's securities registered in the name of Member, if any, towards margin requirements etc.;

f. Securities given on Vyaj-badla. Member shall obtain authorization from clients for the same."

ii. In view of the above, the contentions of the Noticee cannot be accepted in respect of the allegation made against it regarding non-segregation of client securities.

iii. Further, in the context of the allegation regarding pledging and mis-utilisation of clients' securities by the Noticee, it is noted that as per the provisions of clause 2.5 of the Enhanced Supervision Circular dated September 26, 2016, a stock broker can have a lien on the clients' securities only to the extent of the clients' indebtedness to the broker. Further, a pledge by the stock broker can occur only with the explicit authorization of the client and the stock broker has to maintain records for such authorization given by the clients. To strengthen the existing mechanism, the stock brokers are required to ensure that the securities of only those clients can be pledged who have a debit balance in their ledger and the funds so raised against such pledged securities for a client shall not exceed the debit balance in the ledger of that particular client. Thus, it is clear that under no circumstances, a stock broker is allowed to pledge the securities of its clients in excess of their indebtedness.

iv. However, from the findings of the inspection, I note that the amount utilized against the total securities pledged by the Noticee was in excess of the total obligation, which was in the range of Rs. 67,317 to Rs. 2.12 crores for the 17 sample dates as mentioned in the SCN, during the inspection period. I further note that on 5 sample dates during the inspection period i.e. on November 26, 27, 28, 29 & 30 of 2018, the Mark to Market (**'M2M'**) losses of the Noticee were borne by it using funds from the clients' bank accounts and Over Draft / Loan against Share ('**OD/LAS**') accounts by pledging the securities of its clients.

v. In this context, I note the following from the provisions given under clause 2.5 of Annexure to the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016:

   "..........To strengthen the existing mechanism, the stock brokers shall ensure the following:

   2.5.1. Securities of only those clients can be pledged who have a debit balance in their ledger.

   2.5.2. Funds raised against such pledged securities for a client shall not exceed the debit balance in the ledger of that particular client.........."

vi. The Noticee has not denied that the shares of the clients were pledged with the banks/ NBFCs and submitted that the same was done for ease of convenience. Further, I note that Noticee has, *inter-alia*, submitted that the inspecting authority has considered the market value of securities without any haircut, whereas, funds to the extent of 40% to 50% of the market value of securities are being provided on average, by Banks/NBFCs. It is relevant to mention that the haircut applied by banks are as per their own policies, which are not relevant in the context of the current proceedings in respect of pledging client securities. Noticee further, contended that it had appropriate authorization from its clients to pledge the securities. It is however observed that the Noticee has not only pledged securities of credit balance clients, but have also pledged securities in excess of debit balance of the clients i.e in excess of its indebtedness.

vii. Further, the Noticee has submitted that its own funds are kept in the client account and whenever need arises, the same is transferred from the clients' account to the settlement account of the Noticee and the overdraft was made in the settlement account of the Noticee. In the context of meeting the obligations of proprietary account (MTM losses), Noticee did not deny the pledging the client securities from client's accounts and OD/LAS accounts and utilising such funds for meeting MTM losses on 5 sample dates discussed above ranging from Rs. 61,197/- to Rs. 35.48 Lakhs. Even though the Noticee submitted that the amount utilised in this context from the clients' accounts is its own funds, the submissions of the Noticee cannot be accepted as the source of the aforementioned funds utilised cannot be distinguished. Further, placing its own funds in clients' accounts also indicates non-segregation of clients' funds and its own funds, by the Noticee. The Noticee was required to segregate the clients' funds/securities from its own funds/securities and also not mis-utilise the funds for its own purposes by pledging clients' securities, as given under the provisions of SEBI circular dated November 18, 1993 and SEBI circular dated September 26, 2016. The purpose and spirit behind the said SEBI circulars is to ensure that at any point of time, the clients funds' and securities are not mis-used by the broker.

viii. In view of the above, I conclude that by transferring clients' securities between proprietary account and clients' accounts, and by pledging clients' securities in excess of obligations and by using the clients' funds and securities to cover its MTM losses, the Noticee has violated the provisions of Section 23D of SCRA read with Clause 2 of annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993, and Clause 2.5 of Annexure of SEBI circular Ref no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

D: Non-settlement of client fund and securities

Allegation:

i. *The ledger balances of clients across Exchanges/Segments and collaterals, cash maintained as margins with stock brokers against retention of clients' obligation, cash market turnover & margin requirement were examined to verify whether the clients' accounts are settled on monthly/ quarterly basis as per the preference of the client.*

ii. *The statements of accounts for funds and securities sent to clients on quarterly basis were analyzed for certain sample clients. It was observed that for the sample of 58 inactive clients across seven quarters, funds were not settled by the broker. The amounts not settled for different calendar quarters are as under:*

Quarters	**Number of inactive clients not settled**	**Same balance being carried from previous quarter. (In Rs.)**
Apr 17 to June 17	*5*	*1,17,269/-*
June 17 to Sept 17	*6*	*13,78,373/-*
Sept 17 to Dec 17	*10*	*14,59,945/-*
Dec 17 to March 18	*7*	*7,54,613/-*
March 18 to June 18	*10*	*4,02,508/-*
June 18 to Sep 18	*10*	*36,37,385/-*
Sep 18 to Dec 18	*10*	*2,73,680/-*

iii. *In respect of securities' settlement, it was observed that out of a sample of 83 inactive clients, across 5 quarters, the Noticee has failed to settle clients' accounts in 30 instances pertaining to 21 clients. Summary of the observation on 30 instances are as under* :

Quarters	**Number of inactive clients not settled**	**Same balance being carried from previous quarter. (In Rs.)**
June 17 to Sept 17	*5*	*1,09,61,768.92*
Sept 17 to Dec 17	*6*	*1,55,94,230.00*
Dec 17 to March 18	*3*	*1,41,376.00*
March 18 to June 18	*13*	*67,20,691.00*
June 18 to Sep 18	*3*	*5,03,470.00*

iv. *In view of the above, it is alleged that the Noticee has not settled clients' funds & securities in violation of the provisions of clause 12 of Annexure of SEBI circular SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009.*

