

SECURITIES AND EXCHANGE BOARD OF INDIA

ENQUIRY ORDER

Under Section 12(3) of Securities and Exchange Board of India Act, 1992 read with Regulation 23, Regulation 27 of Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

IN RESPECT OF:

NOTICEE	SEBI Registration No.	PAN
FRR Shares and Securities Limited	INZ000279232	AABCF5477E

In the matter of FRR Shares and Securities Limited

Background:

1. FRR Shares and Securities Limited (hereinafter referred to as the '**Noticee**') is registered as Broker with the Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") having the SEBI registration No. **INZ000279232**, since August 05, 2010. As per the records, the registered office of the Noticee is at '1509, Maker Chamber V, Nariman Point, Mumbai - 400021'.
2. The present proceeding is originating from the Enquiry Report dated May 13, 2024, submitted by the Designated Authority (hereinafter referred to as "**DA**"), in terms of the applicable provisions of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred as "**Intermediaries Regulations**"). The DA, based on various facts and observations so recorded in the Enquiry Report, has recommended that the Noticee, be prohibited from taking up any new assignment or contract or launch a new scheme for a period of one month.
3. In this regard, it is observed that SEBI jointly with Exchanges and Depository, conducted an inspection of the Noticee, during September 30, 2022 to October 12, 2022 for the Inspection period April 01, 2021 to August 31, 2022. The scope of the

Inspection was to inter alia look into the Noticee's compliance with respect to KYC, PMLA, settlement of running account, segregation of client and own funds, client funding, Margin, Investor grievances handling mechanism, compliance of all SEBI circulars pertaining to stock brokers, cyber security and cyber resilience framework for stock broker etc.,

4. The findings/ observations made during the course of inspection were communicated to the Noticee by SEBI, vide letter dated November 25, 2022. In response the Noticee, vide its letter dated December 07, 2022, submitted its reply. After examining the reply submitted by the Noticee, it was observed in the inspection report that the Noticee had contravened various provisions of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as "**Broker Regulations**"), Securities Contracts (Regulation) Rules, 1957 (hereinafter referred to as "**SCR Rules**") and applicable SEBI Circulars. The summary of said contraventions alleged to have been committed by the Noticee and the corresponding provisions of Broker Regulations, SCR Rules and applicable Circulars are given in the table below:

S.No.	Alleged Violations	Regulatory Provisions
1	Misuse of clients' funds, Verification of Proprietary MTM loss and Analysis of Enhanced supervision data (Weekly): a) G negative – On 12 out of 38 sample instances, funds of credit balance clients mis-utilized for meeting the obligations of debit balance clients and/or for its own purpose. The average misutilised amount is Rs. 1.56 Crore. The amount of mis-utilization ranges from Rs.22.9 Lakh to Rs.3.74 Crore. b) Further, value of 'J' is positive in 2 out of 38 sample instances, funds of clients mis-utilised towards margin obligations of debit balance clients and proprietary trading. The average misutilised amount is Rs.6.26 Crore. The amount of misutilisation ranges from Rs. 98.75 Lakh to Rs.11.54 Crore.	Section 23D of SCRA Act, 1956 read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
2	Monthly / Quarterly Settlement of Funds and Securities : a) Non-settlement of funds of inactive clients with amount of non-settlement ranging from Rs.7,750/- (8 clients) to Rs.16.33 Lakh (339	Clause 5.1 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Clause 12(e) of Annexure-A to SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated

