BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/NH/YK/2024-25/31203]

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

In respect of:

Noticee	PAN	Registration Number
Axis Securities Limited	AABCE6263F	INZ000161633

In the matter of Axis Securities Limited

A. BACKGROUND

1. Axis Securities Limited (hereinafter referred to as "**Noticee/Axis**") has been registered with the Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") as a stock broker. The registration number of the Noticee is INZ000161633. SEBI had undertaken inspection of the Noticee during the period from December 13, 2022, to December 23, 2022. The inspection has been conducted for the period from April 01, 2021, to November 30, 2022 (hereinafter referred to as "**Inspection period/IP**").

2. Post the culmination of the aforesaid inspection, an inspection report (hereinafter referred to as '**IR'**) was prepared. The findings of the said inspection were communicated to the Noticee vide letter dated January 30, 2023. In response to the findings in the Inspection Report, the Noticee submitted a reply vide letter dated February 21, 2023. After the receipt of the Noticee's reply to the Inspection Report, findings of the inspection vis-a-vis the response of the Noticee were analysed by the concerned department of SEBI. Thereafter, a Post Inspection Analysis report (hereinafter referred to as '**PIA'**) was prepared by SEBI.

3. Based on the findings of the inspection conducted by SEBI, certain non-compliances of the Securities and Exchange Board of India (Stock Brokers) Regulations, 1992

(hereinafter referred to as "**Brokers Regulations**"), SEBI Circulars, and Exchange Circulars were alleged. The summary of the violations alleged to have been committed by the Noticee and the corresponding provision of the securities law are given in the table below:

Table 1

Sr. No.	Alleged Violations (Summarized)	Regulatory Provisions
1.	There were discrepancies in the enhanced supervision reporting made by the Noticee to the Exchanges.	Clause 3.2 of Annexure to SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 (hereinafter referred to as "**SEBI Circular dated September 26, 2016**") and Clause 10(ii) of Annexure I to SEBI Circular No. CIR/CDMRD/DRMP/01/2015 dated October 01, 2015 (hereinafter referred to as "**SEBI Circular dated October 01, 2015**") read with NCDEX Circular No. NCDEX/RISK-022/2015/319 dated October 05, 2015 (hereinafter referred to as "**NCDEX Circular dated October 05, 2015**"), SEBI Circular No. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017 (hereinafter referred to as "**SEBI Circular dated June 22, 2017**"), MCX Circular No. MCX/INSP/248/2017 dated July 25, 2017 (hereinafter referred to as "**MCX Circular dated July 25, 2017**"), MCX Circular No. MCX/INSP/343/2017 dated September

Sr. No.	Alleged Violations (Summarized)	Regulatory Provisions
		25, 2017 (hereinafter referred to as "**MCX Circular dated September 25, 2017**"), MCX Circular No. MCX/INSP/400/2017 dated October 30, 2017 (hereinafter referred to as "**MCX Circular dated October 30, 2017**") and MCX Circular No. MCX/INSP/446/2017 dated November 29, 2017 (hereinafter referred to as "**MCX Circular dated November 29, 2017**").
2.	Discrepancies were observed while reconciling the stock mentioned in holding statement **(HS)** submitted by the Noticee to the Stock Exchanges with the actual stock lying with the Depository Participant **(DP)** accounts.	Clause 6.1.1(j) of Annexure to SEBI Circular dated September 26, 2016 read with NSE Circular No. NSE/INSP/10605 dated April 21, 2008 (hereinafter referred to as "**NSE Circular dated April 21, 2008**"), and NSE Circular No. NSE/INSP/29096 dated March 11, 2015 (hereinafter referred to as "**NSE Circular dated March 11, 2015**").
3.	The Noticee has not settled the clients' funds and securities on a monthly/quarterly basis as per the preference obtained from the clients and has also not sent the retention statement along with the statement of accounts to the clients.	Clause 12(e) of Annexure A to SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 (hereinafter referred to as "**SEBI Circular dated December 03, 2009**") read with Clause 8.1.4 of Annexure to SEBI Circular dated September 26, 2016, Clause 5.4 of SEBI Circular

Sr. No.	Alleged Violations (Summarized)	Regulatory Provisions
		SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 (hereinafter referred to as "**SEBI Circular dated June 16, 2021**"), and BSE Circular 20210616-41 dated June 16, 2021 (hereinafter referred to as "**BSE Circular dated June 16, 2021**").
4.	The Noticee has passed on penalties imposed by Stock Exchanges on it, for short collection of upfront/non upfront margin, to its clients.	Clause 2.1 of SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020 (hereinafter referred to as "**SEBI Circular dated July 31, 2020**") read with NSE Circular No. NSE/INSP/49929 dated October 12, 2021 (hereinafter referred to as "**NSE Circular dated October 12, 2021**") and NSE Circular No. NSE/INSP/53525 dated September 02, 2022 (hereinafter referred to as "**NSE Circular dated September 02, 2022**").
5.	The Noticee has transferred securities of clients having credit balance of funds with the Noticee to a "client unpaid securities account".	Clause 4.2 of the SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 (hereinafter referred to as "**SEBI Circular dated June 20, 2019**") read with NSE Circular No. NSE/INSP/41359 dated June 20, 2019 (hereinafter referred to as "**NSE Circular**

Sr. No.	Alleged Violations (Summarized)	Regulatory Provisions
		dated June 20, 2019"), NSE Circular No. NSE/INSP/42000 dated August 29, 2019 (hereinafter referred to as "**NSE Circular dated August 29, 2019**"), NSE Circular No. NSE/INSP/42052 dated September 04, 2019 (hereinafter referred to as "**NSE Circular dated September 04, 2019**") and NSE/INSP/42229 dated September 27, 2019 (hereinafter referred to as "**NSE Circular dated September 27, 2019**").
6.	The Noticee has not properly redressed the complaints and grievances of its clients.	Regulation 9(e) of the Brokers Regulations.
7.	There were discrepancies in the count of Politically Exposed Persons **(PEP)** reported under the "Risk Based Supervision" data submitted by the Noticee to the Stock Exchange and the clients marked as PEP in the Unique Client Code **(UCC).**	Clause 3.2 of Annexure to SEBI Circular dated September 26, 2016, read with SEBI Circular dated June 22, 2017, MCX Circular dated September 25, 2017, and MCX Circular dated October 30, 2017.
8.	Exposure of the Noticee towards the "Margin Trading" funding exceeded the allowable threshold. Additional exposure of Rs. 17.40 Crores was given to clients in six instances.	Clauses 7 and 17 of SEBI Circular CIR/MRD/DP/54/2017 dated June 13, 2017 (hereinafter referred to as "**SEBI Circular dated June 13, 2017**") read with NSE Circular No. NSE/COMP/35125 dated June 15, 2017 (hereinafter referred

Sr. No.	Alleged Violations (Summarized)	Regulatory Provisions
	Moreover, there was shortfall in the margin collected from one client.	to as "**NSE Circular dated June 15, 2017**"), NSE Circular No. NSE/COMP/35260 dated June 30, 2017 (hereinafter referred to as "**NSE Circular dated June 30, 2017**"), NSE Circular No. NSE/INSP/43069 dated December 31, 2019 (hereinafter referred to as "**NSE Circular dated December 31, 2019**"), NSE Circular No. NSE/INSP/43724 dated March 02, 2020 (hereinafter referred to as "**NSE Circular dated March 02, 2020**"), NSE Circular No. NSE/INSP/45191 dated July 31, 2020 (hereinafter referred to as "**NSE Circular dated July 31, 2020**") and NSE Circular No. NSE/COMP/48531 dated June 09, 2021 (hereinafter referred to as "**NSE Circular dated June 09, 2021**").

B. APPOINTMENT OF ADJUDICATING OFFICER

4. SEBI had appointed the undersigned as the Adjudicating Officer (hereinafter referred to as ''**AO**'') in the matter vide communique dated August 06, 2024 under Section 15-I of the SEBI Act read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as **"Adjudication Rules"**), to inquire into and adjudge under the provisions of Section 15HB of the SEBI Act for the aforementioned violations of the provisions of law alleged to have been committed by the Noticee.

C. SHOW CAUSE NOTICE, REPLY, AND HEARING

5. Show Cause Notice ref no. SEBI/EAD-2/NH/YK/32115/2024 dated October 10, 2024 (hereinafter referred to as **'SCN/Notice'**) was served upon the Noticee in terms of Rule 4 of the Adjudication Rules read with Section 15-I of the SEBI Act to show cause as to why an inquiry should not be held against the Noticee and why penalty, if any, not be imposed on it in terms of the provisions of Section 15HB of the SEBI Act for the violations alleged to have been committed by the Noticee.

6. The SCN dated October 10, 2024, *inter alia*, alleged the following:

"

6.1. Discrepancies in the enhanced supervision reporting made by the Noticee to the Stock Exchanges.

- *It was observed from the IR that the Noticee had reported an amount of Rs. 50 Lakhs as part of collateral whereas that amount was a deposit towards Base Minimum Capital **(BMC)** in NCDEX. It was further observed that the Noticee had reported a Bank Guarantee of Rs. One crore twice in the month of October 2022.*

- *It was observed that the aforesaid findings were communicated to the Noticee by SEBI vide letter dated January 30, 2023. The Noticee vide letter dated February 21, 2023 had, inter alia, stated as under in respect of the aforesaid findings in the IR/PIA:*

  "We would like to submit that there is no mis-utilization of client funds, as explained hereunder:

  Enhanced supervision reporting was done basis the details available in CL01 / obligation files from the Exchanges. However, in May 22 the Exchanges discontinued certain details required for Enhanced supervision reporting from the said file. NSE vide its circular no. 51658 dated 17th March 2023 issued guidelines informing members from where the details forming part of CL01 files can be obtained. However, in the absence of similar guidelines from Commodity

Exchanges, Bank Guarantee of Rs. 1 Crore was erroneously reported in Enhanced supervision reporting by us and in the process we have considered of Rs. 50 Lakhs deposited towards BMC in NCDEX as a part of collateral in the Enhanced Supervision reporting.

Having said the above, you will appreciate that the "G factor" i.e. the aggregate value of the collaterals placed with the clearing corporation, bank balances and our assets, is always higher than the gross / net amount payable to our clients, which affirms that we meet the basic objective of the Enhanced Supervision Circular which is intended to ensure that client's funds / securities are not mis-utilized by the member.

In view of the above, we request you to kindly consider our above submissions, wherein in spirit the objective of the circular was adhered to and hence take a lenient view on the same."

- *In this regard, it was observed from PIA that Annexure 1 of SEBI Circular dated October 01, 2015, inter alia, states as under:*
  "10.Base Minimum Capital (BMC):
  ii. No exposure will be given by the Exchange on this BMC."

- *It was further observed from PIA that the NCDEX Circular dated October 05, 2015, inter alia, states as under:*
  "The SEBI has issued a comprehensive risk management circular with the objective of aligning and streamlining the risk management framework across national commodity derivatives exchanges. A copy of the circular CIR/CDMRD/DRMP/01/2015 dated October 01, 2015 issued by the SEBI is attached as Annexure.
  Members and their respective clients are requested to note the above."

- *In view of the above, it was alleged in the PIA that the submission of the Noticee that, in the absence of guidelines from commodity exchanges, they had made an*

erroneous reporting under enhanced supervision reporting may not be accepted. It was further alleged in the PIA that the Noticee had accepted the violation in its reply.

- *In view of the above, it is alleged that the Noticee has violated the provisions of Clause 3.2 of Annexure to SEBI Circular dated September 26, 2016 and Clause 10(ii) of Annexure I to SEBI Circular dated October 01, 2015 read with NCDEX Circular dated October 05, 2015.*

6.2. ***Discrepancies*** **in the stock reconciliation of HS reported to the Stock Exchanges vis-à-vis actual stock lying in DP accounts**

- *It was observed from IR/PIA that during the course of inspection, weekly HS submitted by the Noticee to the Stock Exchanges were reconciled with actual stock lying in DP accounts as on November 30, 2022. The following discrepancies were observed on reconciliation:*

1. *Stocks (ISIN – 13, Quantity – 11,174, Value – Rs. 0.37 Crores) were reported in the HS submitted by the Noticee to the Stock Exchanges. However, these stocks were not in DP holdings.*
2. *Stocks (ISIN – 122, Quantity – 3,38,388, Value – Rs. 3.09 Crores) were not reported in the HS submitted by the Noticee to the Stock Exchanges. However, these stocks were in DP holdings.*
3. *Investment of the Noticee in Max Life Insurance Company Ltd. (Quantity – 1,91,88,128, Value – Rs. 242.21 Crores) in its proprietary account was not reported in the HS submitted by the Noticee to the Stock Exchanges. However, these stocks were in DP holdings.*

- *It was observed that the aforesaid findings were communicated to the Noticee by SEBI vide letter dated January 30, 2023. The Noticee vide letter dated February 21, 2023 had, inter alia, stated as under in respect of the aforesaid findings in the IR/PIA:*

For the findings mentioned in Para 6.2.1.1. above

"During November – December 2022, after the Depositories have made operational the Block mechanism in Demat accounts, the mismatches arose broadly on account of the following:

1) Shares were coming back to pool account due to UCC mapping issue between Exchange and Depositories - (Mail attached)

2) CDSL COD was not available to the broker - Rectified by CDSL post 27th Nov 2023

3) NSDL Overdue report was incorrect post block mechanism go live, ASL has tested this patch for NSDL and given UAT sign-offs (Mail attached) and

4) Block mechanism failure.

For the above reasons, there were excess shares seen lying in pool account and mis-matches in reconciliations during this period. Necessary post reconciliation is being carried out in coordination with Depositories and hence it has affected the weekly holding data reporting done by us during this period."

For the findings mentioned in Para 6.2.1.2. above

"During November – December 2022, after the Depositories have made operational the Block mechanism in demat accounts, the mismatches arose broadly on account of the following:

1) Shares were coming back to pool account due to UCC mapping issue between Exchange and Depositories - (Mail attached)

2) CDSL COD was not available to the broker - Rectified by CDSL post 27th Nov 2023

3) NSDL Overdue report was incorrect post block mechanism go live, ASL has tested this patch for NSDL and given UAT sign-offs (Mail attached) and

4) Block mechanism failure.

For the above reasons, there were excess shares seen lying in pool account and mis-matches in reconciliations during this period. Necessary post reconciliation is being carried out in coordination with Depositories and hence it has affected the weekly holding data reporting done by us during this period.

The mismatch was to the extent of shares worth Rs 75 Lakhs for settlement nos. 2022213 to 2022219, basis the efforts taken along with the Exchanges and Depositories the same is resolved as on date.

Issues in our holding reporting was also informed to the Exchanges, even before the same was observed by the Exchanges. Please find enclosed herewith as Annexure 1 copy of our email dated 13th December 2022 to the Exchanges. Further, upon receipt of alert from the NSE, we had submitted our explanation to NSE, vide our email dated 5th January 2023 enclosed herewith as Annexure 2.

We therefore request you not to consider the said observation as a violation on part of Axis Securities Limited, it being beyond our control and the fact that DP/Exchange itself has fixed the issues upon we bringing the same to their notice."

For the findings mentioned in Para 6.2.1.3. above

"Axis Securities Limited has invested its own funds in Max Life Insurance Company Limited, as a strategic investment. We were of the opinion that reporting of only the listed securities needs to be done. The shares of Max Life Insurance Company Limited being unlisted were not considered while reporting as normally the Exchanges consider and regulate only with regard to the listed securities.

Also, the non-reporting was not observed by the Exchanges during the regular inspection conducted by them with regard to the reporting made by us. It was therefore considered that the non-reporting by us was not in violation of the guidelines.

The said investment being a strategic investment made by us, is also disclosed in our financial statements and there is no intention on our part to conceal the said information. In fact, pursuant to NSE Circular No. 50957 dated 7th January 2022, we had vide our email dated 3rd March 2022, referred our investment in Max Life to NSE seeking clarity on the investment. Copy of the said email and the reply of the Exchange, is enclosed as Annexure 3 for your reference.

We have now started reporting the said securities in our Holding Reporting. Kindly suggest, if we would continue to report the holdings in unlisted securities or stop the same.

In view of the above, we request you to take a lenient view on the said observation."