Reply:

i. *To summarize, in a few cases, the clients had funds below Rs. 10,000/- and the rest could not be settled as clients were on-boarded in that particular quarter. In remaining cases the client accounts belong to PDS. Further to note that none of our clients has neither raised query for settlement to us nor to exchange about settlement of funds till date.*

ii. *We are considering clients and their family members account as one group. Accordingly, in few instances, shares of clients belonging to the group could not be released due to debit in their* *family accounts and after clearance of debit related client, the shares as well as funds were released to the client.*

iii. Due to change in demat accounts or for ease of convenience at the request from the concerned clients, we could not settle their accounts in particular quarter but the same was settled in the subsequent quarters.

Finding:

i. It is alleged in the SCN that for a sample of 58 inactive clients across seven quarters (from the quarter April - June 2017 to the quarter September 2018 - December 2018), clients' funds were not settled and the range of the unsettled amount is from Rs. 1,17,269/- to Rs. 36,37,385/-. The Noticee submitted that certain clients' accounts were not settled because the funds were less than Rs. 10,000/-, however, I hold that there is no provision in the said SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009, which provides an exception for non-settlement of accounts if the funds are below Rs. 10,000/. Further, it is alleged in the SCN that in respect of securities' settlement, out of a sample of 83 inactive clients across 5 quarters (from the quarter June - September 2017 to the quarter June 2018 - December 2018), the Noticee has failed to settle clients' accounts (securities balance) in 30 instances pertaining to 21 clients. The value of the unsettled securities is in the range of Rs. 1.41 Lakhs to Rs. 1.09 crores. It is pertinent to mention that the provisions of clause 12 of Annexure of SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 in this regard mandates that the settlement of funds/securities shall be done within a day of the payout.

ii. I note that there is no provision of law which excludes the accounts of promoters/ directors/shareholders (**'PDS'**) from being settled, as contented by the Noticee. There is also no provision of law which allows the Noticee to treat its clients in group i.e. family members as a group, where settlement could not be done due to debit balance of clients amongst the group. The provisions given under clause 12 of SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009, clearly states that '*there shall be no inter-client adjustments for the purpose of settlement of the 'running account'.* In this context, I note that during the inspection period, the total amount of funds not settled by the Noticee is in the range of Rs. 1.17 lakhs to Rs. 36.37 lakhs, and the total value of securities not settled is in the range of Rs. 1.41 Lakhs to Rs. 1.09 crores, which is significantly a huge amount to ignore the violations of the Noticee. Therefore, the submissions of the Noticee cannot be accepted.

iii. The Noticee had further submitted that the clients have never raised any query regarding the non-settlement of the accounts. As a SEBI registered intermediary, it is the duty of the Noticee to comply with all the directives of SEBI including settlement of funds and securities of the clients. The Noticee cannot absolve itself from the violation by placing reliance on the reason/statement that no complaint was made by any investor in this regard. Further, it is an admitted fact by the Noticee that in respect of certain accounts, the Noticee settled the funds in the subsequent quarter instead of the required quarter. The reply of the Noticee in the context of the said charges/violations also show the tacit admission on its part w.r.t the said charges/allegations.

iv. In view of the above, I hold that that the Noticee has violated clause 12 of Annexure of SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009.

E: Client Funding

Allegation :

i. A sample of top 22 clients (11 clients each for FY 2017-18 and FY 2018-19) from whom the Noticee had charged highest Delayed Payment Charges (DPC of Rs 28.10 lacs for FY 2017-2018; Rs 57,57 lacs for FY 2018 -2019) were selected and the ledgers of these clients were examined for the period (April 01, 2017 to Dec 31, 2018).

ii. For the instances selected above, it was verified whether further exposure is given to client after 5 days (from the 6th working day) from pay in date of securities i.e. T+2+5, in spite of non-recovery of debit balances (after considering free collaterals). It was also verified whether the member has charged delayed payment charges despite client having credit balance. It is observed that the broker has provided funding for 12 unique clients in respect of 183 instances.

iii. In view of the above, it is alleged that the Noticee has provided funding for its client in violation of the provisions of Clause 2.6 of Annexure to the SEBI circular Ref. no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, read with Clause 2(d) of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017 and NSE Circular NSE/INSP/20638 dated April 26, 2012.

Reply:

i. The details of clients, which are mentioned in SCN are experienced, regular traders and having sound financial background. We are having good relationship with them. Earlier they have cleared their obligations and dues in time- bound manner as per their commitments, accordingly we have provided the exposure in exceptional cases. Further, we had also sufficient collateral *funds available either with us or in client's family accounts to cover the risk of trades of these particular clients.*

ii. *In most of the cases, we have followed T+2+5 criteria to clear the debit balance of clients, however, in some cases the requisite time deadline could not be met but later on the same was cleared.*

iii. *Importantly, it is pertinent to note that, we did not allow any further exposure till the existing debit was cleared. Therefore, we humbly submit that no adverse observations be made against us in this regard.*

Finding:

i. During the inspection, it was verified if further exposure was given to any clients by the Noticee after 5 days from the pay-in date of securities i.e. T+2+5, in spite of non-recovery of debit balances. In this context, it is alleged that the Noticee has funded 12 clients out of a sample of 22 clients in 183 instances beyond the prescribed T+2+5 days and allowed further exposure to such clients during the inspection period. Therefore, the contentions of the Noticee that it did not provide further exposure to clients having debit balance is without any merit. Further, it is observed from the findings of the inspection that the amount of the aforesaid funding is in the range of Rs. 6.19 Lakhs to Rs. 4.14 crores. The Noticee did not deny the fact that it had granted further exposure to the aforesaid 12 clients beyond the prescribed T+2+5 days. It is also an admitted fact by the Noticee that the requisite time limit / deadline could not be met in some instances, while clearing the obligations and dues of such clients.

ii. The Noticee submitted that these were regular clients with sound financial background and the collateral funds of such clients were available with the Noticee and hence, it had provided the exposure to them. In this regard, it is pertinent to mention the provisions of SEBI circular Ref. no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017:

"Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017 or as may be issued from time to time."