	clients) during the inspection period spanning 15 months. b) Broker has not maintained separate bank account for keeping funds of Inactive clients. c) SMS is not sent to clients on settlement	December 03, 2009 and Clause 8.1 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
3	Segregation of clients' funds and own funds: Broker has not reported 3 bank accounts to exchanges.	Clause 2.3.3. of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
4	Reporting and short collection of Margin: Broker has done wrong reporting of End of Day Margin ("EOD margin") in 1 instance amounting to Rs. 2.22 Lakh.	Clause 4.1.2, 4.1.5 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/ 2020/146 dated July 31, 2020.
5	Stock reconciliation: Data uploaded by the Member w.r.t Holding Statement on a weekly basis is incorrect: • DP Holding vs Weekly Holding submission. -Excess quantity as per de-mat statement in 1 ISIN and value of mismatch Rs.9870/- • Back office vs Weekly holding submission. -Excess quantity as per weekly holding submission in 1 ISIN and value of mismatch Rs.1870/-	Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/ 2008 dated April 17, 2008.
6	Client registration process (KYC, CKYC and KRA process): a) Running account authorization contains a clause of retaining amount balance in ledger of Rs.10,000 less in 28 instances. b) Discrepancies were observed in IPV process in 9 instances. c) Delay in updation of data with KRA in 12 instances. d) Application forms are not complete in 2 instances.	Clause 5.6 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 1(i) of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011.
7	Verification of Email ID & Mobile Numbers: a) Mobile number of the clients has not been found in the exchange record in 26 instances. b) Email ID of client in back office is mismatched with Exchange record in 14 instances.	Clause 2 (B) of SEBI Circular No. CIR/ MIRSD/15/2011 dated August 02, 2011.
8	Complaints and arbitration: Broker has not resolved 4 complaints received within 30 days	Regulation 9(e) of SEBI (Stock Brokers) Regulations, 1992.
9	Net Worth verification: Net worth reported as on 31st March 2022 - Rs. 7.56 Crore Net worth as per calculation -Rs. 3.18 Crore Net worth overstated -Rs. 4.38 Crore	Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and Annexure A to NSE Circular NSE/COMP/48895 dated July 10, 2021.
10	Analysis of Enhanced supervision data (Weekly):	Clause 3.2 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

	Broker has incorrectly reported the data towards weekly monitoring of client funds for all 10 sample dates.													
11	Client Level Cash & Cash Equivalent Balances and Bank Account Balances: Broker has not reported Proprietary, Error Account and Client account client codes appearing in Trial Balance in 11 instances	Clause 7 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE Exchange circular NSE/ INSP/43486 dated February 10, 2020.												
12	Risk based supervision (RBS): Broker has not correctly reported the details in RBS submission: <table><tr><th>Particulars</th><th>Difference</th></tr><tr><td>Debit Balance of all clients</td><td>Debit Balance of all clients</td></tr><tr><td>Value of collaterals from the debit balance clients</td><td>Value of collaterals from the debit balance clients</td></tr><tr><td>Brokerage income</td><td>Brokerage income</td></tr><tr><td>4) Details of loans</td><td>4) Details of loans</td></tr><tr><td>Unsecured loans</td><td>Unsecured loans</td></tr></table>	Particulars	Difference	Debit Balance of all clients	Debit Balance of all clients	Value of collaterals from the debit balance clients	Value of collaterals from the debit balance clients	Brokerage income	Brokerage income	4) Details of loans	4) Details of loans	Unsecured loans	Unsecured loans	Clause 6.1.1(j) of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
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13	Demat account verification: 1. Member has not reported closed demat accounts on the Exchange Portal in 3 instances. 2. Member has not undertaken tagging of DP accounts as required in 5 instances. 3. Securities of Credit Balance Clients were transferred to Client's unpaid securities account ('CUSA') – 1 instance	Clause 2 read with Clause 6.1.1. (g) of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Clause 4.3 of SEBI Circular No. CIR/HO/ MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.												
14	Engaged in other than broking activities: Member has entered into arrangement for extending loans or giving deposits / advances to its group company (FRR Immigration). Amount of loan advanced during the Inspection period – Rs. 2.14 Crore Amount of loan outstanding as on 31.08.2022 – Rs.13.6 Lakh	Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.												