- *It was observed from PIA that the Noticee, in its reply against the findings mentioned in aforesaid paras 6.2.1.1. and 6.2.1.2., has submitted that the issue was rectified by National Securities Depository Limited **(NSDL)** and Central Depository Services (India) Limited **(CDSL)** by November 27, 2023. However, discrepancies were still observed by the inspection team during the course of the inspection.*

- *It was further observed from PIA that SEBI, vide email dated June 22, 2023, sought clarification from depositories on the aforementioned reply of the Noticee. Depository vide email dated July 21, 2023 has, inter alia, stated as under:*

  "There has not been any such observation from any of the member w.r.t to securities returning to the pool account due to UCC not being mapped from CDSL end and non-availability of COD (termed as BOD in CDSL) to stockbroker to relate to such instance. We would be able to verify the case only if any such instance with appropriate details is provided by ASL.

  We have not experienced any Block mechanism failure from the date the system was released to process transactions through Block mechanism."

- *In view of the above, it was alleged in the PIA that the reply of the Noticee in this regard cannot be accepted.*

- *With respect to Noticee's reply against the findings mentioned in aforesaid para 6.2.1.3., it was observed from PIA that trading members are required to report all securities lying in the demat account mapped to their PAN numbers irrespective of whether such shares are listed or unlisted. However, in the instant case, the Noticee has not reported the shares of Max Life Insurance Company Ltd. lying in its demat account in the weekly HS submitted by the Noticee to the Stock Exchanges. Therefore, it was alleged in the PIA that the reply of the Noticee in this regard cannot be accepted.*

- *In view of the aforesaid discussions, it is alleged that the Noticee has violated the provisions of Clause 6.1.1(j) of Annexure to SEBI Circular dated September 26,*

2016 read with NSE Circular dated April 21, 2008, and NSE Circular dated March 11, 2015 during the IP.

6.3. <u>Discrepancies in the enhanced supervision reporting made to the Stock Exchanges</u>

- *It was observed from IR that the aggregate value of "collaterals deposited with Exchanges" as reported by the Noticee for October 14, 2022, March 25, 2022, and September 17, 2021 was more than the actual collateral deposited by Rs. 64.72 crores, Rs. 1.26 crores, and Rs. 0.50 crore respectively.*

- *It was observed that the aforesaid findings were communicated to the Noticee by SEBI vide letter dated January 30, 2023. The Noticee vide letter dated February 21, 2023 had, inter alia, stated as under in respect of the aforesaid findings in the IR/PIA:*

  "Enhanced supervision reporting was done basis the details available in CL01 / Obligation files from the Exchanges. However, in May 22 the Exchanges discontinued certain details required for Enhanced supervision reporting from the said file. NSE vide its circular no. 51658 dated 17th March 2023 issued guidelines informing members from where the details forming part of CL01 files can be obtained. However, in absence of similar guidelines from Commodity Exchanges, Enhanced Supervision Reporting was done as per existing process, and the same has led to the difference as observed in Annexure B and Table 1 file enclosed to the observation letter.

  Having said the above, you will appreciate that the "G factor" i.e. aggregate value of the collaterals placed with the clearing corporation, bank balances and our assets, is always higher than the gross / net amount payable to our clients, which affirms that we meet the basic objective of the Enhanced Supervision Circular which is intended to ensure that client's funds / securities are not mis-utilised by the member.

In view of the above, we request you to kindly consider our above submissions; wherein in spirit the objective of the circular was adhered to and hence take a lenient view on the same."

- *In this regard, it was alleged in the PIA that the Noticee has done wrong reporting of "monitoring of client assets" under enhanced supervision reporting.*

- *In view of the above, it is alleged that the Noticee has violated the provisions of Clause 3.2 of Annexure to SEBI Circular dated September 26, 2016 read with SEBI Circular dated June 22, 2017, MCX Circular dated July 25, 2017, MCX Circular dated September 25, 2017, MCX Circular dated October 30, 2017, and MCX Circular dated November 29, 2017.*

6.4. <u>Non settlement of clients' funds and securities on a monthly/quarterly basis and failure to send retention statements to clients along with statements of accounts</u>

- *With respect to the active clients' settlement, the following discrepancies were observed from the IR:*

1. *The Noticee has not settled the accounts of clients having credit balances. Further, the Noticee has also not sent the retention statement along with statement of accounts and register of securities to the said clients.*
2. *The Noticee does not have a system of marking settlement dates in the back office system.*
3. *The Noticee is not in compliance with the circular, which mandates a stockbroker to settle the client in 30/90 days' cycle as per the clients' preference for the sample of 100 clients.*

- *With respect to the inactive clients' settlement, the following discrepancies were observed from the IR:*

1. *The Noticee had not provided the details of the untraceable clients' funds kept in a separate bank account. Therefore, it was alleged that the Noticee has not made enough efforts to reach out to such clients to settle the funds.*
2. *On analysis of cash and cash equivalent and ageing credit balance, it was observed that the Noticee has failed to settle the clients' funds during the IP, as mentioned in the below table:*

Table 2

Period	***No. of clients***	***Amount not settled***
Mar 21 to June 21	*3,605*	*3,33,14,043.90*
Jun 21 to Aug 21	*4,306*	*5,93,89,064.19*
Aug 21 to Sept 21	*5,071*	*6,44,38,366.33*
sept 21 to Oct 21	*5,244*	*8,18,53,070.67*
Oct 21 to Nov 21	*7,401*	*10,77,68,052.22*
Nov 21 to Dec 21	*5,534*	*7,36,04,038.10*
Dec 21 to Jan 22	*3,483*	*6,21,03,949.82*
Jan 22 to Feb 22	*6,403*	*8,77,05,100.96*
Feb 22 to Mar 22	*4,349*	*5,70,68,240.42*
Mar 22 to Apr 22	*3,456*	*5,68,16,944.61*
Apr 22 to May 22	*5,091*	*7,52,53,506.05*
May 22 to June 22	*3,757*	*5,57,97,904.55*
June 22 to July 22	*4,131*	*5,50,22,103.78*
July 22 to Aug 22	*5,266*	*5,40,66,135.53*
Aug 22 to Sept 22	*4,850*	*49,64,49,930.29*
Sept 22 to Oct 22	*3,193*	*51,50,63,745.74*
Oct 22 to Nov 22	*3,251*	*49,69,95,564.40*

- *It was observed that the aforesaid findings were communicated to the Noticee by SEBI vide letter dated January 30, 2023. The Noticee vide letter dated February 21, 2023 had, inter alia, stated as under in respect of the aforesaid findings in the IR/PIA:*

*"**Reply to Active Client observation***

At Axis Securities Limited (ASL) most of the clients (approximately 98%) have availed 3-in-1 account i.e. Trading and Demat account with Axis Securities Limited

and bank account with Axis Bank Limited, and with a Power of Attorney in favor of ASL for Bank account. Such clients are settled on due date basis at net level. The remaining 2% clients are settled basis running account settlement option as opted by the clients i.e. 30 / 90 day cycle and in case any client does not trade for 30 consecutive days, the funds standing to the credit of the client's account with us are settled on 30th day. Accordingly, the dates of settlement for the accounts settled as per running account settlement i.e. other than 3-in-1 account gets captured in the Cash and Cash Equivalent Reporting.

Axis Securities Limited sends statement of accounts on weekly basis to its clients as per the regulatory guidelines. Also, statement of funds and securities are sent to the clients upon settlement of their account on quarterly / monthly basis.

With regard to the cases forming part of Annexure G enclosed to the observation letter, the payout was made by ASL to the client as mentioned in the remarks column. Please find enclosed herewith Annexure 4 with our remarks against each of the cases and ledger of clients to whom the funds are paid as Annexure 5.

In view of the above, we request you to drop the said observation or take a lenient view on the said observation.

Reply to Inactive Client observation

At Axis Securities Limited (ASL), we have always ensured that the dues owed to the clients are settled and paid to the respective clients. As prescribed by SEBI, ASL has, at all times, obtained the required consent from the respective clients for retaining the required amount in their respective accounts which is required towards the margin & settlement obligations and billed charges. The process is streamlined and transparent which is implemented after much consideration and deliberations.

As regards the computation arrived at by SEBI inspection team at Para 4 (Inactive clients) of the Observation Report, we would like to explain the process adopted by ASL in this regard which will clearly show that we are in compliance with the regulatory requirements.

At ASL, most of the clients (~98%) have availed 3-in-1 account services i.e. Trading and Demat account with Axis Securities Limited and bank account with Axis Bank Limited and have given Power Of Attorney (POA) for accessing their

bank account towards settling their funds obligation. Such client's accounts are settled on due date basis at net level.

The remaining clients (~2%) i.e. those who have not given the PoA or have not availed 3-in-1 account services, are settled basis running account settlement option as opted by the clients i.e. 30 / 90 day cycle and in case any client does not trade for 30 consecutive days, the funds standing to the credit of the client's account with us are settled on the 30th day.

On perusal of the list of clients, it is observed that the said list contains the list of clients to whom the payout is not made or could not be made for the below reasons:

1. *Order from Regulatory / Statutory / Judiciary or Enforcement Authority*
2. *The instruction to issue the payout to the clients is rejected by the client's bank. These are mainly Non Resident clients whose payout instruction is not processed by the Bank.*
3. *Client is not traceable and the efforts made to contact the client based on the contact details provided in the KYC have failed. Accordingly, the balance standing to the credit of such accounts is transferred and parked in the specialized bank account opened as per Exchange Circular. As on date the amount in the said specialized account opened by ASL is Rs.46,02,69,229.98. This balance includes the balance standing to the credit of the client/s against which we have received order/s from Regulatory / Statutory / Judiciary or Enforcement Authority.*
4. *Account opened during the quarter and other reasons*

ASL regularly reports the balances of every bank account maintained by it and the balance in the client's account, to the Stock Exchanges under Enhanced Supervision. The reporting is done as per the regulatory guidelines. Also, the ledger balances in the client's account as reported by us are also communicated to the clients by Exchanges.

As against the computation provided by SEBI inspection team for the period Oct-Nov 22, the following table captures the exact figures, which can be verified by SEBI at any point of time.

Details	***No. of Clients***	***Amount (Rs.)***	***% age***

Restriction imposed by Regulator / Statutory / Judicial or Enforcement Authority	*2*	*42,36,90,980*	*85.25*
Payout instruction rejected / Hold by Bank	*2,536*	*6,40,87,714*	*12.90*
Client Not Traceable	*302*	*70,20,218*	*1.41*
Ledger Balance is Zero / in Debit or Settled in Nov 22 / Dec 22	*58*	*10,49,168*	*0.21*
Others	*353*	*11,47,484*	*0.23*
Total	***3,251***	***49,69,95,564***	***100.00***

Note: The above table is with regard cases pertaining to the period Oct-Nov 22 as per the file shared by BSE on 16th February 2023.

Please find enclosed herewith as Annexure 6 a copy of Restriction Imposed by Regulatory / Statutory / Judicial or Enforcement Authority, sample proof of instruction to PIS for payout to NRI clients as Annexure 7 and Ledgers extract of the client with Ledger balance as Zero/ in Debit or settled in Nov 22/ Dec 22 as Annexure 8.

Also, please find enclosed herewith Annexure 9 with our remarks against each case referred as not settled including for the untraceable clients for the period Sep-Oct 22 and Oct-Nov 22 as per the details shared by BSE on 16th February 2023. On perusal of the remarks, it can be observed that the cases are beyond our control. We believe that the facts remains the same across the period of the inspection as most of our clients are 3-in-1 account holders with PoA in favour of ASL. We therefore request you to consider our submission. In case, you require us to provide the case wise details for all the period, considering the large number of clients in each of the period, we request you to allow us further time to submit our remarks against each case observed as not settled. We shall endeavour to submit the same at the earliest.

We would also like to submit that the collateral placed by ASL with the Exchanges / Clearing Corporation is always higher than the gross / net balance standing to

the credit of the account of our clients. Hence, at any point of time, it is ensured that that the amount payable to the client is not being utilized for other clients.

We therefore request you to consider our above submissions and take a lenient view on the same. Also, we request you to advise us if any further details are required on same to close the observation.

- *With respect to the active clients' settlement, the following observations were made in the PIA:*

1. *The clarification of the Noticee for 50 clients out of 100 sample clients having 3-in-1 accounts, i.e., Trading, Demat and Bank accounts with Axis Bank, and who are settled on due date basis at net level (bill-to-bill settlement) may be accepted.*

2. *For the remaining 50 sample clients who do not have a 3-in-1 account with Axis Bank, the following were alleged in the PIA:*

   A. *The Noticee has not settled the 33 instances of 19 credit balance clients.*

   B. *For all 50 sample clients, the Noticee has not marked the settlement date for the IP.*

   C. *The Noticee has not complied with the circular, which mandates a stockbroker to settle the client in 30/90 days cycle as per the clients' preference.*

   D. *The Noticee has not sent the retention statement along with the statement of accounts for these 50 sample clients.*

- *With respect to the inactive clients' settlement, the following observations were made in the PIA:*

1. *The inspection team had sought additional information and clarification from the Noticee. The Noticee vide e-mail dated June 20, 2023, and June 21, 2023, had submitted the same.*
2. *A summary of clients not settled as alleged in the PIA after considering the replies of the Noticee is mentioned in the below table:*

Table 3

Period	***No. of clients not settled***	***Amount not settled***
Mar 21 to June 21	*918*	*16,81,902.28*
Jun 21 to Aug 21	*537*	*11,36,115.90*
Aug 21 to Sept 21	*348*	*12,79,642.40*
sept 21 to Oct 21	*333*	*4,35,745.24*
Oct 21 to Nov 21	*794*	*20,38,447.08*
Nov 21 to Dec 21	*337*	*14,50,529.20*
Dec 21 to Jan 22	*362*	*7,26,237.76*
Jan 22 to Feb 22	*1,298*	*14,41,359.39*
Feb 22 to Mar 22	*429*	*15,64,352.94*
Mar 22 to Apr 22	*1,446*	*71,52,661.55*
Apr 22 to May 22	*1,596*	*39,63,176.74*
May 22 to June 22	*657*	*30,65,693.01*
June 22 to July 22	*130*	*29,09,829.16*
July 22 to Aug 22	*2,835*	*1,58,16,351.87*
Aug 22 to Sept 22	*1,139*	*1,35,22,605.38*
Sept 22 to Oct 22	*581*	*1,22,86,274.46*
Oct 22 to Nov 22	*453*	*86,26,332.72*
Total	***14,193***	***7,90,97,257.08***

- *In view of Paras 6.4.4.2. and 6.4.5.3., it is alleged that the Noticee has violated the provisions of Clause 12(e) of Annexure A of SEBI Circular dated December 03, 2009 read with Clause 8.1.4 of Annexure of SEBI Circular dated September 26, 2016, Clause 5.4. of SEBI Circular dated June 16, 2021, and BSE Circular dated June 16, 2021.*

6.5. <u>Penalties have been passed on to clients for the short collection of margins</u>

- *It was observed from IR that the Noticee has passed on penalties to clients for short collection of upfront / non upfront margin prior to October 11, 2021, which were not refunded to clients.*

- *It was observed that the aforesaid findings were communicated to the Noticee by SEBI vide letter dated January 30, 2023. The Noticee vide letter dated February*

21, 2023 had, inter alia, stated as under in respect of the aforesaid findings in the IR/PIA:

"SEBI, Exchanges and Clearing Corporation have from time to time issued various circulars regarding collection of margins from clients by the Trading Members. As there was confusion about the regulatory interpretation of upfront margin amongst the broking community and as there appeared to be a disconnect between regulatory expectations and actual practice, wherein the upfront margin as prescribed by the Exchanges, are collected before the client orders are transmitted to the Exchanges.

At Axis Securities Limited we ensure that we collect Upfront margin, as prescribed by the Exchange before the order is placed by the client. Same is also reported to the Exchanges / Clearing Corporation. Accordingly, no penalty is passed to the clients with regard to shortfall in upfront margin collected, if any.

SEBI vide its circular dated July 20, 2020 introduced the framework for calculating Peak Margin for the purpose of verification of upfront collection of margin and levy of penalty. Subsequently, penalty was proposed to be charged on higher of the shortfall between Peak Margin amount during the day and EOD margin obligation of the client.