As per the provisions of the aforementioned SEBI circulars, the Noticee cannot grant further exposure to the clients when debit balances arise out of client’s failure to pay the required amount beyond T+2+5 days. Therefore, the submissions of the Noticee cannot be accepted as there is no exception provided in the SEBI circulars regarding regular clients with sound financial backgrounds. Further, I also note that the Noticee failed to submit proof/evidence to support its claims regarding the availability of collateral funds of the clients.

iii. In view of the above, I find that the Noticee has violated the provisions of Clause 2.6 of Annexure to the SEBI circular Ref. no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, read with Clause 2(d) of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017 and NSE Circular NSE/INSP/20638 dated April 26, 2012.

F: Incorrect reporting of data, towards weekly monitoring of client's funds, to Stock exchange

Allegation:

i. An examination was done to see if the details of the bank accounts and demat account reported to the Stock Exchange is the same as the details provided by the Noticee during inspection. Further, the number of clients whose balance was reported by the Noticee, was verified against the count of actual clients traded as per then Exchange record. It was also verified if the nomenclature of client beneficiary demat /collateral is properly tagged with client/collateral account and own beneficiary demat account is tagged with proprietary account. Also, the accuracy of figures submitted to the exchange for the purpose of weekly monitoring of client funds and monthly client funds & securities was checked. The following differences were observed in the figures reported under the below mentioned heads of weekly monitoring of Client fund assets as on November 30, 2019.

a. Collateral deposited with exchanges in the form of Cash and Cash Equivalents (Difference was – Rs. 41,50,000)
b. Total Credit balance of all clients after reversing open bills/ uncleared cheques (Difference was Rs. 1,85,86,882)
c. Total Debit balance of all clients after reversing open bills/ uncleared cheques (Difference was – Rs. 5,86,42,649)
d. Margin utilized for all credit balance clients across Exchanges (Difference was Rs. 3,92,27,975)
e. Value of Non funded portion of the Bank Guarantee (Difference was -Rs. 16,50,000).

ii. In view of the above, it is alleged that the Noticee has incorrectly reported the data towards weekly monitoring of client funds to exchange in violation of the provisions of Clause 3.2 of the Annexure to the SEBI circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016.

Reply:

i. Collateral deposited with exchanges in form of Cash and Cash Equivalents (Differences was Rs. 4150000)

- *Deposit of Rs 25,00,000 /- additionally with NSEIL in the FSR report downloaded from ENIT as on 30th November 2018 and email confirmation of our clearing member.*
- *Fund of Rs. 4,00,000/- (Against BG of Rs. 8,00 ,000/-, BG No. 0004BG00006417 for NSE CD) has not been included by the Inspecting Authority, which should be added.*
- *Fund of Rs. 12,50,000/- (Against BG of Rs. 25,00,000/-, BG No.0004BG00005117 for BSE) has not been included by the Inspecting Authority.*

ii. *Total Credit I Debit balance of all clients after reversing open bills / uncleared - cheques*

- *In response to the alleged difference of credit balance difference of Rs. 1,85,86,882I- and debit balance difference of Rs. 5,86,52,649I -, we state that:*
- *The debtors and creditors figures taken by Inspecting Authority were exclusive of NSE FO margin due to which the value of creditors has been increased or debtors' value has been decreased. The total FO margin of all clients on the relevant date (i.e. November 30, 2018) was Rs 7.43 Crores whereas total difference between reported debtor creditor clubbing together is Rs 7.72 Crores, the balance difference of Rs 29 Lakhs is due to revision of brokerage or late payment charges.*

iii. *Margin Utilized for all credit balance clients across Exchanges (difference was Rs. 3,92,27,9750)*

- *Due to technical glitch in the software, the figure of margin utilized by credit balance client, on 30th November 2018, was reported wrongly. Considering a technical and procedural IT system related issue, that too for a single occasion, we humbly request that no adverse observation be drawn against us in this regard.*

iv. *Difference in Value of non-funded portion of the Bank Guarantee (Difference was Rs. 16,50,000)*

- *Non-funded portion of Rs. 12,50,000 /- (BG of Rs. 25,00,000 I, BG No. 0004BG00005117 for BSE) has not been included by Inspecting Authority,*
- *Non-Funded portion of Rs. 4,00,000 /- (BG of Rs. 8,00,000/-, BG No. 0004BG00006417 for NSE CD) has not been included by the Inspecting Authority, which should be added.*

v. *In summary we, respectfully, submit that the aforesaid requirements are part of 'Enhanced Supervision systems' newly introduced by Exchanges in consultation with SEBI and during the relevant period, frequent modifications I clarifications were made based on feedback received from the market participants. Further, the aforesaid reporting's were carried out manually (not generated from back-office software/ programs) and therefore, due to innocent and inadvertent human errors had crept in. We understand that the same situation has been faced by large number of stock brokers. In view of the aforesaid, we humbly request your good self to kindly take a lenient and practical view such that no adverse observation be drawn against us in this regard.*

Finding:

i. As regards the allegation of reporting incorrect data towards weekly monitoring of clients funds (collateral deposited) by the Noticee to the stock exchanges, the Noticee has contended that the additional deposit of Rs. 25,00,000/- with NSE, bank guarantee (for NSE CD) of Rs. 4,00,000/- and bank guarantee (for BSE i.e. Base Minimum Capital) of Rs.12,50,000/- were not considered by the Inspecting Authority. As already discussed in the context of mis-utilisation of funds by the Noticee in pre-paragraphs, I note that the aforesaid amounts cannot be considered for collateral, as the exposure is not given to the Noticee for the same. Further, in respect of incorrect reporting of Total Credit/ Debit balance of all clients, the Inspecting Authority has noted that the Noticee has erred in calculating the F&O margin. I hold that as the F&O margin is notional (varies with daily market value of securities), the same cannot be considered for the purpose of calculating Total Credit/Debit balance of all clients.

ii. The Noticee also admitted to the fact that due to technical glitches, the margin utilized for all credit clients was reported incorrectly. Further, Noticee submitted that as relevant reporting was carried out manually, human errors had crept in and hence the reporting was done incorrectly. In view of the above, I hold that the Noticee reported incorrect data to the stock exchanges and therefore violated the provisions of Clause 3.2 of the Annexure to the SEBI circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016.