Post implementation of the said circular, there were practical difficulties in collecting the increased margin requirement (higher of Peak or EOD) from clients due to:

1. *Increase in SPAN margin in the last snap shot, which cannot be predicted and collected upfront by the broker from the client and it leading to shortfall in Margin collection.*
2. *Clients have hedged position, but un-hedges the position during the course of trading period or due to expiry of one leg of transaction.*
3. *Stock Price goes up, but price scan range remains static.*
4. *Price Scan Range goes up.*
5. *Peak Margin shortfall resulting out of the reduction in upfront margin due MTM*

All the above scenarios leading to shortage of margin collection are beyond the control of the broker, however, the penalty is levied by the Exchange on the broker and the same is not permitted to be passed on to the clients. This will lead to the Broker incurring loss as it is required to absorb the penalty for no fault of it. Hence, the broking community have represented to the Regulator with a request to

consider the suggestions shared by it and to arrive at a solution to address the issues as well as meet the regulatory expectations.

Further, Axis Securities Limited as on date have stopped passing the penalty to its clients, which is levied by the Exchanges on it for short collection of upfront margin from clients.

In view of the above, we request you to consider the suggestions shared by the broker community and to consider the said observation moderately."

- *In this regard, it was observed from PIA that the Noticee, in its reply, claimed that it had stopped passing on the penalties levied by the Stock Exchanges to its clients. However, in respect of existing cases where the penalties have been passed on to clients, the Noticee was alleged to be non – compliant with the applicable provisions.*

- *In view of the above, it is alleged that the Noticee has violated the provisions of Clause 2.1 of SEBI Circular dated July 31, 2020 read with NSE Circular dated October 12, 2021, and NSE Circular dated September 02, 2022, during the IP.*

6.6. <u>Securities of credit balances clients are transferred to the "client unpaid securities account".</u>

- *It was observed from the IR that the Noticee has transferred the securities of the following credit balance clients to the "client unpaid securities account".*

Table 4

ISIN	*31*
Quantity	*1,50,891*
Value	*Rs. 179.02 Lakhs*

- *It was observed that the aforesaid findings were communicated to the Noticee by SEBI vide letter dated January 30, 2023. The Noticee vide letter dated February 21, 2023 had, inter alia, stated as under in respect of the aforesaid findings in the IR/PIA:*

"With regard to the observation regarding securities held in the Client Unpaid Securities Account, on perusal of the cases shared in Annexure D, we would like to submit below clarifications on the same:

1. The inspection team has considered trade date balance due which it has observed the ledger in credit. However, the Clients ledger are in debit after removal of future credit (unsettled credit). You will appreciate that withholding the payout after the removal of future credit (unsettled credit) is a common practice to mitigate the risk of default.

2. In case of NRI settlement obligation is considered at gross level, but ledger is considered on net balance.

3. In some cases, depository cut off was over and hence, the demat settlement was completed on next working day.

Please find enclosed case wise remarks as Annexure 10.

In view of the above, we request you to close the observation and also guide us on the measures to improve our practice, especially with regard to the payout to NRI enabling tax compliance"

- *In this regard, it was observed from PIA that the inspection team has considered clear ledger balances while doing the workings, and additionally, the benefit of securities transferred on T+1 day to the client demat account has also been given. Therefore, it was alleged in the PIA that the reply of the Noticee in this regard cannot be accepted and that the Noticee were non-compliant with the applicable provisions during the IP.*

- *In view of the above, it is alleged that the Noticee has violated the provisions of Clause 4.2 of the SEBI Circular dated June 20, 2019 read with NSE Circular dated June 20, 2019, NSE Circular dated August 29, 2019, NSE Circular dated September 04, 2019, and NSE Circular dated September 27, 2019 during the IP.*

6.7. <u>Complaints and grievances have not been properly redressed by the Noticee</u>

- *It was observed from IR that during inspection, an analysis of 5,536 complaints was carried out. It was observed that 516 complaints related to 219 clients were such that complaints were reopened by the client for the same matter subsequent to its initial closure by the Noticee. Therefore, it was alleged that the Noticee closed the complaints as resolved without examining the complaints properly when they were initially filed by the investor and was not taking adequate steps for proper redressal of grievances.*

- *It was observed that the aforesaid findings were communicated to the Noticee by SEBI vide letter dated January 30, 2023. The Noticee vide letter dated February 21, 2023 had, inter alia, stated as under in respect of the aforesaid findings in the IR/PIA:*

  "On perusal of cases forming part of Annexure E enclosed to the Observations letter, it is observed that 345 cases out of 516 cases referred in the said annexure are not in repeat nature as the complaint was raised for the first time, or the complaint was for different issue or scenario or different Process Documentation raised at different point in time.

  Further, the remaining 171 cases are mainly for the below reasons:

  1. Cases wherein the clients have revisited informing that they are again facing the technical issue which was resolved earlier. You will appreciate that online services are provided on best effort basis as the same is dependent on multiple factors including those which are beyond the control of service provider, in case of corporate action the portfolio / gain loss statement not factoring the same etc., Client unable to login or facing trading page errors, which again is dependent on various factors not necessarily in our control.

  2. Client not getting the update on different request submitted by them. Hence, when any client request for the updates and we are not able to trace the request of the client, we request the client to update us with the communication details like POD number or fresh documents to rectify the previous rejections etc. Accordingly, when the client shares the details, we again register the complaint. You will appreciate that in case of non-availability of details it is difficult to address the concern of the client.

3. Client requiring clarity on ledger etc.

4. Client not agreeing to the reply shared basis the facts shared by ASL and continues to raise the complaint till he is gets some compensation from the company.

Please find enclosed herewith as Annexure 11 sample complaints, confirming that different issues are raised by the same client at different point in time.

You will appreciate that it would not be a prudent practice to compensate the complainants if they raise the complaint. The complaints received at ASL are addressed on the basis of the facts of the matter.

Every effort is made at ASL, to ensure that the issues raised by the client are addressed promptly and accurately and that the complaints are addressed within the timelines as defined by the regulator.

We have developed a system "Swift" for scanned based scrutiny and processing of documents submitted by the client, which inter-alia also updates the status to clients and branch person by way of SMS/Email. This has helped us in reducing the time in closing the clients request drastically and has reduced the number of complaints from the clients regarding the status of their requests etc.

Also, the complaints received by the Company are reviewed on monthly basis by Senior Management of the Company, which also suggests appropriate steps to ensure the reduction of complaints of similar nature / type (if any).

*The efforts of the company to properly address the complaints of its clients can be ascertained from the fact that out of 5,536 complaints only 171 complaints from 133 clients i.e. 2.40% (133 *100 / 5536) had either faced same issues multiple times or have revisited the issues with us. Also, the efforts of the company in properly addressing the complaints of its clients can be gauged from the number of complaints escalated to the Exchanges and the number of complaints raised before IGRC and those resulted in favor of the company. Also, the number of conversion of complaints to Arbitration is only 1 (One) during the inspection period, which also confirms that the cases are handled basis the facts and also appropriately addressed at ASL.*

In view of the above, we request you to drop the said observation and help us with your suggestions to further improvise and strengthen our customer service / resolution process."

- *In this regard, it was observed from PIA that the Noticee has not provided any supporting documents in respect of their contention that 345 cases out of 516 cases are not repeated complaints. It was further observed from PIA that in respect of rest 171 cases, the Noticee has not provided the details of all 171 cases and only few selected samples were provided. In view of the same, it was alleged in the PIA that the reply of the Noticee in this regard cannot be accepted and the Noticee was non-compliant with the applicable provisions during the IP.*

- *In view of the above, it is alleged that the Noticee has violated the provisions of Regulation 9(e) of the Brokers Regulations.*

6.8. <u>Discrepancies in the count of PEP reported in the "Risk Based Supervision" data vis-à-vis the clients marked as PEP in the UCC.</u>

- *It was observed from IR that the count of PEP clients reported by the Noticee under the "Risk Based Supervision" data was 11. However, it was observed that the total number of clients marked as PEP in the UCC was 237.*

- *It was observed that the aforesaid findings were communicated to the Noticee by SEBI vide letter dated January 30, 2023. The Noticee vide letter dated February 21, 2023 had, inter alia, stated as under in respect of the aforesaid findings in the IR/PIA:*

  "

  The details uploaded in UCC are based on the declaration as given by the client.

  Politically Exposed Persons (PEP) which are defined as individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior Government/judicial/ military officers, senior executives of state-owned corporations, important political party officials, etc.

  Accordingly, we reported the PEP number in RBS to comply with the definition. However, we have revisited the process to report basis the declaration as provided

by the client and have reported 208 clients as PEP in the Risk Based Supervision Reporting for the period ending 30th September 2022.

We request you kindly take a lenient view basis the above explanation considering that we had no intention of reporting wrong and the fact that we have initiated corrective steps."

- *In this regard, it was alleged in the PIA that the Noticee has misreported the data for PEP under "Risk Based Supervision" data which shows a lack of due diligence while reporting the data under "Risk Based Supervision".*

- *In view of the above, it is alleged that the Noticee has violated the provisions of Clause 3.2 of Annexure to SEBI Circular dated September 26, 2016 read with SEBI Circular dated June 22, 2017, MCX Circular dated September 25, 2017, and MCX Circular dated October 30, 2017.*

6.9. <u>Exposure of the Noticee towards the "Margin Trading" funding exceeded the allowable threshold; Shortfall in the margin collected from a client.</u>

- *It was observed from IR that the maximum allowable exposure of the Noticee towards the "Margin Trading" facility exceeded the borrowed funds and 50% of its Net Worth. Additional exposure of Rs. 17.41 Crores was given in six instances. It was further observed that the Noticee has not maintained cash collateral ledgers separately. Therefore, for the period subsequent to March 2022, a benefit of cash collaterals was given as reported by the Noticee under "Cash & Cash Equivalent" submission to the Stock Exchanges. Further, for the period prior to March 2022, the cash collateral ledgers were sought from the Noticee, which were not provided by the Noticee.*

- *It was further observed that the Noticee has not collected adequate margin in the form of cash & cash equivalent, or Group I equity shares with an appropriate haircut in two instances. A margin shortfall of Rs 3.99 crores is observed in two instances.*

- *It was observed that the aforesaid findings were communicated to the Noticee by SEBI vide letter dated January 30, 2023. The Noticee vide letter dated February 21, 2023 had, inter alia, stated as under in respect of the aforesaid findings in the IR/PIA:*

  For observation in para 6.9.1. above
  "

  At ASL, we have robust risk management system which ensures management of not only the transaction risk but also ensures management of regulatory requirement like exposure vis. a vis. the net worth.

  The Risk Management team monitors the reports and ensures that there is no violation of the guidelines from the regulator. Client Cash Margin Reports for the period as required by the Exchange was provided during to the inspection team. Please find enclosed herewith as Annexure 12 an Email sent to the inspection team along with its enclosures.

  Further, on perusal of the dates forming part of Annexure F, it is observed that the Exchange has not considered the Client Cash Margin. Please find enclosed herewith as Annexure 13, the details of Client Cash Margin Available with us for the dates forming part of Annexure F and the supporting for the same.

  On perusal of the same and after considering Client Cash margin, it is evident that ASL has not exceeded the borrowed funds and 50% of our "Net Worth".

  We therefore request you to drop the said observation."

  For observation in para 6.9.2. above

  "During the course of inspection, in response to the query raised by the inspection team, we had shared our remarks with the inspection team for the 2 cases referred in Annexure F1 enclosed to the observations letter received from your good office. Please find enclosed herewith a copy of the email received from the inspection team, our reply and its enclosure for your reference.

  On perusal of the cases, it is observed that for client code 3929, the Exchange had shared their working, wherein it had considered Margin Obligation as on Date 29-Nov-22 as Rs. 20,50,33,011.10. However, Margin Obligation mentioned in the working shared with us vide Annexure F refers to Margin Obligation as Rs.

22,60,55,183.71 resulting in difference of Rs. 2,10,22,172.61. Further, as per the ledger, balance on the Trade date in the client's account is Rs. 56,10,06,917.13 (Debit). However, the Exchange has considered the ledger balance as Rs. 57,75,67,947.68 (Debit). The difference of the ledger balance is Rs. 1,65,61,030.55. Please find enclosed herewith as Annexure 14, re-working basis the above, confirming that there is no shortfall in the client's account.

With regard to client code 3355689, we would like to state that the shortfall in the client's account stands cleared subsequently by the client. Please find enclosed herewith ledger accounts of the clients as Annexure 15, confirming that the client has cleared the shortfall within the next 5 days.

The above is in compliance with the answer to FAQ no. 18 published by NSE on its website (https://www.nseindia.com/trade/members-faqs-margin-trading-facility), wherein in answer to the question "What can be done if the client fails to meet the margin call made by the Member?" it states "The Member may liquidate the securities if the client fails to meet the margin call made by the Member as per the mutually agreed terms& conditions but not exceeding 5 working days from the day of margin call. The Member shall list out the situations/conditions in which the securities may be liquidated and include them in the terms & conditions and "Rights and Obligations Document." Please find enclosed herewith as Annexure 16 a copy of the screen shot of the above FAQ from the website of NSE.

Please find enclosed herewith as Annexure 17 a copy of the email log confirming the email sent to the clients as requiring him to clear the shortfall and a copy of the rights and obligation as prescribed by the Exchanges as Annexure 18 for your reference.

In view of the above, we request you to drop the said observation."

- *With respect to the Noticee's reply against the findings mentioned in aforesaid para 6.9.1., it was observed from PIA that the Noticee has provided an excel sheet named "Cash Margin Report" from the back office vide email dated January 24, 2023, whereas the inspection team has asked for a Cash Collateral Ledger. Hence, it was alleged in the PIA that the information/document provided may not be accepted as a valid document for the computation of additional exposure of the Noticee towards "Margin Trading funding".*

- *With respect to the Noticee's reply against the findings mentioned in the aforesaid para 6.9.2., it was observed from PIA that:*

1. *The inspection team has observed that there was shortfall of Rs. 2.53 Crores in the margin collected by the Noticee from the client code 3929. In this regard, the Noticee had stated that the inspection team had considered the wrong ledger balance. However, it was alleged in the PIA that the balance has been verified again with the ledger, and there was shortfall of Rs. 2.53 Crores in the margin collected by the Noticee from the client code 3929.*

2. *With respect to the shortfall on client code 3355689, the Noticee had stated that it has recovered the debit balance by T+5, which was checked from the ledger, and observed that the debit balance was recovered by T+5 days. Hence, the Noticee's reply in this regard may be accepted.*

3. *Therefore, it was alleged that margin shortfall was there in one instance, i.e., client code 3929.*

- *In view of Paras 6.9.4., 6.9.5.1., and 6.9.5.3., it is alleged that the Noticee has violated the provisions of Clauses 7 and 17 of SEBI Circular dated June 13, 2017 read with NSE Circular dated June 15, 2017, NSE Circular dated June 30, 2017, NSE Circular dated December 31, 2019, NSE Circular dated March 02, 2020, NSE Circular dated July 31, 2020, and NSE Circular dated June 09, 2021."*

7. The SCN dated October 10, 2024, along with annexures was served upon the Noticee in the following manner as mentioned below:

Table 5

Sr. No.	Mode of Delivery of SCN	Addresses/ E-mail IDs[1]	Remarks
1.	Through E-mail	jatin.....@axissecurities.in; asl.....@axissecurities.in; pri.....@axissecurities.in;	Delivered on October 10, 2024. The Noticee vide e-mail dated October 14,

[1] *E-mail ID and address excised for the sake of confidentiality.*

Sr. No.	Mode of Delivery of SCN	Addresses/ E-mail IDs[1]	Remarks
			2024, acknowledged the receipt of the SCN.
2.	Through Hand Delivery	Unit……Mumbai – 400 070 Axis……Mumbai – 400 710	Delivered on October 14, 2024. Hand Delivery acknowledgement card of receipt of SCN is available on record.