G: Incorrect reporting of data of Risk Based Supervision (herein after referred to as 'RBS'), to exchange

H: Granting inter corporate loan to 2 entities other than clients during the inspection period

Allegation:

i. During the inspection, a verification of the following financial data submitted for RBS, was carried out.

a. Total debit balance of all clients
b. Total available collaterals from all debit balance clients
c. Brokerage income
d. *Loan Given*

ii. It was observed that the data provided by the Noticee towards the RBS submission of 30th September 2018 were not correct for the following heads:-

1. *Total available collaterals from all debit balance clients- Data Reported (Rs 49,50,65,605) while Actual Data (Rs 23,60,18,916)*
2. *Loan Given (Data Reported – Nil while Actual data (Rs 2,31,36,023)*

iii. It was also observed that the Noticee was misreporting and non-reporting the Client funds (Rs. 71,73,968/-) and securities (Qty 10,480 shares) in its monthly submission to the exchange for the month of November 2018. In view of the above, it is alleged that the Noticee has provided wrong data towards the RBS submission of 30th September 2018. It is also alleged that the Noticee has misreported/ non-reported Client funds (Rs. 71,73,968) and securities (Qty 10,480 shares) in its monthly submission to the exchange for the month of November, 2018. In view of the same, it is alleged that the Noticee has violated the provisions of Clause 6.1.1(j) of Annexure to the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

iv. *It was observed that the Noticee had given the advances through inter corporate loan to 2 entities other than its trading clients during the inspection period, 1st April 2017 to 31st December 2018. Details of such advances is given below*

Code & Name of Entity	*Payment Made to Entity*
Gretex Sharebroking Private Limited	*50,00,000.00*
Total Holdings Finvest Private Limited	*12,64,58,185.00*
Total	*13,14,58,185.00*

v. *In view of the above, it is alleged that the Noticee had given the advances through inter corporate loan to entities other than clients during the inspection period in violation of the provisions of Clause A(1) A(2) of the code of conduct read with Regulation 9(f) of SEBI (Stock Broker Regulation), 1992.*

Reply:

i. *The RBS data comprises of segregation of Exchange-wise collateral from total collateral available with member against debit balance client. At the time of reporting to BSE, the collateral balance available against debit balance of client was reported correctly but due to oversight NSE reporting was done with full collateral value of clients along with our ow n collateral. We came to know of the same after submission and contacted to NSE during that period and got reply from NSE that due to time limitation constraint, the same could not be corrected after submission".*

ii. *The first entity observed by the Inspecting Authority is Gretex Share Braking Pvt Ltd which has changed its name to Sherwood Securities Pvt Ltd, from whom we were, actually, net borrower and have pa, interest to them. Because of the name change, the full transactions were not captured by the Inspecting Authority.*

iii. *The second entity (Total Holdings and Finvest Pvt Ltd) is NBFC registered with RBI and fund was borrowed for short term finance which has been repaid periodically. We have also paid Interest of Rs. 3.23 Lakhs in FY 2017-18. Presently also we are net borrower from this entity.*

iv. *Further to note that the RBS data requires loans to group companies / key persons and the above parties are not related to us. Hence reporting of the same was not considered by us due to parties being 'unrelated'. In summary, we state that, both the aforesaid parties are un-related. Further, grant of advance for short term, out of own funds, and loan repayment cannot be considered as financing activity. We therefore request your good -self not to draw any adverse observation against us in this regard.*

v. *We kindly submit that due to technical glitch in the back office software the figure of clients funds and securities in the month of November 2018 was reported erroneously.*

vi. *The first entity observed by the Inspecting Authority is Gretex Share Broking Pvt Ltd which has changed its name to Sherwood Securities Pvt Ltd, from whom we were, net borrower and have paid interest to them. Because of the name change, the full transactions were not captured by the Inspecting Authority.*

vii. *The second entity (Total Holdings and Finvest Pvt Ltd) is NBFC registered with RBI and fund was borrowed for short term finance which has been repaid periodically. We have also paid Interest of Rs. 3.23 lakhs in FY 2017-18. Presently also we are net borrower from this entity.*

Finding:

i. It is alleged in the SCN that the Noticee has reported incorrect data {in the context of the Risk Based Supervision (RBS)} w.r.t the total collateral amount and the loan amount granted to clients, during the time period of September 2018. Further, it is alleged that the Noticee had also misreported/not reported client funds to the tune of Rs. 71,73,968 /- and client securities of 10, 480 shares for the time period of November 2018, to the stock exchanges. The Noticee has admitted that due to oversight, wrong data was reported to NSE in this regard.

ii. Further, as regards the loans provided to two clients viz. Gretex Share broking Pvt. Ltd. (**'Gretex'**) and Total Holdings and Finvest Pvt. Ltd. (**'THFL'**), the Noticee has submitted that they were unrelated parties and therefore the same was not reported. However, as per the provisions of NSE circular NSE/INSP/28925 dated February 25, 2015, the reporting is required in respect of "*Details of loans given to group companies/ associates/ subsidiaries/* ***any other entity*** *and key persons*". Hence, it is clear that even if Gretex Share broking Pvt. Ltd. and Total Holdings and Finvest Pvt. Ltd. were unrelated entities, loans provided to them had to be duly reported by the Noticee, which the Noticee had failed to do so.