8. The Authorized Representatives of the Noticee viz. Finsec Law Advisors (hereinafter referred to as **"ARs"**) of the Noticee, vide e-mail dated October 22, 2024, requested for the inspection of documents. In the interest of natural justice, the request for the inspection of documents was acceded to. The inspection of the documents was scheduled on November 06, 2024 which was duly conducted. Thereafter, in the interest of natural justice, an opportunity of hearing was granted to the Noticee on November 28, 2024, vide hearing notice dated November 11, 2024. The Noticee was also advised to submit its reply, if any, latest by November 26, 2024. The Noticee vide e-mail dated November 16, 2024, *inter alia*, states as under:

"*During the course of the inspection, despite our specific request to be furnished with the same, the following information was not provided to us:*

(1) Email correspondence between SEBI and the National Securities Depository Limited("NSDL") in relation to issues faced during implementation of the block mechanism in demat accounts.

It bears emphasizing that the above information is undeniably relevant to the subject matter of the instant proceedings. It must be further noted that the clarifications obtained from depositories have also been explicitly relied upon in Para 6.2.4 of the SCN and forms the basis of the allegations against the Noticee. However, the correspondence with NSDL has not been provided to us at the time of inspection or

thereafter, on the ground that all documents that are available and relied upon in the present proceedings have been provided to the Noticee.

Consequently, we request SEBI to grant us additional time of four (4) weeks from the date on which the above information is furnished, to enable us to adequately prepare and file a reply to the SCN. We also seek an adjournment of the personal hearing scheduled on November 28, 2024. We reserve our right to seek further information from SEBI with respect to the SCN, if required."

9. In this regard, vide e-mail dated November 26, 2024, the Noticee was, *inter alia*, advised as under:

"It is further noted that the clarification sought from depositories i.e. CDSL and NSDL vide e-mail dated June 22, 2023, and the clarification received from depository i.e. CDSL vide e-mail dated July 21, 2023, were already provided to the Noticee as Annexure 7 to the SCN. The SCN clearly mentions reply received from Depository (in singular). Moreover, copy of these e-mails (enclosed for reference) have also been provided during inspection held on November 06, 2024. From the material available on record, it is noted that clarification was received only from CDSL vide e-mail dated July 21, 2023, and has been relied upon in the present proceedings.

In this regard, you may note that all the documents relevant and relied upon in the SCN dated October 10, 2024, have been provided along with the SCN and also during inspection of documents that was concluded on November 06, 2024. There are no documents available with the AO which are relied upon and not provided to you.

In view of the above and in the interest of natural justice, your request to adjourn the hearing scheduled on November 28, 2024, has been acceded to and the next date of hearing has been fixed on December 05, 2024, at 11:45 A.M. In the interest of natural justice, you are advised to submit your reply on merits, if any, latest by December 03, 2024."

10. The Noticee has submitted its reply vide letter dated December 03, 2024. On the scheduled date of the personal hearing, i.e. December 05, 2024, the Noticee appeared through its ARs, who reiterated the submissions made by the Noticee vide letter dated December 03, 2024. Further, ARs also requested for additional time to file revised reply that was acceded to, and the Noticee was advised to file its revised reply, if any, latest by December 13, 2024. The Noticee has submitted its revised reply vide letter dated December 13, 2024, which are discussed in the subsequent paragraphs under different headings for ease of discussion.

11. It is noted that the SCN, along with the annexures and the Hearing Notice, were duly served on the Noticee. The Noticee was granted sufficient opportunities to make submissions in reply to the SCN and of personal hearing.

D. CONSIDERATION OF ISSUES

12. I have carefully perused the charges levelled against the Noticee in the SCN, its replies, and the material/documents available on record. In the instant matter, the following issues arise for consideration and determination:

I. Whether there were discrepancies in the enhanced supervision reporting made by the Noticee to the Exchanges and thereby violated provisions of securities law?

II. Whether there were discrepancies in the stocks reported by the Noticee to the Stock Exchanges in Holding Statements with the actual stock lying with the DP accounts and thereby violated provisions of securities law?

III. Whether the Noticee has not settled the clients' funds and securities on a monthly/quarterly basis as per the preference obtained from the clients and has also not sent the retention statement along with the statement of accounts to the clients and thereby violated provisions of securities law?

IV. Whether the Noticee has passed on penalties imposed by Stock Exchanges on it for short collection of upfront/non upfront margin to its clients and thereby violated provisions of securities law?

V. Whether the Noticee has transferred securities of clients having credit balance of funds to a "client unpaid securities account" and thereby violated provisions of securities law?

VI. Whether the Noticee has not properly redressed the complaints and grievances of its clients and thereby violated provisions of securities law?

VII. Whether there were discrepancies in the count of PEP reported by the Noticee under the "Risk Based Supervision" data to the Stock Exchanges and the clients marked as PEP in the UCC and thereby violated provisions of securities law?

VIII. Whether exposure of the Noticee towards the "Margin Trading" funding exceeded the allowable threshold and there was shortfall in the margin collected from one client and thereby violated provisions of securities law?

IX. Does the violation, if any, on the part of the Noticee attract a monetary penalty under Section 15HB of the SEBI Act?

X. If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors stipulated in Section 15J of the SEBI Act?

13. Before proceeding further, it is pertinent to refer the relevant provisions of law, allegedly violated by the Noticee. The same are reproduced hereunder:

"Brokers Regulations

Conditions of registration.

9. Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,-

(e) he shall take adequate steps for redressal of grievances, of the investors within one month of the date of receipt of the complaint and inform the Board as and when required by the Board;

SEBI and Exchange Circulars[2]

SEBI Circular dated December 03, 2009, SEBI Circular dated October 01, 2015, SEBI Circular dated September 26, 2016, SEBI Circular dated June 13, 2017, SEBI Circular dated June 22, 2017, SEBI Circular dated June 20, 2019, SEBI Circular dated July 31, 2020, SEBI Circular dated June 16, 2021, NSE Circular dated April 21, 2008, NSE Circular dated March 11, 2015, NSE Circular dated June 15, 2017, NSE Circular dated June 30, 2017, NSE Circular dated June 20, 2019, NSE Circular dated August 29, 2019, NSE Circular dated September 04, 2019, NSE Circular dated September 27, 2019, NSE Circular dated December 31, 2019, NSE Circular dated March 02, 2020, NSE Circular dated July 31, 2020, NSE Circular dated June 09, 2021, NSE Circular dated October 12, 2021, NSE Circular dated September 02, 2022, BSE Circular dated June 16, 2021, MCX Circular dated July 25, 2017, MCX Circular dated September 25, 2017, MCX Circular dated October 30, 2017, MCX Circular dated November 29, 2017, and NCDEX Circular dated October 05, 2015."

[2] *The text of SEBI Circulars and Exchange Circulars are available at the below mentioned link:*
https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=1&ssid=7&smid=0
https://www.nseindia.com/resources/exchange-communication-circulars
https://www.bseindia.com/markets/MarketInfo/NoticesCirculars.aspx?id=0&txtscripcd=&pagecont=&subject=
https://www.mcxindia.com/circulars/all-circulars
https://www.ncdex.com/circulars

14. **Issue I - Whether there were discrepancies in the enhanced supervision reporting made by the Noticee to the Exchanges and thereby violated provisions of securities law?**

14.1. It was alleged in the SCN that the Noticee had reported an amount of Rs. 50 Lakhs as part of collateral whereas that amount was a deposit towards Base Minimum Capital (BMC) in NCDEX. It was further alleged that the Noticee had reported a Bank Guarantee of Rs. 1 crore twice in the month of October 2022.

14.2. Additionally, the SCN alleged that the aggregate value of "collaterals deposited with Exchanges" as reported by the Noticee for October 14, 2022, March 25, 2022, and September 17, 2021 was more than the actual collateral deposited with Exchanges by Rs. 64.72 crores, Rs. 1.26 crores, and Rs. 0.50 crore respectively.

14.3. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

"*(a) That the erroneous reporting of collateral to NCDEX and MCX was purely technical and unintended*

It is submitted that data on aggregate collateral is reported by brokers based on the information available in the margin reports generated by exchanges. In May 2022, the stock exchanges discontinued disclosure of certain details in the aforementioned report. It is submitted that in the absence of any further clarity from the commodity exchanges, i.e., NCDEX and MCX, on the manner in which such details can be obtained, the Noticees faced challenges in submitting accurate and updated information on aggregate collateral deposited to exchanges under Enhanced Supervision Circular. By virtue of the above, it is submitted that the Noticee faced constraints in accurately reporting the aggregate value of collateral deposited with the CC, which led to the inadvertent reporting of the bank guarantee deposited towards BMC in NCDEX as collateral, leading to the double reporting of a bank guarantee in the month of October 2022, and reporting of higher than actual

collateral deposited with MCX. Further, it is to be noted that for the month of October 2022, the average aggregate cash collateral deposited across all CCs amounted to 766.73 crores, out of which only a bank guarantee of Rs. 1 crore was accidentally reported twice. Further, it must be noted that the "G" factor was calculated positive for all sample days as difference between total funds available (sum of aggregate of fund balances available in all client bank accounts ('A') and aggregate value of cash collateral ('B')) and aggregate value of credit balances ('C') was an aggregate of 509 crores.

With respect to the collateral data reported to MCX on October 14, 2022, March 25, 2022, and September 17, 2021, we respectfully submit that the reporting was based on the information captured in the margin files provided by the exchange and our interpretation of the Enhanced Supervision Circular. The discrepancy in reporting was inadvertent and unintentional, with no intent to misreport.

(b) That the Noticee immediately started reporting the rectified data

Upon becoming aware of the discrepancies, the Noticee took prompt action and started reporting the corrected details in relation to the aggregate collateral under the Enhanced Supervision reporting. In light of the above, it is respectfully submitted that no penalty should be levied on the Noticee for a technical/clerical lapse that was beyond its control, and has been rectified upon identification."

14.4. From the aforesaid, it is noted that the Noticee, in its replies, admitted to discrepancies in the enhanced supervision reporting submitted to the Exchanges. It is further noted that the Noticee, in its replies, has vaguely claimed that the discontinuation of certain disclosures in May, 2022 created challenges in submitting accurate information to the Exchanges. However, the Noticee has not provided any specific details which were allegedly discontinued and how this affected its reporting accuracy. Hence, the submission of the Noticee in this regard cannot be accepted.

14.5. The Noticee has also argued that the value of "G" was positive on all sample days. However, the present proceeding is related to incorrect reporting in enhanced supervision data submitted to the Exchanges. Therefore, this submission does not merit any consideration.

14.6. Furthermore, the Noticee claimed that upon discovering the discrepancies, it began reporting corrected details in its enhanced supervision reporting. However, it did not provide any supporting documents to substantiate this claim. Hence, no inference can be made in its favor.

14.7. The Noticee in its replies has, *inter alia*, further stated as under:

"(c) That the Noticee was not granted exposure on the BMC

Further, Para 6.1.6 of the Notice also alleges that the Noticee violated Annexure 1 of SEBI circular dated October 1, 2015, as provided hereunder:

"10. Base Minimum Capital (BMC)

[…]

ii. No exposure will be given by the Exchange on this BMC."

Notably, the above provision states that no exposure will be given to a broker on the BMC. It is submitted that no exposure was given to the Noticee on the amount deposited towards the BMC by the Exchanges. Further, it is submitted that the Notice or the IR also does not record any finding or material in support of such exposure being granted to the Noticee. In light of the above, it is submitted that the above clause is not applicable in the instant case."

14.8. From the material on record, it is noted that the IR/PIA does not contain findings on whether the Noticee was granted exposure based on the amount deposited towards BMC. Therefore, the Noticee is given the benefit of the doubt, and the

charge of violating Clause 10(ii) of Annexure I to the SEBI Circular dated October 1, 2015 read with NCDEX Circular dated October 05, 2015, is not established.

14.9. However, in view of the aforesaid discussions, it is established that the Noticee had reported an amount of Rs. 50 Lakhs as part of collateral whereas that amount was a deposit towards Base Minimum Capital (BMC) in NCDEX and reported a Bank Guarantee of Rs. 1 crore twice in the month of October 2022. The same has been admitted by the Noticee. Therefore, it is established that the Noticee had violated the provisions of Clause 3.2 of Annexure to SEBI Circular dated September 26, 2016.

14.10. It is further established that the aggregate value of "collaterals deposited with Exchanges" as reported by the Noticee for October 14, 2022, March 25, 2022, and September 17, 2021 was more than the actual collateral deposited by Rs. 64.72 crores, Rs. 1.26 crores, and Rs. 0.50 crore respectively. Therefore, it is established that the Noticee had violated the provisions of Clause 3.2 of Annexure to SEBI Circular dated September 26, 2016, SEBI Circular dated June 22, 2017, MCX Circular dated July 25, 2017, MCX Circular dated September 25, 2017, MCX Circular dated October 30, 2017, and MCX Circular dated November 29, 2017.

15. **Issue II - Whether there were discrepancies in the stocks reported by the Noticee to the Stock Exchanges in Holding Statements with the actual stock lying with the DP accounts and thereby violated provisions of securities law?**

15.1. It was alleged in the SCN that following discrepancies were observed on reconciliation of weekly HS submitted by the Noticee to the Stock Exchanges with actual stock lying in DP accounts as on November 30, 2022.

15.1.1. Stocks (ISIN – 13, Quantity – 11,174, Value – Rs. 0.37 Crores) were reported in the HS submitted by the Noticee to the Stock Exchanges. However, these stocks were not in DP holdings.

15.1.2. Stocks (ISIN – 122, Quantity – 3,38,388, Value – Rs. 3.09 Crores) were not reported in the HS submitted by the Noticee to the Stock Exchanges. However, these stocks were in DP holdings.

15.1.3. Investment of the Noticee in Max Life Insurance Company Ltd. (Quantity – 1,91,88,128, Value – Rs. 242.21 Crores) in its proprietary account was not reported in the HS submitted by the Noticee to the Stock Exchanges. However, these stocks were in DP holdings.

15.2. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

"(a) The discrepancies in weekly HS reporting cannot be attributed to the Noticee

In this regard, it is submitted that the discrepancies stated in (a) and (b) above occurred on account of setbacks faced during implementation of the mandatory block mechanism introduced by SEBI in August 2022. To contextualise, it is submitted that SEBI, vide circular dated August 18, 2022, made the block mechanism facility compulsory for all pay-in sale transactions from November 14, 2022. Under the block mechanism, the securities were to be directly deposited from investors' demat accounts to the CC, instead of the Noticee's pool account, which constituted a significant change in securities settlement mechanisms followed in the past. Further, as per Clause 5 of the aforesaid circular, depositories and CCs were required to put appropriate systems in place to ensure compliance with the same.

Pursuant thereto, both depositories, i.e., National Securities Depository Ltd. ("NSDL") and Central Depositories Services India Limited ("CDSL") carried out changes in their systems to operationalise the block mechanism. The relevant extract of NSDL circular dated November 8, 2022, is reproduced below for reference:

"Participants are hereby informed that the requisite system changes in respect of the aforesaid guidelines will be implemented in NSDL DPM, SPEED-e and SPICE system at EOD of November 11, 2022 as per SEBI's guidelines."

It is submitted that the Noticee encountered significant hurdles in implementing the block mechanism in November – December 2022, due to technical issues within the depositories' systems., viz: (i) incorrect or incomplete client Unique Client Code ("UCC") data in the NSDL master file; (ii) incorrect information in ISIN summary; (iii) inaccuracies in 'Overdue Delivery Out' report provided by NSDL; (iv) unavailability of CSDL COD report. The above issues were promptly brought to the concerned depository's attention to ensure immediate resolution. Copies of the email correspondence with the NSDL and CDSL is annexed herewith as Annexure 3. However, despite raising the above issues with the depositories, certain issues were only resolved after repeated follow-ups by the Noticee.

As a result of the technical snags in the depository systems, the Noticees, on multiple occasions, faced issues in executing client trades. It is submitted that the UCC data provided by the Noticee to the depositories was not reconciled in its internal systems. The same led to mis-matches and, for reasons fully beyond the Noticee's control, the transactions could not be executed and the shares reverted back to the client pool account of the Noticee. It is submitted that the same resulted in temporary inconsistencies between the DP holdings and the client holding reported in weekly HS.

It is submitted that the standard of compliance expected of the Noticee is of a reasonable and prudent person, who seeks to satisfy a legal requirement or obligation. It is submitted that such obligation cannot be seen as absolute, more so when compliance is contingent on implementation of the required systems by another institution and reporting errors are caused by circumstances entirely out of the Noticee's control. In the instant case, the Noticee's ability to accurately report weekly HS data was directly correlated to the smooth functioning of the block mechanism and any errors thereunder caused by the mismatches in UCC data in the depository systems, cannot be unfairly attributed to the Noticee.

Further, it must be noted that failure of DP instruction for transfer of shares and subsequent rectification in the back-office is recognised as a 'procedural' error in Annexure A to NSE's circular dated June 18, 2021.2 The same lends force to our

submission that the error is weekly HS reporting is purely of a technical and procedural nature, brought on by circumstances beyond the Noticee's control, and thus, does not warrant any penalty to be imposed upon the Noticee.

In this regard, reliance is placed on SEBI's findings in the matter of Elite Wealth Limited, wherein SEBI, while examining an allegation of erroneous tagging of demat accounts, which occurred due to unavailability of certain functionalities on NSE's portal, observed:

"15.e. I note from the screenshots of the accounts tagging that non-tagging of account numbers 10369816 and 0012918 are due to the reason that as the new system of Client Securities Margin pledge account was being implemented, it was not present on the NSE portal at the time of opening of account. Further, as submitted by the Noticee and observed from the screenshots of these two accounts, it was corrected afterwards. I find these two instances as minor deviations during the course of business, which were later rectified. Further, they had occurred due to the circumstances out of Noticee's control. Hence, the allegation of non-tagging of these two accounts cannot be established."

In view of the above, it is submitted that the Noticee cannot be held liable for the discrepancies observed in the weekly HS data reported to the exchanges during November – December 2022. As stated above, it is submitted that the Noticee took all conceivable steps, including escalation of the issue with the depositories, constant follow-ups and prompt intimation of the issue to the Exchanges, to resolve the issue.

(c) The Noticee promptly informed the exchanges/depositories and took corrective action

36. It is submitted that the Noticee, upon detecting the errors in the weekly HS, took prompt action and intimated the issue to the Exchanges in relation to HS' submitted from November

14, 2022 to December 3, 2022, vide emails dated December 13, 2022. Copies of the emails dated December 13, 2022 are enclosed as Annexure 5. Further, it is submitted that the Noticee also clarified the mismatch issues to NSE, along with

the details of the funds involved and settlement no(s), vide email dated January 05, 2023. A copy of the email dated January 05, 2023 is enclosed herewith as Annexure 6.

37. It is further submitted to prevent re-occurrence of such issues, the Noticee has instituted additional checks, such as set up of an Regulatory Assurance Team who carries out independent re-conciliation of holdings between its back-office records and depository records. Further, verification of data by an independent, external audit firm, before reporting of weekly HS to the exchanges. In this regard, it is submitted that the Noticee has engaged Shah Kapadia & Associates to verify all holding statements reporting as an added measure. In this regard, a copy of the engagement letter dated July 27, 2024 is annexed herewith as Annexure 7. Given the above, it is our humble submission that the circumstances do not justify imposition of any penalty upon the Noticee."

15.3. In this regard, it is noted that the Noticee has not disputed the findings of the inspection aforementioned in para 15.1. For the violations mentioned in paras 15.1.1. and 15.1.2., the Noticee, in its replies has, *inter alia*, submitted that discrepancies occurred due to technical issues within the depositories systems following the implementation of the block mechanism in demat accounts during November-December 2022.

15.4. In this regard, from the material available on record, it is noted that concerned department of SEBI had sought clarifications from depositories (NSDL/CDSL) concerning the claims of the Noticee. However, CDSL vide its e-mail dated July 21, 2023, denied any systemic failures, including UCC mapping issues or block mechanism failures. CDSL in its e-mail confirmed that no such instances were observed across other members. CDSL has further stated that they had tried to contact the officials of the Noticee seeking clarification on the issue. However, they have not received any response from the Noticee. It is noted that the copy of CDSL's e-mail dated July 21, 2023, was provided to the Noticee along with the

SCN and the Noticee in its replies has not disputed the reply of the CDSL made vide e-mail dated July 21, 2023.

15.5. The responsibility to report accurate data lies with the Noticee. The Noticee has failed to demonstrate the steps taken by it to ensure immediate resolution of the issues if the depositories have not immediately resolved the issues as claimed by the Noticee.

15.6. In view of the aforesaid discussion, the submission of the Noticee in this regard cannot be accepted.

15.7. The Noticee in its replies further submitted that in order to prevent re-occurrence of such issues, it had engaged Shah Kapadia & Associates, external audit firm for verification of data before reporting of weekly HS to the exchanges. The Noticee has submitted a copy of engagement letter of the audit firm. This indicates a corrective action taken by the Noticee.

15.8. The Noticee in its replies has, *inter alia*, further stated:

*"**b) That SEBI failed to gather relevant facts from NSDL***

32. As stated above, it is submitted that the Noticee escalated the issues faced with both depositories in the interest of timely resolution (see Annexure 3) and also diligently followed- up and discussed such issues with depository officials. In terms of the correspondence with NSDL, it is clear that the Noticee faced several technical issues while implementing the block mechanism (such as UCC mismatches). It must be noted that roughly 98 % of the Noticee's trades were settled through NSDL. However, it is submitted that SEBI failed to obtain and consider NSDL's response in respect of the existence of such technical difficulties, while arriving at its findings.

33. It must be noted that despite a specific request by the Noticee, in its letter to SEBI dated November 16, 2024 (Annexure 4), the email correspondence with

NSDL with regards to the above, has not been furnished to the Noticee, on the ground that a clarification was received only from CDSL. It is submitted that NSDL's response on this issue is undeniably relevant to the instant matter, given that a majority of client trades are settled through NSDL and the issues specifically highlighted were the primary cause of the discrepancies in weekly HS reporting observed by SEBI. Therefore, it is both logical and reasonable to expect SEBI to obtain and consider NSDL's response in evaluating the Noticee's claims.

34. Considering the above, it is submitted that the failure to obtain and assess NSDL's clarification on this issue constitutes an incomplete ascertainment and analysis of relevant facts. At the cost of repetition, it is reiterated that NSDL's clarification on the issue was of utmost relevance while examining the Noticee's response. However, as seen in Para 6.2.5 of the Notice, SEBI concluded that the reply of the Noticee cannot be accepted based on the CDSL's clarification on the issue, without obtaining such clarification from NSDL. Seeing how the Noticee majorly settled its trades through NSDL, it is submitted that in the absence of such clarification, no negative inferences should have been drawn against the Noticee and its explanations have been rejected without sufficient cause, to the Noticee's prejudice. It is submitted that SEBI is dutybound to act judicially while ascertaining facts and ensure that all the relevant facts are taken into consideration before exercising its quasi-judicial powers.

35. Given the incomplete ascertainment of facts, it is submitted that the charges framed against the Noticee cannot be sustained and the material available is not sufficient to justify imposition of any penalty on the Noticee."

15.9. In this regard, from the material available on record, it was noted that the clarification was sought by SEBI from both the depositories i.e. CDSL and NSDL vide e-mail dated June 22, 2023. However, the clarification was received only from CDSL vide e-mail dated July 21, 2023, and has been relied upon in the present proceedings. It is further noted that all the documents relevant and relied upon in

the present proceedings have been provided along with the SCN and also during inspection of documents that was concluded on November 06, 2024. The Noticee in its replies also submitted that 98% of the Noticee's trades were settled through NSDL. However, the Noticee has failed to provide any evidence in support of its claims. Hence, the submission of the Noticee in this regard does not merit any consideration.

15.10. For the violations mentioned in paras 15.1.3., the Noticee in its replies has, *inter alia*, stated as under:

"39. In this regard, it is submitted that under the exchange framework, the Noticee was obligated to report its own securities/proprietary balances as a part of weekly HS reporting. It is submitted that the obligation to report own securities should be read in a purposive manner, to give effect to the intent of the law. Since unlisted securities are not considered while calculating net worth and cannot be placed as margin / collateral, it is submitted that including unlisted securities in the weekly HS does not serve any purpose. Thus, it is submitted that the above obligation cannot be read to extend to unlisted investments held by the broker. Further, the above interpretation is also supported by the jurisdictional limits of the exchanges, as frontline regulators, which only extends to listed or proposed to be listed securities. Therefore, we humbly submit that the Noticee was under no obligation to disclose its MLICL investment in weekly HS reporting and the above violation is untenable.

40. Further, it is pertinent to note that the Noticee's investment in MLICL was a matter of public knowledge and was also duly disclosed in the notes to its financial statements in FY 2021-22 and onwards. Further, it is submitted that the Noticee has held shares in MLICL since March 26, 2021. However, in routine inspections held in the past, the Exchanges have not flagged the non-reporting of the Noticee's investment in MLICL as non-compliance. Thus, it is submitted that the Noticee has always acted in a bona fide manner and the Noticee cannot be penalised for non-

fulfilment of an obligation, which did not apply to unlisted investments in the first place. In view of the above, it is submitted that the Noticee cannot be held liable for the discrepancies observed in the weekly HS submitted by the Noticee as on November 30, 2022 and has not violated Clause 6.1.1 (j) of Annexure to the Enhanced Supervision Circular, read with NSE Circular dated April 21, 2008, and NSE Circular dated March 11, 2015

Corrective action by the Noticee:

41. Further, without prejudice to the aforementioned submission, on being informed by NSE during the joint inspection, it is submitted that the Noticee immediately started including the MLICL investment in its weekly HS reporting and has continued to do ever since."

15.11. In this regard, it is noted that the Noticee has not disputed the findings of the inspection aforementioned in para 15.1.3. For the violations mentioned in para 15.3., the Noticee in its replies has, *inter alia*, admitted that under the exchange framework, the Noticee was obligated to report its own securities/proprietary balances as a part of weekly HS reporting. However, the Noticee has contended that as per its interpretation only the listed or proposed to be listed securities are required to be reported and therefore, they have not reported the investment in Max Life Insurance Company Ltd. which is an unlisted security.

15.12. In this regard, it is noted that the trading members are expected to report all securities lying in the demat account mapped to their PAN numbers irrespective of whether such shares are listed or unlisted. There is no explicit carve out for the non reporting of unlisted securities. Regulatory guidelines mandate full compliance, and ambiguity does not excuse non-compliance. The onus is on the Noticee to seek timely clarification. Hence, the submission of the Noticee in this regard cannot be accepted.

15.13. The Noticee, in its replies, further submitted that the Noticee's investment in Max Life Insurance Company Ltd. was duly disclosed in the notes to its financial

statements in FY 2021-22 and onwards. In this regard, it is pertinent to note that reporting obligations for weekly holdings to stock exchanges are separate from financial disclosures. Both the reportings serve different purpose. Hence, the disclosure in financial statement does not absolve the Noticee from ensuring compliance with the obligation of accurate reporting in the weekly HS submitted to the Stock Exchanges. Hence, the submission of the Noticee in this regard cannot be accepted.

15.14. The Noticee in its replies further submitted that, "*it had held the shares of Max Life Insurance Company Ltd. since March 26, 2021. However, in routine inspections held in the past, the exchanges have not flagged the non-reporting of its investment in Max Life Insurance Company Ltd. as non-compliance*." In this regard, it is noted that the Noticee has not adduced any supporting documents to support its claim. Moreover, findings of the past inspections of the Noticee is not an issue before me for consideration in the present proceedings. Hence, this submission of the Noticee does not merit any consideration.

15.15. The Noticee in its replies further submitted that it had taken the corrective action and immediately started including the investment in Max Life Insurance Company Ltd. in its weekly HS reporting. The Noticee has provided a copy of weekly HS submitted on February 13, 2023. However, it is fact that the investment in Max Life Insurance Company Ltd. was not reported in the weekly HS reporting submitted on November 30, 2022.

15.16. The Noticee in its replies has, *inter alia*, further stated as under:

"Moreover, it is also worth noting that the Noticee has been penalised by NSE to the tune of Rs. 1 lakh, vide letter dated March 21, 2023, bearing ref no- NSE/INSP-ENF/CMFOCDS/OFFSITE/22-23/ACT-2023-24451/14816, for the discrepancies in weekly HS reporting for week end November 5, 2022, November 12, 2022 and November 19, 2022. It must be noted that the Noticee has been penalized by the NSE for incorrect reporting of weekly HS for the same time period as alleged by

SEBI, i.e., November 2022, Considering the same, it is humbly submitted that imposition of any penalty upon the Noticee on the same cause of action would be severely prejudicial and unjustified.

In this regard, reliance is placed on SEBI's findings in the matter of R.K. Stockholding Pvt. Ltd. & Ans., wherein SEBI, while examining an allegation of mis-utilization of client's securities which occurred due to operational issues, observed:

"I also note that Noticee in its reply has contended that NSE has already penalized it for the same violations for the same period. Therefore, by virtue of principle of double jeopardy, it is not justifiable and equitable to penalize the Noticee harshly for the same set of violations.

[……]

I have considered imposition of such monetary penalties by NSE for same lapses and same/overlapping inspection period as that of the instant inspection by SEBI, as mitigating factor in the present case."

44. Similarly, in the matter of Monarch Networth Capital Ltd., SEBI, while examining an allegation in relation to execution of trades on behalf of a debarred person, for which BSE and NSE had already penalised the noticee, observed:

"However, the fact that penalty has already been imposed by one authority may be taken as mitigating factor for arriving at the quantum of penalty by other authority"

15.17. From the aforesaid, it is noted that the Noticee in its replies submitted that NSE has already penalized it for the discrepancy in weekly HS reporting for week end November 05, 2022, November 12, 2022, and November 19, 2022. The Noticee has submitted a copy of NSE letter dated March 21, 2023, in this regard. The submission of the Noticee regarding imposition of penalty by NSE will be considered while deciding on the quantum of penalty.

15.18. The Noticee in its replies has, *inter alia*, further stated as under:

"Further, it is submitted that NSE circular dated April 21, 2008, titled 'Collateral deposited by clients with members' only deals with brokers' obligations to inter alia ensure periodic reconciliation of actual client collateral deposited vis-à-vis the brokers' internal records, maintain proper records of client collateral, issue collateral utilization statements and prevent misuse. It is submitted that the aforementioned circular bears no relevance to the obligation to maintain records on client holdings and reconcile such records with actual demat holdings of the client, and does not refer to reporting of such holdings to exchanges. Therefore, it is submitted that the NSE circular dated April 21, 2008 has been incorrectly quoted, to allege violation on the Noticee's part, without any basis and without establishing its relevance in relation to discrepancies in the stock reconciliation of weekly HS with actual stock in the DP accounts."

15.19. In this regard, from the material on record, I note that the allegation against the Noticee in the present case pertains to the discrepancies in the stock reconciliation between the HS submitted by the Noticee to the Stock Exchanges and the actual stock lying with the DP accounts. However, NSE circular dated April 21, 2008, deals with brokers' obligations to, *inter alia*, ensure periodic reconciliation of actual client collateral deposited vis-à-vis the brokers' internal records, maintain proper records of client collateral, issue collateral utilization statements and prevent misuse of collateral deposited by clients. Hence, the charge of violation of provisions of the NSE Circular dated April 21, 2008, does not stand established, as regards the present allegation.

15.20. In view of the aforesaid discussions, it is established that there were discrepancies in the stock reconciliation between the HS submitted by the Noticee to the Stock Exchanges and the actual stock lying with the DP accounts. Accordingly, it is established that the Noticee had violated the provisions of Clause 6.1.1(j) of Annexure to SEBI Circular dated September 26, 2016 read with NSE Circular

dated March 11, 2015. However, the charge of violation of provisions of the NSE Circular dated April 21, 2008, does not stand established.

16. <u>Issue III - Whether the Noticee has not settled the clients' funds and securities on a monthly/quarterly basis as per the preference obtained from the clients and has also not sent the retention statement along with the statement of accounts to the clients and thereby violated provisions of securities law?</u>

16.1. With respect to the active clients' settlement for the sample 50 clients who do not have a 3-in-1 account with Axis Bank, the followings were alleged in the SCN: -

16.1.1. The Noticee has not settled the 33 instances of 19 credit balance clients.

16.1.2. The Noticee does not have a system of marking settlement dates in the back office system.

16.1.3. The Noticee has not complied with the circular, which mandates a stockbroker to settle the client in 30/90 days cycle as per the clients' preference.

16.1.4. The Noticee has not sent the retention statement along with the statement of accounts for these 50 sample clients.