iii. In view of the above, I find that the Noticee has violated provisions of Clause 6.1.1 (j) of Annexure to the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

iv. Further, during the inspection, it is alleged that the client's funds' available with the Noticee and the clearing member and the clearing corporation were not sufficient to cover the payables to the clients as on November 30, 2018 and the shortfall amount in this regard aggregated to Rs. 3.59 crores. As a registered stock broker, the Noticee was required to maintain enough funds to cover the payables to the clients all the time. In this regard, it is observed by the Inspecting Authority that the aforesaid shortfall amount has occurred in lieu of the Noticee granting two inter-corporate loans to two entities viz. Gretex and THFL during the inspection period. It is further observed that the Noticee had granted a total amount of Rs. 13.14 crores to the aforesaid entities. The Noticee admitted the violation on its part, pursuant to the findings of the inspection in this regard and adjusted the funds by adding more in the banks, exchanges, clearing corporation and clearing members, during the month of February 2019, to ensure its financial solvency.

v. In view of the above, I hold that by transferring the funds in the nature of providing inter corporate loans to two entities, the Noticee had maintained a shortfall in the funds and put itself in a financial position and risk and unable to cover the payables to its clients during the inspection period. Further, by not reporting the details of the aforesaid loans to the stock exchange, I note that the Noticee had failed in exercising due skill, care and diligence in conducting its business as a registered stock broker. Therefore, I hold that the Noticee has violated the provisions of clause A (1), clause A (2) of the code of conduct read with Regulation 9 (f) of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as '**Brokers Regulations'**).

I: Non-reconciliation of back office holdings of the client's securities with stocks lying in DP accounts

Allegation:

i. *The inspection team had reconciled the back office holding of client's securities with actual stocks lying in all clients/ collateral/margin DP accounts in order to ensure that all client's securities are there in the DP accounts of the Noticee. An analysis was also done to check whether all the client securities are properly recorded in the back office. It was observed that the Noticee has not done periodic reconciliation of back office holdings of client's securities with the actual stocks lying in DP accounts. A total of 18 such instances (total quantity is 29,36,786) amounting to Rs. 6,51,52,590/- were observed. In view of the above, it is alleged that the Noticee has not reconciled the back office holdings of the client's securities with the stocks lying in the DP accounts in violation of the provisions of SEBI Circular MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008 and NSE/INSP/29096 dated March 11, 2015.*

Reply:

i. *As a matter of fact, there is no discrepancy between Register of Securities and the holdings in our demat accounts held as client collateral. Incidentally, the stocks observed by the Inspecting Authority are lying in our collateral accounts.*

Finding:

i. It is alleged in the SCN that the Noticee had not carried out / not done periodic reconciliation of back office holdings of client's securities with the actual stocks lying in DP accounts during the inspection period. A total of 18 such instances (total mis-match quantity in number of securities is 29,36,786 which amounted to Rs. 6,51,52,590/-) were observed during the inspection.

ii. In this regard, I note that the Noticee has not given any credible documents in support of its claim that there is no discrepancy between register of securities and the holdings held as client collateral, in the demat account of the Noticee. Further, the DP statement provided by the Noticee contains details and submissions in respect of only

3 scrips/instances out of the total 18 such instances of mis-match in securities observed i.e. for Godrej Industries Limited, Capacite Infraprojects Limited and Reliance Communications Limited.

iii. In view of the above and in view of the absence of specific submission and evidence provided by the Noticee, I hold that Noticee had not reconciled the back office holdings of the client's securities with the stocks lying in the DP accounts and hence violated the provisions of SEBI Circular MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008 and NSE/INSP/29096 dated March 11, 2015.

J: Incorrect reporting of the margin

Allegation:

i. *During inspection, top instances of client margin reporting were identified based on the highest margin liability for each segment during the period starting from 1st January 2018 to 31st December 2018. For the sample clients, the actual available margin reported by the Noticee to the Exchange was verified against the margin provided by the Client to the Noticee. The client has provided margins in the form of Funds and Securities. Margin Verification for the sample instances was done to verify any wrong reporting of Margin collection.*

ii. *It is alleged that the trading member has not correctly reported Margin to the Exchange in F&O Segment and the amount of wrong reporting in respect of 15 clients is amounting to Rs 8,82,76,280.08.*

iii. *In view of the above, it is alleged that the Noticee has made incorrect reporting of the margin in violation of the provisions of SEBI Circular No. CIR/DNPD/7/2011 dated August 10, 2011.*

Reply:

i. *In fact, there are 14 instances pointed out during inspection out of large number of data collected for numerous instances of margin reporting. All the instances observed are non-corporate clients, including the Company's promoter director shareholders (PDS) clients. PDS clients have funded the Company in their capacity as promoters/ directors/ shareholders to ensure smooth and uninterrupted operations of the Company.*

ii. *Notably, the Company's clientele represents close group of intimate friends and family members of the Company's PDS. As policy, we do not encourage our clients to take any position in the derivatives market beyond their risk bearing and financial capacity.*

iii. *Our FNO margin collection and reporting methodology is in line with industry standards, client friendly and legally compliant. We are a relationship-based service oriented emerging stock brokers facilitating behaviorally known families to trade cautiously in securities market keeping in view their respective risk-reward matrix.*

iv. *Thus, in case of individual and HUF clients, we have considered funds and securities of their family members, HUF and close relatives and their firms in which any of them are partners having un-limited liability, as a group. Accordingly, NSE FNO margin was reported by us to Exchange.*

v. *Pertinently, as regards Pentagon is concerned, it is for the first time, i.e., only in this inspection, that the findings about short reporting of margin collection have been made, and we shall be glad to be guided by the suggestions of the Inspection Authority going forward.*

Finding:

i. During the inspection, for the sample clients' selection made during the inspection period, the actual available margin reported by the Noticee in the form of Funds and Securities to the stock exchange was verified against the margin provided by the clients to the Noticee. In this regard, it is alleged in the SCN that the Noticee had incorrectly reported the Margin collection to the stock exchange in F&O segment and that the amount of incorrect reporting in respect of 15 clients amounted to Rs. 8,82,76,280/- during the inspection period. It is pertinent to mention the relevant provisions of SEBI Circular No. CIR/DNPD/7/2011 dated August 10, 2011, in this regard:

"All instances of non-reporting shall amount to 100% short collection and the penalty as applicable shall be charged on these instances in respect of short collection.