16.2. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

"It is submitted that the running accounts of the aforementioned clients were settled on a quarterly basis, upon adjustment of the clients' T+1 obligations, in satisfaction of the Noticee's pay-out obligations. All 33 instances were settled on the last day of the quarter, with funds being credited to the clients' linked bank accounts, resulting in a zero-ledger balance. To demonstrate the same, a copy of the bulk ledger indicating the pay-outs made to the specified clients is annexed herewith as Annexure 10. The Noticee's remarks which indicate the date of settlement corresponding to all 33 instances specified in Annexure 11 to the Notice are enclosed herewith as Annexure 11. In light of the above, it is submitted that the above allegation is without any basis and ought to be dismissed.

It is further submitted that the Noticee has consistently settled the running accounts of its clients as per the 30 / 90 day cycle, in line with the client's preference. It is submitted that, at no point, has the Noticee retained any funds without the clients' consent and for any purposes other than those required under the regulatory framework. It is submitted that the accounts of the 50 sample clients were duly settled within the stipulated timeline and the clients were kept regularly updated of the status of their holdings through statement of accounts. A copy of the statement of account sent to a sample client (UCC 2575377) is annexed herewith as Annexure 12."

16.3. The Noticee, in its replies, submitted that all the 33 instances as alleged in the SCN were settled on last day of the quarter. The Noticee further submitted that they had settled the running accounts of its clients as per the 30/90-day cycle, in line with the client's preference. The Noticee has submitted the copy of ledgers and the date of settlement for each 33 instances. In this regard, it is noted that the ledgers and settlement dates are provided in excel sheets. The Noticee has not provided any cogent evidence in support of the ledger entries and settlement dates as submitted by the Noticee. Moreover, the Noticee has not provided any cogent evidence to substantiate that they are marking settlement dates in the back office system. Hence, it is difficult to accept the submission of the Noticee in this regard.

16.4. The Noticee in its replies further submitted that all the 50 sample clients were kept regularly updated of the status of their holdings through statement of accounts. The Noticee has submitted the copy of statement of accounts for the period September 20, 2021 to September 25, 2021, and September 27, 2021 to October 02, 2021, of one client. In this regard, it is noted that the Noticee has not submitted any evidence to substantiate that retention statement along with the statement of accounts were sent to those 50 sample clients. Hence, the submission of the Noticee in this regard cannot be accepted.

16.5. From the aforesaid discussions, it is established that the Noticee had failed to settle 33 instances of 19 credit balance clients, mark settlement dates in its back-office system and send retention statements along with the Statement of Accounts to the 50 clients.

16.6. It was further alleged in the SCN that the Noticee has failed to settle inactive clients as mentioned in the below table:

Table 6

Period	No. of clients not settled	Amount not settled (in Rs.)
Mar 21 to June 21	918	16,81,902.28
Jun 21 to Aug 21	537	11,36,115.90
Aug 21 to Sept 21	348	12,79,642.40
sept 21 to Oct 21	333	4,35,745.24
Oct 21 to Nov 21	794	20,38,447.08
Nov 21 to Dec 21	337	14,50,529.20
Dec 21 to Jan 22	362	7,26,237.76
Jan 22 to Feb 22	1,298	14,41,359.39
Feb 22 to Mar 22	429	15,64,352.94
Mar 22 to Apr 22	1,446	71,52,661.55
Apr 22 to May 22	1,596	39,63,176.74
May 22 to June 22	657	30,65,693.01
June 22 to July 22	130	29,09,829.16
July 22 to Aug 22	2,835	1,58,16,351.87
Aug 22 to Sept 22	1,139	1,35,22,605.38
Sept 22 to Oct 22	581	1,22,86,274.46
Oct 22 to Nov 22	453	86,26,332.72
Total	**14,193**	**7,90,97,257.08**

16.7. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

"In its Reply to the IR, the Noticee clarified the reasons for its inability to settle inactive client accounts for the quarters September – October 2022 and October – November 2022, which totalled to 3193 and 3251 clients respectively (see Annexure 9 to the Reply to the IR). It is submitted that such reasons included inter

alia restrictions imposed by regulatory or statutory authorities, rejection of payout instructions by bank, hold placed on accounts by the bank, non-traceable clients, zero / debit balance clients, etc.

In terms of Table 2 at Para 6.4.5.3 of the Notice, it is stated that the accounts of 14,193 inactive clients had not been settled by the Noticee from March 2021 to November 2022. Further, as on November 2022, as per SEBI's observations, settlement was pending for 453 clients. In this regard, it is submitted that relevant material in support of reasons for non- settlement was provided to SEBI (see Annexures 6, 7 and 8 of the Reply to the IR) by the Noticee. Thereafter, in June 2023, the Noticee furnished additional information requested by SEBI vide email dated June 20, 2023, in relation to settlement of accounts in October – November 2022. It must be noted that at this stage, the Noticee also informed SEBI of the challenges faced in extracting and collating supporting documents for the remaining client codes identified by SEBI across the remaining periods, which exceeded 3000 client codes per period. The Noticee also requested SEBI to provide a sampling criteria whereby the supporting documentation could be provided for sample clients across all periods. However, it is submitted that no such sampling criteria was provided by SEBI. Copies of the aforesaid email correspondence is annexed herewith as Annexure 13.

Further, after taking the Noticee's clarifications into consideration, the Notice states that the accounts of 453 inactive clients were pending settlement as on November 2022. In this regard, it is submitted as for the 345 untraceable clients, the Noticee has taken all necessary steps to locate such clients or procure the updated bank account details for processing pay- outs. However, it is submitted that the Noticee's efforts to trace such clients were unsuccessful and thus, the Noticee did not possess adequate information to process client pay-outs. It must be further noted that ordinary prudence requires the Noticee to conduct due diligence to ensure that funds are not settled in accounts not operated by untraceable clients. Thus, it

is submitted that the Noticee cannot be held liable for its inability to settle the accounts of untraceable clients for extraneous reasons. Further, pending settlement, the funds of such clients were parked in separate bank accounts designated for such purpose by the Noticee, in accordance with the NSE circular dated February 10, 2020, bearing ref. no. NSE/INSP/43488, and its Policy regarding treatment of Inactive / Dormant Client Accounts.

Corrective action by the Noticee

It is submitted that, without prejudice to the aforesaid submissions, the Noticee has reviewed and strengthened its internal mechanisms in relation to tracing of inactive clients. It is submitted that as on date, the Noticee currently processes pay-outs to all inactive clients on monthly/quarterly basis through the cheque mode, if online pay-outs fail or are rejected. It may be noted that as of November 30, 2024, pay-outs were yet to be processed for only 72 credit balance clients in retail category due to the clients being untraceable and non- availability of updated information. The details of the aforementioned clients, along with their status, is attached as Annexure 14A. Further, it is submitted that the Noticee also engaged an independent, external audit firm, Shah Kapadia & Associates to review and verify the process of settlement of client funds (see Annexure 7). The details of accounts settled in the last three quarters is enclosed herewith as Annexure 14B. It is submitted that the Noticee has successfully conducted quarterly fund settlements in the first week Friday for month of October 2024 to all applicable clients, totalling approximately 13,000 clients, with a fund settlement amount of Rs. 294 crores."

16.8. The Noticee in its replies submitted that they had clarified the reasons for its inability to settle inactive client accounts for the quarters September – October 2022 and October – November 2022, to the SEBI inspection team. The Noticee further submitted that they had informed SEBI Inspection team about the challenges faced in extracting and collating supporting documents for the

remaining client codes identified by SEBI across the remaining periods, which exceeded 3000 client codes per period. The Noticee further submitted that they had also requested SEBI to provide a sampling criteria whereby the supporting documentation could be provided for sample clients across all periods.

16.9. In this regard, from the material on record, it is noted that the No. of clients and amount not settled as alleged in the IR and as alleged in the PIA after considering the submissions of the Noticee made to SEBI inspection team against the findings of the inspection are as under:

Table 7

Period	No. of Clients and amount not settled as alleged in IR		No. of Clients and amount not settled as alleged in PIA and SCN	
	No. of clients	Amount not settled	No. of clients	Amount not settled
Mar 21 to June 21	3,605	3,33,14,043.90	918	16,81,902.28
Jun 21 to Aug 21	4,306	5,93,89,064.19	537	11,36,115.90
Aug 21 to Sept 21	5,071	6,44,38,366.33	348	12,79,642.40
sept 21 to Oct 21	5,244	8,18,53,070.67	333	4,35,745.24
Oct 21 to Nov 21	7,401	10,77,66,872.22	794	20,38,447.08
Nov 21 to Dec 21	5,534	7,36,04,038.10	337	14,50,529.20
Dec 21 to Jan 22	3,483	6,21,03,949.82	362	7,26,237.76
Jan 22 to Feb 22	6,403	8,77,05,100.96	1,298	14,41,359.39
Feb 22 to Mar 22	4,349	5,70,68,240.42	429	15,64,352.94
Mar 22 to Apr 22	3,456	5,68,16,944.61	1,446	71,52,661.55
Apr 22 to May 22	5,091	7,52,53,506.05	1,596	39,63,176.74
May 22 to June 22	3,757	5,57,97,904.55	657	30,65,693.01
June 22 to July 22	4,131	5,50,22,103.78	130	29,09,829.16
July 22 to Aug 22	5,266	5,40,66,135.53	2,835	1,58,16,351.87
Aug 22 to Sept 22	4,850	49,64,49,930.29	1,139	1,35,22,605.38
Sept 22 to Oct 22	3,193	51,50,63,745.74	581	1,22,86,274.46
Oct 22 to Nov 22	3,251	49,61,95,548.45	453	86,26,332.72

16.10. From the aforesaid table, it is noted that the submissions of the Noticee made against the findings of the inspection were considered by the SEBI inspection team and the allegation made in the PIA/SCN were the instances wherein the submissions of the Noticee were not accepted. Moreover, reasons for the instances wherein remarks of the Noticee were not accepted has also been provided as an annexure to the SCN. Hence, the submission of the Noticee that they had clarified the reasons for its inability to settle inactive client accounts to the SEBI inspection team is misplaced.

16.11. The Noticee in its replies further submitted that out of 453 inactive clients pending settlement as on November'2022, 345 clients are untraceable clients wherein they had taken all necessary steps to locate such clients or procure the updated bank account details for processing pay- outs. However, the Noticee has not adduced any supporting documents to substantiate its claims. Hence, the submissions of the Noticee in this regard cannot be accepted. It is further noted that the Noticee has not provided any reason for the remaining 108 clients pending settlement as on November'2022 and the no. of clients whose settlement were pending in previous periods.

16.12. The Noticee has further submitted that they have taken a corrective action in this regard and engaged an independent, external audit firm, Shah Kapadia & Associates to review and verify the process of settlement of client funds. The Noticee has submitted a copy of engagement letter of the audit firm. This submission of the Noticee is noted.

16.13. In view of the aforesaid discussions, it is established that the Noticee had failed to settle inactive clients as mentioned in the above table.

16.14. In view of the aforesaid discussions, it is established that the Noticee had violated the provisions of Clause 12(e) of Annexure A to SEBI Circular dated December 03, 2009 read with Clause 8.1.4 of Annexure to SEBI Circular dated September

26, 2016, Clause 5.4 of SEBI Circular dated June 16, 2021, and BSE Circular dated June 16, 2021.

17. <u>Issue IV - Whether the Noticee has passed on penalties imposed by Stock Exchanges on it for short collection of upfront/non upfront margin to its clients and thereby violated provisions of securities law?</u>

17.1. It was alleged in the SCN that the Noticee has passed on penalties to clients for short collection of upfront / non upfront margin which were not refunded to clients.

17.2. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

"*In this regard, it is submitted vide circular dated September 2, 2022, NSE directed members to refund penalties passed to clients for short / non-collection of upfront margins after October 11, 2021. The relevant extract of the circular is reproduced below for reference:*

"Further, Members are advised to refund the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to the clients on an immediate basis if same has been passed on to the clients after 11th October, 2021."

Based on the above, it is seen that the obligation to refund penalties passed on to clients by trading members was only limited to penalties passed on to clients after October 11, 2021. Thus, it follows that no such obligation existed for penalties passed before such date. In terms of the Notice, it is alleged that the Noticee did not refund penalties passed to clients prior to October 11, 2021. In this regard, it is submitted that the Noticee was not obligated to refund such penalties, as is clear from the above directive.

As for penalties passed to clients after October 11, 2021 (as indicated by SEBI in Annexure 14.2), it is submitted that the Noticee has duly refunded all such amounts in November 2023. The details of penalties passed to clients after October 11, 2021 are provided below:

Segment	Oct 21 to July 22	Aug 22 to Dec 22	Oct 21 to Sept 22	Oct 22 to Dec 22	Total
F&O	*1,87,73,781.6*	*44,41,982.5*	*-*	*-*	*2,32,15,764*
Currency	*3,96,191.5*	*2,21,508.8*	*-*	*-*	*6,17,700*
MCX	*-*	*-*	*22,88,838.3*	*15,19,562.6*	*38,08,401*
NCDEX	*-*	*-*	*41,222.1*	*39,134.8*	*80,357*
TOTAL					**2,77,22,222**

It is submitted that provisions to the tune of Rs. 2.77 crores were made by the Noticee and consequently, reversals were carried out and completed by November 2023. Copies of sample client ledgers recording credit of penalty reversals are annexed herewith as Annexure 15. It is submitted that the above was also verified by the internal auditor, i.e., SCA AND ASSOCIATES, as evidenced in Sr. No. 2 (aj) of the internal audit report dated November 30, 2023. A copy of the internal audit report is annexed herewith as Annexure 16. Moreover, it is submitted that the reversal of margin penalties passed on to clients after October 11, 2021, was also reviewed and confirmed by an external auditor, SDG & Co, Chartered Accountants. A copy of the certificate confirming reversal dated June 24, 2024, is annexed herewith as Annexure 17. It must be noted that the total refunds of penalties passed on to clients after October 11, 2021, amounted to 2.77 crores."

17.3. From the aforesaid, it is noted that in respect of penalties passed on to clients prior to October 11, 2021, the Noticee in its replies submitted that the obligation to refund penalties were only limited to penalties passed on to clients after October 11, 2021. In this regard, I would like to refer to the NSE Circular dated October 12, 2021, which, *inter alia*, states as under:

"This has reference to Exchange Circular NSE/INSP/45191 dated July 31, 2020 with respect to "Guidelines/clarifications on Margin collection & reporting" wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margin to client. However, Exchange has observed that certain members are passing on the penalty levied by clearing corporations on account of "short/non-collection of upfront margins from clients" to respective clients.

In view of the above, it is reiterated that members are not permitted to pass on the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to clients under any circumstances."

17.4. From the aforesaid, it is noted that NSE Circular No. NSE/INSP/45191 dated July 31, 2020 explicitly mentioned that the trading members cannot pass on the penalty with respect to short collection of upfront margin to the client. Hence, the passing of penalty to clients prior to October 11, 2021, is in itself a violation of the applicable circulars. Hence, the submission of the Noticee in this regard does not require further consideration.

17.5. In respect of penalties passed on to clients after October 11, 2021, the Noticee in its replies submitted that it had refunded all such amounts in November 2023. In order to substantiate its claim, the Noticee has submitted the following documents along with its replies:

17.5.1. Copies of ledgers of three clients recording credit of penalty reversals on sample basis.

17.5.2. Copy of Internal audit report dated November 30, 2023

17.5.3. Copy of certificate dated June 24, 2024, from external auditor regarding reversal of margin penalties passed on to clients.

17.6. From the perusal of the aforementioned documents submitted by the Noticee, it is noted that the Noticee has provided only the ledgers of three clients out of which entry of penalty reversal is reflected in the ledgers of two clients and that too for the amount of Rs. 7.55 Lakhs and Rs. 6.49 Lakhs. Hence, for the refund of Rs. 2.77 Crores as claimed by the Noticee, the Noticee has provided the supporting ledgers only for Rs. 14.04 Lakhs. Moreover, the Noticee has submitted the ledgers in the form of excel sheets which raises a question on the correctness of the data. Further, the copy of certificate dated June 24, 2024, from the external auditor as submitted by the Noticee, *inter alia*, states as under, *"This is to certify that, after thorough examination and review of the ledger and other supporting documents,*

we hereby confirm that ASL has stopped levying the penalty to clients from January 2023 and has refunded the penalty collected from clients during October 2022 to December 2022." Hence, while the Noticee has claimed that it had refunded all the penalties passed on to clients after October 11, 2021, the certificate from auditor mentions that only the penalties collected from clients during the period from October 2022 to December 2022 were refunded.

17.7. I would also like to refer to the provisions of NSE Circular dated September 02, 2022, which, inter alia, states as under:

"Further, Members are advised to refund the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to the clients on ***an immediate basis*** *if same has been passed on to the clients after 11th October, 2021."* (Emphasis Supplied)

17.8. The aforesaid circular dated September 02, 2022, requires the trading members to refund the penalties on immediate basis. However, the Noticee in its replies submitted that it had reversed the penalties passed on to its clients only by November 2023, i.e., after a period of more than one year. Hence, even if the submission of the Noticee regarding reversal of penalty is accepted, the Noticee has failed to act promptly as required by the circular.

17.9. In view of the aforesaid discussions, the submissions of the Noticee in respect of penalties passed on to clients after October 11, 2021, cannot be accepted and the Noticee has failed to comply with the applicable circulars.

17.10. In view of the above, it is established that the Noticee has violated the provisions of Clause 2.1 of SEBI Circular dated July 31, 2020 read with NSE Circular dated October 12, 2021, and NSE Circular dated September 02, 2022.

18. Issue V - Whether the Noticee has transferred securities of clients having credit balance of funds to a "client unpaid securities account" and thereby violated provisions of securities law?

18.1. It was alleged in the SCN that the Noticee has transferred the securities of the following credit balance clients to the "client unpaid securities account".

Table 8

ISIN	31
Quantity	1,50,891
Value	Rs. 179.02 Lakhs

18.2. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

"It is submitted that, while Para 6.6.3 of the Notice states that the benefit of securities transferred on T+1 day to the client has been given, SEBI has failed to consider the overall clear ledger balances, taking into account clients' obligation for positions held across all exchanges. Thus, upon considering the same, the ledger reveals a debit balance for all 32 instances (26 unique clients). To illustrate, for client code 2668374 (specified at Sr. No. 17 of Annexure 15 to the SCN), SEBI has determined a net credit balance of Rs. 23,872.14. However, it is submitted that the overall ledger balance for the same client, considering positions held across all exchanges, as on November 30, 2022, was in fact Rs. 2,57,458.20 in debit. The relevant entry in the aforementioned client's ledger is reproduced below for reference:

AXIS SECURITIES LIMITED

Client ledger For Client id <2668374>

Client Code :	2668374		Client Name :	[redacted]		Exchange :-			
Date	Due Date	Voucher Ref No/Bill no	Contract No	Particular	Exchange	Segment	Debit	Credit	Running Balance
				Opening Balance as on 25-NOV-22			0	8356.8	-8356.8
30-Nov-22	30-Nov-22	JV/20221130/153119/NSE-D		Netting From NSE D N 20221130 To NSE D N 20221129. Ref -	NSE	D	0	195523.27	257458.18
								Net Running Balance	0

As evident from the above, it is submitted that the aforementioned allegation is framed on the basis that the clients specified had credit balances in their accounts,

at the time the securities were moved to the CUSA. However, on the contrary, it is submitted that on taking the client's overall exchange-wide position into consideration, the ledger reflected a debit balance, which prompted the Noticee to transfer the securities into the CUSA as per its risk management processes.

It is pertinent to note that all transfers to the CUSA were in line with the well-established risk management practice of withholding payouts after adjusting for unsettled credits designed to mitigate the risk of client defaults. It is submitted that it is not SEBI's case that the securities transferred to the CUSA were misutilized by the Noticee or deliberately withheld without any basis."

18.3. In this regard, it is noted that the Noticee in its reply submitted that it had taken client's overall exchange wide position into consideration which reflected a debit balance. The Noticee has submitted the ledgers of some clients on sample basis along with its reply. From the perusal of the ledgers as submitted by the Noticee, it is noted that the Noticee has submitted the ledgers of only four clients whereas the allegation is relating to 26 clients. Moreover, the ledgers were provided in the form of excel sheets and the Noticee has also not submitted any supporting documents that can substantiate the entries in those ledgers. The Noticee further submitted that the transfer of securities into CUSA based on overall exchange wide position of the client was as per its risk management process. In this regard, it is noted that the Noticee has not submitted any risk management policy approved by its board of directors to substantiate its claims.

18.4. In view of the aforesaid, the aforesaid submission of the Noticee in this regard cannot be accepted and it is established that the Noticee had violated the provisions of Clause 4.2 of the SEBI Circular dated June 20, 2019 read with NSE Circular dated June 20, 2019, NSE Circular dated August 29, 2019, NSE Circular dated September 04, 2019, and NSE Circular dated September 27, 2019.

19. Issue VI - Whether the Noticee has not properly redressed the complaints and grievances of its clients and thereby violated provisions of securities law?

19.1. It was alleged in the SCN that 516 complaints related to 219 clients were such that complaints were reopened by the client for the same matter subsequent to its initial closure by the Noticee. Therefore, it was alleged that the Noticee closed the complaints as resolved without examining the complaints properly when they were initially filed by the investor and was not taking adequate steps for proper redressal of grievances.

19.2. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

"*Out of the 516 cases referred to in Annexure 16 to the Notice, 345 cases do not qualify as repeat complaints. It is submitted that these complaints pertain to new issues raised for the first time, separate scenarios, or different process documentation, each occurring at distinct points in time. Therefore, it is submitted that a large portion of the cases cannot be categorized as repetitive, but have erroneously been considered as such in the Notice despite the fact of it being apparent in Annexure 16. In the broader context, it is submitted that only 171 complaints out of a total of 5,536 complaints received, involving 133 clients, can be considered as repeat issues, which have been raised because the nature of the issue is such that it needs to be revisited.*

It is submitted that the reasons for 171 instances of repeat complaints being raised on an issue which had been raised earlier, are inter alia as follows: (a) clients reported a reoccurrence of technical issues that had previously been resolved. These include login failures or errors on the trading platform, which can recur due to factors beyond the Noticee's control; (b) certain complaints were registered afresh when clients revisited their concerns with updated details that were not initially available. It is important to note that addressing such issues without adequate information at the outset poses a challenge and does not guarantee the

successful resolution of a complaint. Thus, once the adequate information is received from the client, the Noticee registers the complaint and re-evaluates the issue; and (c) cases where clients, dissatisfied with the company's responses, despite these being based on factual assessments, continue to raise complaints until they achieve a favoured outcome, such as seeking compensation, regardless of merit. It may be further noted that such clients prefer to continue raising complaints on the same cause of action, and do not opt for escalation of the issue through mechanisms made available to them by SEBI.

Please note that in terms of Regulation 9(e) of the Stock Brokers Regulations, a stockbroker is required to take appropriate/adequate steps to resolve the complaints of the investors. In this regard, kindly note that to address the efficient scrutiny and processing of client- submitted documents, the system "Swift" has been developed and implemented with a view to minimize client grievances. This system is designed to facilitate scanned-based scrutiny and streamline the processing of documents submitted by clients. Among its key functionalities, "Swift" provides automated status updates to clients and branch personnel through SMS and email notifications. The implementation of "Swift" has resulted in a significant reduction in the time required to process and resolve client requests. By ensuring prompt and transparent communication regarding the status of client submissions, the system effectively minimizes delays and enhances operational efficiency. Furthermore, the introduction of "Swift" has led to a noticeable decrease in the number of complaints from clients regarding the status of their requests. The system's efficiency in providing real-time updates and expediting request closures has addressed a critical area of concern, thereby improving overall client satisfaction. Further, the complaints received by the Company are reviewed on a monthly basis by senior management. This review process includes a detailed analysis of the nature and types of complaints received.

Further, the Company's commitment to effectively addressing client complaints is evident from the low escalation rates and favourable outcomes achieved during the review process. In this regard, it is to be noted that the monthly average count

of client complaints has dropped from 1800 during the IP to 653 for the FY 2023-24, i.e., by 36% since the IP. Further, any grievances that pertain to deviation from standard protocols or reflect customer dissatisfaction, such as pay-out not received or delay in account opening, such grievances are considered as 'Critical Requests'. If such requests are closed with incomplete/incorrect reverts or delay in resolution, they are escalated as per the internal escalation matrix provided in the Customer Grievance Policy. A copy of the Noticee's Customer Grievance Policy is enclosed as Annexure 21. Notably, during the Inspection Period, only one complaint was escalated to exchange arbitration. This low conversion rate portrays the Company's ability to resolve disputes effectively and appropriately at its level. Further, it is submitted that out of the 133 clients, who raised 171 repeat complaints, 70% clients are still active and continue to trade through the Noticee."

19.3. In this regard, it is noted that the Noticee in its reply submitted that out of 516 complaints, 345 complaints are not repeated complaints. The Noticee has submitted the reason for each of these 345 complaints in an excel sheet. The Noticee has further submitted that 171 complaints can be considered as repeat complaints because the nature of the complaints are such that it needs to be revisited. The Noticee has submitted the reason for each of these 171 complaints also in an excel sheet. The Noticee has also submitted the screenshots of these 516 complaints from their internal CRM system showing remarks of the complaints. However, it is noted that the Noticee has not submitted any cogent evidence that can substantiate the reasons/remarks for each complaints as claimed by the Noticee. Hence, it is difficult to accept the submissions of the Noticee in this regard.

19.4. The Noticee in its reply further submitted that in order to minimize client grievances, they have implemented "Swift" system that can facilitate scanned based scrutiny and streamline the processing of documents submitted by clients. The Noticee further submitted that the monthly average count of client complaints has been dropped from 1800 during the IP to 653 for the FY 2023-24. In this

regard, it is noted that no supporting documents has been submitted by the Noticee to support its claim. Hence, no inference can be made in favor of the Noticee for this.

19.5. In view of the aforesaid, it is established that the Noticee had violated the provisions of Regulation 9(e) of the Brokers Regulations.

20. <u>Issue VII - Whether there were discrepancies in the count of PEP reported by the Noticee under the "Risk Based Supervision" data to the Stock Exchanges and the clients marked as PEP in the UCC and thereby violated provisions of securities law?</u>

20.1. It was alleged in the SCN that the count of PEP clients reported by the Noticee under the "Risk Based Supervision" data was 11. However, the total number of clients marked as PEP in the UCC was 237. Hence, it was alleged that that the Noticee has misreported the data for PEP under "Risk Based Supervision" data which shows a lack of due diligence while reporting the data under "Risk Based Supervision".

20.2. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

"In this regard, it is submitted that the details of PEPs reported under the RBS framework were the persons determined as PEPs by the Noticee, based on its independent assessment, in terms of the Prevention of Money Laundering Act, 2002, read with the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 and SEBI guidelines dated October 15, 2019 (collectively "AML Guidelines"). It is submitted that the PEPs identified based on the declarations provided by clients at the time of onboarding were also uploaded in the Unique Client Code (UCC) system.

Considering the above, it is submitted that the Noticee was under the bona fide belief that only the PEPs determined under AML Guidelines had to be reported under RBS reporting, and not all clients who declare themselves as PEPs during onboarding. It is pertinent to note that no discrepancies were observed during verification of PMLA/AML policy and its implementation, covering client due diligence and risk categorization (See para 4.13 of the IR). Thus, it is submitted that the Noticee has diligently carried out its obligations under the AML Guidelines and reported PEPs after independent validation. Thus, it is wholly denied that any PEP data was misreported under the RBS framework and such allegation cannot sustain. It is also pertinent to note that no discrepancy in the RBS reporting was found by NSE, BSE and NCDEX who also verified the Noticee's RBS submission for year ended March 2022 (See paras 4.16 - 4.18 of the IR).

With regards to the differences in PEP count in the RBS data and the UCC system, it is submitted that the same arose due to reconciliation issues within the internal system of the Noticee. In this regard, it is submitted that the Noticee has revisited and updated its process to ensure that persons are only tagged as PEPs in its systems after independent validation by the Noticee under AML Guidelines, and not simply based on declarations obtained at the time of onboarding. It is further submitted that data recorded in the back-office and AML systems are regularly reconciled to ensure accurate reporting. It is submitted that any discrepancy observed was only in relation to reconciliation of PEP counts in the AML systems vis-à-vis the UCC, which as such was technical and unintended, without any intention to misreport any data to the exchanges. Further, it is pertinent to note that the Noticee has taken corrective actions and identified areas for refinement to ensure enhanced accuracy in reporting. While the Notice cites this as a case of misreporting and attributed it to a lack of due diligence, we wish to clarify that the issue was procedural and not intentional.

Additionally, it is submitted Noticee has developed an independent mechanism to check the status of clients, through its AML application tool "Trackwiz". Further, it may be noted that Noticee has robust controls in place for both online and offline account opening processes to identify Politically Exposed Persons (PEPs). The system introduced by Noticee leverages TSS (Trackwizz) screening to detect PEP clients, automatically triggering an alert if a client's information matches the TSS PEP database. Upon receiving an alert, Enhanced Due Diligence ("EDD") procedures are initiated, and the required PEP approval is meticulously documented. In case a client has not marked themselves as PEP, but the EDD processes generate an alert that such client is a PEP, the Noticee requests the clients to submit certain additional information to verify their PEP status before opening their account."

20.3. In this regard, it is noted that the Noticee in its replies has not disputed that there were discrepancies in the counts of PEP reported under "Risk Based Supervision" data and "UCC" data. The Noticee in its reply submitted that the PEP reported under "Risk Based Supervision" data were determined as per AML guidelines and the PEP data uploaded in the UCC system were as per the declarations provided by their clients at the time of onboarding. However, the Noticee has failed to submit any supporting documents that can substantiate the claims of the Noticee. Hence, the submissions of the Noticee in this regard cannot be accepted.

20.4. The Noticee further submitted that they had revisited and updated its process to ensure that persons are only tagged as PEPs in their systems after independent validation by the Noticee under AML Guidelines, and not simply based on declarations obtained at the time of onboarding. However, the Noticee has not submitted any documentary evidence to substantiate its claims of revised process adopted by them. It is further noted that the Noticee in its replies made to SEBI inspection team against the findings of inspection communicated to it, *inter alia*, states that, *"However, we have revisited the process to report basis the declaration*

as provided by the client and have reported 208 clients as PEP in the Risk Based Supervision Reporting for the period ending 30th September 2022." Hence, there is contradiction in the submissions of the Noticee as in its replies made during the present adjudication proceedings, the Noticee submitted that PEPs are tagged in their systems after independent validation. However, in the submissions made by the Noticee to SEBI inspection team, the Noticee submitted that PEPs are reported on the basis of declaration provided by the client. Therefore, the submissions of the Noticee in this regard cannot be accepted.

20.5. The Noticee in its replies further submitted that they have taken corrective action in this regard by developing an independent mechanism to check the status of clients, through its AML application tool "Trackwiz". However, the Noticee has not submitted any cogent evidence like screenshots of the "Trackwiz", approved policies, etc., to support its claim of deployment of application tool "Trackwiz". Hence, no inference can be made in favour of the Noticee for these submissions.

20.6. In view of the aforesaid discussions, it is established that the Noticee has violated the provisions of Clause 3.2 of Annexure to SEBI Circular dated September 26, 2016, read with SEBI Circular dated June 22, 2017, MCX Circular dated September 25, 2017, and MCX Circular dated October 30, 2017.

21. <u>Issue VIII - Whether exposure of the Noticee towards the "Margin Trading" funding exceeded the allowable threshold and there was shortfall in the margin collected from one client and thereby violated provisions of securities law?</u>

21.1. It was alleged in the SCN that that the maximum allowable exposure of the Noticee towards the "Margin Trading" facility exceeded the borrowed funds and 50% of its Net Worth. Additional exposure of Rs. 17.41 Crores was given to clients in six instances.