If during inspection it is found that a member has reported falsely the margin collected from clients, the member shall be penalized 100% of the falsely reported amount along with suspension of trading for 1 day in that segment. "

ii. The Noticee has submitted that all the aforesaid instances/clients observed are its non-corporate clients, including the Noticee's promoter, director, shareholders (PDS) clients and therefore, the margin collection from the aforesaid clients were not considered properly for the purpose of reporting. I note that the PDS clients are also registered clients of the Noticee and are required to comply with the relevant margin requirements and these PDS clients cannot be delinked from the other clients of the Noticee for the purpose of the regulatory reporting. Further, being close friends and intimate family members of the PDS does not exempt the Noticee from collecting and reporting the proper margin as mandated under the provisions of the SEBI Circular No. CIR/DNPD/7/2011 dated August 10, 2011. Moreover, the benefit of free funds or securities balance of HUF cannot be used as margin obligation of individual.

iii. In view of the above, I hold that the Noticee has incorrectly reported the margin during the inspection period and hence violated provisions of SEBI Circular No. CIR/DNPD/7/2011 dated August 10, 2011.

K: Non-uploading of CKYC details of clients in CERSAI Portal

Allegation:

i. *The inspection team had verified Central Know your Client (herein after referred to as '**CKYC**') data for sample clients with the copies of the uploaded information of the client on Central Registry of Securitization Asset Reconstruction and Security Interest (herein after referred to as '**CRESAI**') and it was checked whether data uploaded in UCC is as per KYC form. It was observed that the Noticee has not uploaded CKYC details of 123 clients in CERSAI Portal.*

ii. *In view of the above, it is alleged that the Noticee has not uploaded CKYC details of clients in CERSAI Portal in violation of the provisions of SEBI circular no. CIR/MIRSD/66/2016 dated July 21, 2016.*

Reply:

i. *We* have *uploaded the CKYC details of all the clients on CERSAI portal (100%) and the same was intimated to the Inspecting Authority also.*

ii. *We* have *uploaded the correct and complete records of clients to the UCC database of the exchange.*

Finding:

i. It is observed that the Noticee had uploaded the CKYC details of all 123 clients on CERSAI portal and uploaded the correct and complete records to UCC database, pursuant to the same being pointed out/ highlighted during the inspection. The details of uploading of CKYC details by a registered stock broker has been mandated under the provisions of SEBI circular no. CIR/MIRSD/66/2016 dated July 21, 2016, which inter-alia mentioned the following:

'As per the 2015 amendment to PML (Maintenance of Records) Rules, 2005 (the rules), every reporting entity shall capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the Rules, as per the KYC template for 'individuals' finalized by CERSAI.'

ii. The Noticee had admitted the deficiency and error on its part during the inspection to the inspecting authority. In view of the same, I hold that that the Noticee has violated the provisions of SEBI circular no. CIR/MIRSD/66/2016 dated July 21, 2016.

L: Incorrect reporting of net worth

Allegation:

i. The inspection team observed certain discrepancy in the net worth reported by the Noticee to the exchange. It was observed that the net worth of the Noticee reported to the exchange as on September 30, 2019 is Rs. 1.01 Crore instead of -0.49 Crore.

ii. In view of the above, it is alleged that the Noticee had reported incorrect net worth in violation of the provisions of Clause 6.1.1(j) of Annexure to the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Rule 32 of Chapter III of the Rules of NSEIL and NSE circular NSE/MEM/4300 dated July 25, 2003.

Reply:

i. Our normal net worth, during inspection period, is Rs. 11 Crores represented by share capital, reserves, and earned profits. We hold stock-in-trade of approximately Rs. 32 Crores for SME market making purpose, for which 30% haircut has been made as per LC Gupta Format for net worth calculations as a conservative approach. Notably, BSE circular requires providing for haircut of 30% of investment in listed shares only but not for stock in trade.

ii. The provision for debts and advances due for more than 90 days consist of amount payable by a client code K4 (Dharni Kurani) of Rs 2.34 Crores who has, before 30-Septemeber -2018, sold shares worth Rs.1.97 Crores. But pay-out of the same was received on 03-0ctober-2018. Hence, we have not considered the same for long overdue.

Finding:

i. The Net Worth of the Noticee as observed by the inspecting authority aggregated to be around Rs. - 0.49 crores, which is different from the Net Worth reported by the Noticee to the stock exchange i.e. Rs. 1.01 cores, during the end of September 2018. Further, the document submitted by the Noticee pertains to the audited Net Worth certificate for the month of March 2018, whereas, the allegation against the Noticee is for the month of September 2018. In view of the above and in the absence of valid explanation/evidence from the Noticee in this regard, I hold that the Noticee has reported incorrect net worth figure to the stock exchange and hence violated the provisions of Clause 6.1.1 (j) of Annexure to the SEBI circular

SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Rule 32 of Chapter III of the Rules of NSEIL and NSE circular NSE/MEM/4300 dated July 25, 2003.

M: Nomination forms are not properly filled

Allegation:

i. *The inspection team examined the KYC form including Demat account to check whether the guidelines/ procedure as specified in the CDSL Operating Instructions and whether SEBI guidelines for implementation of KRA Regulations are followed by the broker. It was observed that nomination forms are not properly filled. In view of the same, it is alleged that the Noticee has violated the provisions of the SEBI circular CIR/MIRSD/16/2011 dated August 22, 2011.*

Reply:

i. *The account in which observation of nomination has been raised is duly updated in compliance with law and hence we request your good-self that no adverse observation be drawn against us in this regard.*

***Finding*:**

i. The Noticee has admitted the observation made by the inspecting authority and submitted that the nomination form is duly updated, pursuant to the same pointed out during inspection. In view of the admissions of the Noticee during the inspection that the nomination forms are not properly filed, I hold that the Noticee has violated provisions of the SEBI circular CIR/MIRSD/16/2011 dated August 22, 2011.

N: Compliance Officer is not having NISM Series VI - DOCE certification

Allegation:

i. *During inspection, it was also observed that the compliance officer of the Noticee does not have NISM Series VI - DOCE certification. In view of the same, it is alleged that the Noticee has violated the provisions of the Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007.*

Reply:

i. *Our Compliance Officer Mr. Deepak Tripathi was appointed in November 2018 and as per relevant and applicable provisions of the Act, same has to be obtained within 1 year from the date of appointment and same has been done within timeline.*

***Finding*:**

i. The Noticee submitted that its compliance officer during the inspection period was Mr. Deepak Tripathi, who was appointed in the month of November 2018 and he can obtain the required NISM Series VI - DOCE certificate within a year. The inspection authority observed that the Noticee could not provide the NISM Series VI - DOCE certificate of Mr. Deepak Tripathi as required under the provisions of Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 (hereinafter referred to as **'Certification Regulations'**).

ii. Even though the Noticee submitted a copy of NISM certificate dated February 25, 2019 of the compliance officer pursuant to the inspection, the Noticee, however failed to submit the appointment order of the compliance officer to support that Mr. Deepak Tripathi was appointed in the month of November 2018. In view of the same and in the absence of supporting evidence, I hold that the Noticee had violated provisions of the Regulation 3(2) of the Certification Regulations.

9. Therefore, from the above findings/observations made against the Noticee, it is evident that the Noticee as a stock broker had committed serious irregularities during the inspection period. The above violations, as brought out in the foregoing paragraphs i.e para no.8 - A to N, are very serious in nature and make the Noticee liable for monetary penalty under the provisions of Section 23D of SCRA and Section 15HB of the SEBI Act. In this regard, reliance is placed upon the judgment of Hon'ble Supreme Court of India in the matter of SEBI Vs. Shri Ram Mutual Fund [2006] 68 SCL 216(SC) which inter-alia has held that - *"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant…".* The relevant provisions of the aforementioned Section 23D of SCRA and Section 15HB of the SEBI Act are as under:

SCRA

Penalty for failure to segregate securities or moneys of client or clients

23D. *If any person, who is registered under section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) as a stock broker or sub-broker, fails to segregate securities or moneys of the client or clients or uses the securities or moneys of a client or clients for self or for* *any other client, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

SEBI Act

Penalty for contravention where no separate penalty has been provided.

15HB. *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

10. While determining the quantum of penalty under the provisions of Section 23D of SCRA and Section 15HB of the SEBI Act, it is important to consider the relevant factors as stipulated in Section 23J of the SCRA and Section 15J of the SEBI Act, which reads as under:

SCRA

Factors to be taken into account while adjudging quantum of penalty

23J. *While adjudging the quantum of penalty under section 12A or section 23-I, the Securities and Exchange Board of India or the adjudicating officer shall have due regard to the following factors, namely:*

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default."

SEBI Act

Factors to be taken into account by the adjudicating officer.

15J. *While adjudging quantum of penalty under section 15-I, the Securities and Exchange Board of India or the adjudicating officer shall have due regard to the following factors, namely:-*

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

11. In this context, it is pertinent to mention that the Economic Offences Wing of the Mumbai Police (EOW) had arrested the then Managing Director of the Noticee viz. Mr. Mahavir

Toshniwal ('**Mr. Mahavir**') in the month of September 2021 in the matter of cheating and fraud to the tune of Rs 40 crore, in respect of the allegations levelled against him and his wife viz. Ms Deepa Tosniwal which, inter alia, includes siphoning of the shares of various clients without their knowledge, mis-utilisation of client funds and securities, unauthorized pledging of client shares, mis- appropriation of the sale proceeds of the clients shares for the benefit of the then MD and his wife and his associates etc. According to the complaint made to the EOW, *"Mahavir and Deepa Toshniwal, director of Pentagon Stock Brokers, had sold clients' shares and "instead of paying the proceeds to the clients, they misappropriated the sale proceeds of shares to themselves and also to the personal accounts of Mahavir Toshniwal, his Hindu undivided family (HUF) and his wife Deepa"*.

12. Pursuant to the arrest of Mr. Mahavir Tosniwal, the new director of the Noticee i.e Ms Madhu Lunawat, vide letter dated September 29, 2021, submitted a reply stating the developments against Mr. Mahavir regarding his arrest and also mentioned the various measures/steps taken by the new management of the Noticee to ensure proper functioning of its stock broking activities and also the overall conduct of its business. It was contended that the above wrongdoings/ violations had arisen due to the fault of the earlier management and due to the mis-deeds of Mr Mahavir. In this context, I note that, during the inspection period, the total control and management of the business operations of the Noticee was under Mr. Mahavir along with Mrs. Deepa Toshniwal, who were arrested by the EOW and were the main perpetrators of the fraud as alleged by the EOW. Therefore, I note that the violations committed by the Noticee during the inspection period have a probability of intent under the then management of Mr. Mahavir. At the same time, one cannot lose sight of the fact that the violations committed by the Noticee during the relevant inspection period has had a serious effect on the unsuspecting clients/investors of the Noticee and the contention of the Noticee that the defaults took place due to the mis-deeds of its earlier management cannot be accepted.

13. Further, from the material available on record, any quantifiable gain or unfair advantage accrued to the Noticee or the loss suffered by the investors as a result of the violations committed by the Noticee is not computable. The records show that there were also investor complaints that were received against the Noticee w.r.t non-receipt of sale proceeds, non- settlement of funds and shares etc. However, Noticee has vide its email dated March 09, 2022 mentioned that there are no pending complaints as on date and all complaints have been resolved.