21.2. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

"….In this regard, it is submitted that total exposure was reported by the Noticee on a gross level, factoring in the cash / non-cash collateral placed by the client towards margin, as per exchange formats. However, the exchange has computed the gross MTF exposure without reducing the cash collected towards margin, while evaluating the data on the above dates. For instance, on the sample date of June 16, 2021, the gross exposure amounted to Rs. 830 crores, with the maximum allowable exposure limit of Rs. 585 crores, resulting in the gross exposure exceeding the limit as per SEBI's computation. However, it is submitted Rs. 266 crore was collected as cash for the MTF position, which on being reduced from the gross exposure, clearly demonstrates that actual exposure remained within the maximum allowable exposure limit.

Further, it is submitted that the Noticee had shared the cash collected for MTF during earlier periods in excel files, however, the same was not considered as it did not form part of the formal reporting process. It is submitted that the requirement to report cash collateral under MTF positions was introduced in March 2022. Thus, to demonstrate its calculations, data for the specified dates (which fall prior to March 2022) has been generated by the Noticee as per the current format and process. The computation of actual exposure and Client Cash Margin Reports for the aforementioned dates are annexed herewith as Annexure 24.

Notably, the Noticee had also received alerts from NSE in connection with a similar matter for the month of September 2024. In response, it is submitted that the Noticee provided the required data and clarified that exposure is reported on a gross level including the collateral placed towards margin and the alert is generated based on total exposure on a net basis. Thus, the Noticee demonstrated that the allowable thresholds for maximum exposure had not been exceeded. In support of the above, it is submitted that the Noticee also provided the Client Cash

Margin Reports generated from its internal systems. On noting the above, it is submitted that NSE closed the issue and did not raise any further objections.

….there is no express regulatory requirement to maintain records on client collateral towards MTF transactions in the form of 'cash collateral ledgers'. It is submitted that the 'Cash Margin Reports' maintained by the Noticee are sufficiently compliant with the obligation to maintain separate client-wise ledgers on collateral deposited towards margin trading. It is submitted that the above requirement is intended towards maintaining segregated and auditable records for margin trading clients and to ensure that collateral is not used for non-MTF transactions. Given the above, it is submitted that the "Cash Margin Report" maintained by the Noticee reflects the relevant information required to verify compliance with the maximum exposure limits"

21.3. From the aforesaid, it is noted that the Noticee in its replies submitted that the cash collected towards margin has not been deducted while arriving at the exposure amount for six instances as alleged in the SCN. In this regard, from the perusal of the IR, it is noted that the Noticee has not maintained cash collateral ledgers separately. This fact has not been disputed by the Noticee in its replies. It is further noted from the IR that post March, 2022 cash collaterals has to be reported by the trading members to the exchanges and therefore, for the period post March, 2022, benefit of cash collateral was given while computing the exposure amount. However, for the period prior to March, 2022, benefits of cash collaterals were not given since the Noticee has not provided the cash collateral ledgers to the inspection team. It is further noted that all the six instances as alleged in the SCN pertains to the period prior to March, 2022. The Noticee in its replies has submitted the cash margin report for these six dates in the excel sheets claiming that these reports have been generated as per the current format and process. In this regard, it is noted that the supporting documents related to data provided in the excel sheets were not submitted. Hence, it raises a question on the correctness of the data. Therefore, submission of cash margin reports in the form of the excel sheets

without any supporting documents to substantiate the data mentioned in that excel sheets cannot be accepted at this juncture.

21.4. The Noticee in its replies further submitted that they had received alerts from NSE in connection with a similar matter. The Noticee further submitted that they have provided to them cash margin reports generated from its internal systems and the NSE has closed the issue. The Noticee has submitted a screenshot from the NSE member portal in this regard. However, the current status of the case was not reflecting in the screenshot provided by the Noticee. Moreover, the Noticee has not provided any evidence to substantiate its claim of closure of case by the NSE. Hence, the submissions of the Noticee in this regard cannot be accepted.

21.5. It was further alleged in the SCN that the Noticee has not collected adequate margin in the form of cash & cash equivalent, or Group I equity shares with an appropriate haircut in one instance.

21.6. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

"It is observed that the allegation is based on SEBI's findings in Annexure F1 to the IR, which highlighted a margin shortfall of Rs. 25,343,499 against a clear balance of Rs. 200,711,684 and a margin obligation of Rs. 226,055,183 as of November 29, 2022. In this regard, the Noticee has submitted a revised computation indicating that there was no margin shortfall for client code 3929. It is submitted that under the MTF facility, the Noticee had extended funding amounting to Rs. 50.60 crores to the above client, which was also recorded in the cash and cash equivalent reporting made on the next business day (T+1). It is further submitted that total exposure of client's positions amounted to Rs. 77.83 crores. Consequently, the difference between the total exposure (Rs. 77.83 crores) and the MTF debit balance (Rs. 50.60 crores) amounts to approximately Rs. 27.22 crores. It is submitted that such difference represents the cash available with the Noticee in respect of the above client as on November 29, 2022. Further, it is

submitted that the margin obligation as of November 29, 2022, was approximately Rs. 20.50 crores. It bears emphasizing that since the available cash (Rs. 27.22 Crores) exceeded the margin obligation (Rs. 20.50 Cores), there was no shortfall in margin collection for the client. The computation of the Noticee which demonstrates the above for client code 3929 is annexed herewith as Annexure 23A. In support of the same, the information reported to the exchanges in respect of the MTF facility extended to the above client, which reflects the overall ledger balance reported and total margin obligations as on November 29, 2022 (Rs. 20,50,13,896.75) is annexed herewith as Annexure 23B. Thus, it is submitted that the findings in Annexure F1 are inconsistent with the revised data and the allegation pertaining to inadequate collection of margin is unsubstantiated.

Further, while the Notice, at Para 6.9.5.1 states that the balance has been verified again with the ledger, it is submitted that the same is not substantiated with any documentary support. It is submitted that the Notice fails to provide any document or reasoning for consideration of a different margin obligation than the working provided by the Noticee, or the use of a different ledger balance than that used by the Noticee for the purpose of collection of margin."

21.7. From the aforesaid, it is noted that the Noticee in its replies has provided the revised computation of the margin as under:

Table 9 **(in Rupees)**

	Margin Obligation (A)	**Exposure Amount (B)**	**Ledger Balance (C)**	**Margin Shortfall (A-(B+C))**
Alleged in the SCN	22,60,55,184	77,82,79,632	-ve 57,75,67,948	2,53,43,499
Revised data provided by	20,50,13,896	77,82,79,632	-ve 50,60,42,462	-ve 6,72,23,274

the Noticee in its replies				(No Shortfall)

21.8. In view of the above, it is noted that the exposure amount of the client is not in dispute. The Noticee in its replies submitted the revised computation of the margin obligations and the revised ledger Noticee in its replies has provided the revised computation of the margin as in the excel sheets. In this regard, it is noted that the supporting documents for the data given in the excel sheets were not submitted. Hence, it raises a question on the correctness of the data. It is further noted that the Noticee in its replies made to SEBI inspection team against the findings of inspection communicated to it, *inter alia*, submitted the revised computation of the margin as under:

Table 10 **(in Rupees)**

Margin Obligation (A)	**Exposure Amount (B)**	**Ledger Balance (C)**	**Margin Shortfall (A-(B+C))**
20,50,33,011	77,82,79,632	-ve 56,10,06,917	-ve 1,22,39,704 (No Shortfall)

21.9. From the aforesaid, it is noted that the revised computation of margin as submitted by the Noticee in its replies during the present proceedings and revised computation of margin as submitted by the Noticee in its replies made to SEBI inspection team against the findings of inspection are significantly different. The Noticee in its replies has not submitted the reason for such changes. Therefore, submission of revised computation of margin obligation and revised ledgers in the form of an excel sheets without any supporting documents to substantiate the data mentioned in that excel sheets cannot be accepted at this juncture.

21.10. In view of the aforesaid discussions, it cannot but be concluded that the exposure of the Noticee towards the “Margin Trading” funding exceeded the allowable

threshold in six instances and there was shortfall in the margin collected from client in one instance. Therefore, it is established that the Noticee had violated the provisions of Clauses 7 and 17 of SEBI Circular dated June 13, 2017 read with NSE Circular dated June 15, 2017, NSE Circular dated June 30, 2017, NSE Circular dated December 31, 2019, NSE Circular dated March 02, 2020, NSE Circular dated July 31, 2020, and NSE Circular dated June 09, 2021.

Issue IX - Does the violation, if any, on the part of the Noticee attract a monetary penalty under Section 15HB of the SEBI Act?

22. As discussed in the preceding paragraphs, it has been established that the Noticee has violated the provisions of the law as alleged in the SCN except Clause 10(ii) of Annexure I to SEBI Circular dated October 01, 2015 read with NCDEX Circular dated October 05, 2015, and NSE Circular dated April 21, 2008. Accordingly, the question that now arises for consideration is whether the Noticee is liable for payment of a monetary penalty in terms of Section 15HB of the SEBI Act.

23. The Noticee, in its replies has, *inter alia*, stated:

"……it is submitted that any defaults observed by SEBI do not have to mandatorily attract a penalty and the adjudicating officer is within its authority to waive off the penalty, if the circumstances so justify, under Section 15J of the SEBI Act. To this effect, it is submitted that the instant case calls for consideration of several mitigating factors, in view of which, the penalty should not be imposed upon the Noticee.

113. Without any prejudice to the submissions made in Paras 9 to 108 above, it is submitted that any technical defaults noted during the joint inspection are merely procedural breaches, which were rectified by the Noticee during the inspection itself. It is submitted that a majority of the irregularities flowed from lack of clarity in regulatory directives, common practices adopted across the industry and a bona fide belief that the Noticee was acting in accordance with the law.

It is humbly submitted that technical non-compliance, if any, was unintentional and not driven by an intent to harm the interests of investors, and at no point were client interests put at risk. This is supported by the absence of any findings or observations to that effect in the Notice or the IR. Further, it is pertinent to note the immediate corrective actions taken by the Noticee during the inspection process, which further showcases its commitment to operating within the contours of the legal and regulatory framework.

It is an established principle of law that the primary objective of inspections is corrective rather than punitive. The principle is grounded in encouraging better compliance with regulatory norms while avoiding unnecessary litigation."

24. In this regard, I note that the Noticee, in its replies, has also placed reliance on the orders of the Hon'ble SAT in the matter of Reliance Industries v. SEBI (2004 SCC OnLine SAT 69: [2004] SAT 68), and Religare Securities Ltd. vs. SEBI (SAT Appeal no. 23 of 2011 decided on June 16, 2011), and also the SEBI order passed in the matter of IFCI Financial Services Limited, Marfatia Stock Broking Pvt. Ltd., and Pinnacle Forex and Securities Pvt. Ltd.

25. In this regard, it is noted that, in the present case, the violations established against the Noticee, *inter alia*, include discrepancies in the reporting made by the Noticee to the Exchanges, non-settlement of client funds and securities, passing of penalties to clients for short collection of upfront/non-upfront margin, transfer of securities of credit balance clients to a "client unpaid securities account," improper redressal of complaints and grievances, exposure towards MTF exceeding the allowable threshold, and short collection of margin from clients. It is pertinent to highlight that accurate reporting to exchanges enhances transparency and minimizes the risk of misinformation, proper handling of client funds and securities prevents misappropriation and fosters trust, ensuring adequate margin collection and adherence to MTF limits mitigates excessive risk-taking and potential defaults, and effective grievance redressal further strengthens client confidence, thereby

reinforcing the firm's credibility. Overall, strict compliance is crucial to safeguarding investor interests and maintaining market integrity. Hence, the lapses committed by the Noticee, as established in the preceding paragraphs, cannot be dismissed as mere technical violation. The violations demonstrate the lack of adequate systems and supervision in place. In this context, I would like to take note of the order of the Hon'ble SAT in the matter of ***Religare Securities Ltd. vs. SEBI (Appeal No. 23 of 2011),*** which has been referred to by the Noticee in its replies. The relevant extract of the said order is reproduced below:

"... This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent...".

26. Furthermore, I note that the judgments and orders relied upon by the Noticee arise from a different factual matrix and, therefore, cannot be applied to the present case. Moreover, the Noticee has failed to demonstrate how the cited orders are relevant to the instant matter. Consequently, the reliance placed by the Noticee on the aforementioned cases cannot be accepted in the present proceedings.

27. In view of the aforesaid discussions, it is established that the Noticee is liable for payment of a monetary penalty in terms of Section 15HB of the SEBI Act.

28. The text of the above said Section 15HB of the SEBI Act is reproduced below:

"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."*

Issue X - If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act?

29. While determining the quantum of penalty under section 15HB, it is important to consider the factors stipulated in section 15J of the SEBI Act, which reads as under:

*"**Factors to be taken into account while adjudging quantum of penalty.***

15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board 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."

Factors Considered While Imposing Penalty

30. The material available on record has neither quantified the amount of disproportionate gain or unfair advantage, if any, made by the Noticee nor the amount of loss, if any, caused to an investor/clients as a result of the default of the Noticee. As regard the repetitive nature of the default, there is nothing on record to show that the nature of default by the Noticee is repetitive.

31. As discussed in preceding paragraphs, it has been established that the Noticee has not followed the stipulated procedures with respect to the following:

31.1. There were discrepancies in the enhanced supervision reporting made by the Noticee to the Exchanges.

31.2. There were discrepancies in the stocks reported by the Noticee to the Stock Exchanges in Holding Statements with the actual stock lying with the DP accounts.

31.3. The Noticee has not settled the clients' funds and securities on a monthly/quarterly basis as per the preference obtained from the clients and has also not sent the retention statement along with the statement of accounts to the clients.

31.4. The Noticee has passed on penalties imposed by Stock Exchanges on it for short collection of upfront/non upfront margin to its clients.

31.5. The Noticee has transferred securities of clients having credit balance of funds to a "client unpaid securities account".

31.6. The Noticee has not properly redressed the complaints and grievances of its clients.

31.7. There were discrepancies in the count of PEP reported by the Noticee under the "Risk Based Supervision" data to the Stock Exchanges and the clients marked as PEP in the UCC.

31.8. The exposure of the Noticee towards the "Margin Trading" funding exceeded the allowable threshold and there was shortfall in the margin collected from one client.

32. It is necessary that registered intermediaries follow the various procedures and practices prescribed for the smooth and transparent functioning of the securities market. I note that the Regulations and Circulars, etc., have laid down the specific procedural requirements that must be adhered to, especially by a SEBI registered intermediary. As a registered intermediary, Noticee is required to maintain a high standard of professionalism in the way it conducts its business and to take statutory compliance very seriously. Stock brokers are an important link between the investors and the securities market. Investors repose their trust on the brokers. Protection of interests of investors is an important mandate for SEBI. Therefore, such violations by a registered intermediary especially by a registered stock broker cannot be let off unnoticed. It needs to be taken cognizance and dealt with in accordance with the law.

33. As discussed in the preceding paragraphs, the following factors as submitted by the Noticee in its replies have been considered a mitigating factors while imposing penalty: -

33.1. The Noticee in its replies submitted that it had engaged Shah Kapadia & Associates, external audit firm for verification of data before reporting of weekly HS to the exchanges and to review and verify the process of settlement of client funds.

33.2. The Noticee in its replies further submitted that it had taken the corrective action and immediately started including the investment in Max Life Insurance Company Ltd. in its weekly HS reporting.

33.3. The Noticee in its replies submitted that NSE had already penalized it for the discrepancy in weekly HS reporting for week end November 05, 2022, November 12, 2022, and November 19, 2022.

34. The aforementioned factors have been taken into consideration while adjudging the penalty.

E. ORDER

35. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in the preceding paragraphs, and in the exercise of powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a monetary penalty on the Noticee as given in the table below**:**

Table 11

Penal Provision	Penalty Amount
Section 15HB of SEBI Act	Rs. 10,00,000/- (Rupees Ten Lakhs Only)

36. I am of the view that the said penalty is commensurate with the lapses/omissions on part of the Noticee.

37. The Noticee shall remit/pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e., www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT -> Orders -> Orders of AO -> PAY NOW.

38. In terms of the provisions of Rule 6 of the Adjudication Rules, a copy of this order is being sent to the Noticee and also to the SEBI.

HARIHARAN NEELAKANTA IYER

Digitally signed by HARIHARAN NEELAKANTA IYER
Date: 2025.02.21 20:04:27 +05'30'

Date: February 21, 2025
Place: Mumbai

N HARIHARAN
CHIEF GENERAL MANAGER
AND ADJUDICATING OFFICER