14. Considering the aforesaid, I am inclined to hold that the observations brought out above during the course of inspection of the Noticee are sufficient enough to bring house the charges/allegations levelled against the Noticee (as mentioned in para 8- A to N above). The evidence/observations on record against the Noticee, ostensibly suggest the misuse of the accounts of its clients- both the funds and securities of clients, unauthorized pledging of shares, non-segregation of clients' funds and securities, non-settlement of funds and securities of clients etc, which, in my assessment, are very serious findings and such violations deserve to be adequately penalized. The contention of the Noticee that the violations have taken place at the time of the previous management and their conduct etc are baseless and without any merit. The overall conduct of the Noticee during the inspection period shows the failure on the part of the Noticee. In my view, the failure on the part of the Noticee, as discussed in the pre-paragraphs, would compromise the regulatory framework and would defeat the purpose of measures provided in the various aforementioned SEBI Circulars / Regulations / Act on protection of clients' funds and securities by the stock broker and also relating to client registration process (KYC and KRA process) and other process (violations mentioned in Para 8- A to N above). I cannot ignore the fact that the Noticee was under a statutory obligation to abide by the provisions of the SCRA, SEBI Act, Rules and Regulations and Circulars / directions issued thereunder, which it failed to do during the inspection period. In this regard, it is pertinent to mention the following judgements of Hon'ble Securities and Appellate Tribunal (Hon'ble **'SAT'**):

*"..**In Arihant Capital Markets Ltd. vs SEBI (Appeal No. 521 of 2019 decided on October 21, 2021) the Hon'ble SAT held as under**:-*

> *The learned AO further noted that the circular specifically provided what money is to be paid into client accounts and what money is to be withdrawn from the client accounts. It was further specified that withdrawal of money from client accounts only towards the payment to be made on behalf of clients or towards payment of debts due, etc. as detailed was required to be made. Therefore, the appellant was found in the violation of the said circular for which penalty of Rs. 5 lac was imposed.*
>
> *10. Upon hearing both sides and upon perusing the relevant circulars, in our view, the order cannot be faulted with. The earlier circular had clearly stated that the funds of the client cannot be applied for any other purposes. The appellant's case was that the funds were applied by it for the dues for their associates, group company, etc. Now, during the*

arguments only, the issue of nonexistence of formula in the previous circular is brought up. In fact, the said formulization is nothing but the crystallization of the earlier circular."

"..In Bezel Stock Brokers Pvt. Ltd. vs National Stock Exchange of India (Appeal No. 294 of 2018 decided on January 30, 2019) the Hon'ble SAT held as under :

*The appellant had failed to act in a diligent manner and had failed to protect the interest of his clients. It was found that the appellant had failed to ensure availability of clients' assets and misappropriated clients' funds to meet the proprietary obligation and, therefore, the appellant failed to perform its fiduciary duty**. Using clients' funds is a misuse of clients' funds and securities and thus, the appellant was liable for imposition of penalty**.*

We are further of the opinion, that considering the admission of the appellant that they had misused the client funds and securities the imposition of penalty of ` 15 lakhs over and above the amount indicated in Annexure 1 was justified in the given circumstances."

15. Although the Noticee has stated that it had taken various corrective steps to strengthen and streamline its systems and process after the aforementioned SEBI inspection, which was also certified by its Auditor, I cannot lose sight of the fact that serious irregularities were committed by the Noticee during the aforementioned inspection period. The Noticee being a registered intermediary is expected to adhere to fair practices and maintain a high degree of professionalism in the conduct of its business, however, it is crystal clear from the preceding paragraph 8 (A to N) that the Noticee has acted in deliberate disregard of its obligations towards its clients and has put the interests of lakhs of investors in jeopardy. At the cost of repetition, the observations findings as regards mis-utilization of clients' funds/securities and non-settlement of funds and securities of clients, unauthorized pledging, discrepancies in client registration process (KYC and KRA process) and in-correct reporting of data to the stock exchanges etc,. as found in the instant matter, certainly deserve imposition of penalty on the Noticee.

ORDER:

16. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in Section 23J of the SCRA and Section 15J of the SEBI Act and in exercise of the powers conferred upon me under Section 23-I of the SCRA and Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules 1995 and Adjudication Rules 2005, I hereby impose a penalty of Rs. 20,00,000 /- (Rupees Twenty

Lakh only) on the Noticee i.e. Pantomath Stock Brokers Private Limited (now known as Pentagon Stock Brokers Private Limited) under Section 23D of SCRA and Section 15HB of the SEBI Act. I am of the view that the said penalty is commensurate with the violation/allegations levelled against the Noticee (in para 8 A to N above).

17. The Noticee shall remit / pay the said amount of penalty within 45 (forty five) days of receipt of this order either by way of Demand Draft (DD) in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai and 1) the said DD should be forwarded to the Division Chief, Enforcement Department 1(EFD), Division of Regulatory Action - II [**EFD 1 - DRA - 3**] SEBI Bhavan, Plot No.C4-A,' G' Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai – 400 051 and also send an email to tad@sebi.gov.in with the following details:

Case Name	
Name of the Payee	
Date of payment	
Amount Paid	
Transaction No.	
Bank Details	
In which payment is made for	Penalty

OR

18. Payment can also be made online by following the below path at SEBI website www.sebi.gov.in ENFORCEMENT → Orders → Orders of AO → Click on PAY NOW or at https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html

19. In terms of Rule 6 of the Adjudication Rules, copy of this order is sent to the Noticee viz. Pantomath Stock Brokers Private Limited (now known as Pentagon Stock Brokers Private Limited) and also to the Securities and Exchange Board of India.

Date: June 21, 2022
Place: Mumbai

SURESH B MENON
ADJUDICATING OFFICER