15	Passing of penalty on short reporting of margin: Broker has passed on penalty to clients on account of short reporting of upfront margins. <table border="1"> <thead> <tr> <th>Segment</th><th>No. of Clients</th><th>Amount passed</th></tr> </thead> <tbody> <tr> <td>CM</td><td>13</td><td>63,687</td></tr> <tr> <td>FO</td><td>27</td><td>4,31,677</td></tr> <tr> <td>CD</td><td>2</td><td>6,538</td></tr> </tbody> </table>	Segment	No. of Clients	Amount passed	CM	13	63,687	FO	27	4,31,677	CD	2	6,538	Clause A.5 of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.
Segment	No. of Clients	Amount passed												
CM	13	63,687												
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16	Verification of member internal policies: Broker did not adhere to corporate governance compliance as it did not present to the Board/ Committee regarding internal audit reports, inspection reports, related party transactions, breaches in back office software, delay in submission of data to exchanges during inspection and others	Regulation 9(b) of SEBI (Stock Broker) Regulations, 1992 read with Regulation 4.2.2 of Part A of the Capital Market Regulations of NSE.												
17	Cyber security and cyber resilience: a. broker did not have cyber security policy in place before July 05, 2021 b. Off- the-shelf products were not STQC certified	Clauses 2 and 36 of Annexure-1 to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018.												

5. Based on the findings of the said inspection, Adjudication proceedings and Enquiry proceedings under SEBI (Intermediaries) Regulations, 2008 (“**Intermediaries Regulations**”) were initiated against the Noticee vide SCNs dated November 08, 2023 and December 05, 2023, respectively, for the above-mentioned violations. Subsequently, Adjudication Order dated May 13, 2024 was passed by the Adjudicating Officer (AO) imposing a monetary penalty of Rs. 11,00,000/- on the Noticee.

Enquiry by the Designated Authority (DA):

6. Similarly, a DA was also appointed to enquire into the matter under the Intermediaries Regulations and submit a report pertaining to the aforesaid allegations. In this regard, the DA issued a show-cause notice (hereinafter referred to as “**SCN**”) dated December 05, 2023 to the Noticee under Regulation 25(1) of the Intermediaries Regulations to show cause as to why appropriate recommendation should not be made against it in terms of Regulation 26 of the Intermediaries Regulations for the violations alleged to have been committed by

the Noticee, as mentioned at the table above. In this regard, the Noticee was advised to submit its reply, if any, within 21 days of receipt of the notice. Vide email dated December 21, 2023 i.e. on the due date of reply to the SCN, the Noticee sought extension to submit the reply to the SCN.

7. Thereafter, the Noticee request was acceded to and was also provided an opportunity of hearing on January 05, 2024, vide Hearing Notice dated December 26, 2023. In the said notice the Noticee was allowed time till January 01, 2024 to submit the reply to the SCN. However, the Noticee once again sought extension of time till January 11, 2024 to submit its reply to the SCN, vide its e-mail dated December 27, 2023. Accordingly, further extension was granted to the Noticee and the hearing was rescheduled to January 12, 2024. Subsequently, vide letter dated January 11, 2024, the Noticee submitted its reply to the SCN and availed the hearing opportunity on the rescheduled date of hearing i.e. on January 12, 2024.
8. However, during the rescheduled personal hearing, time was sought by the Noticee to make final and complete submission in the matter, which was allowed by the DA. Hence, the Noticee made its additional submissions vide its letter dated January 17, 2024. Next, the Noticee sought another opportunity of personal hearing, vide its email dated January 18, 2024, which was granted on February 13, 2024, vide Hearing Notice dated February 07, 2024. Thereafter, the Noticee availed the second opportunity of personal hearing scheduled on February 13, 2024.
9. After considering the allegations levelled in the show-cause notice, reply filed by the Noticee and the material available on record, the DA, submitted the aforesaid Enquiry Report and made the following recommendation:
"....having regard to orderly functioning of the securities market and protection of interest of investors, I recommend that the Noticee i.e., FRR Shares and Securities Limited, SEBI Registration No: INZ000279232, be prohibited from taking up any new assignment or contract or launch a new scheme for a period of one month."

Post Enquiry Proceedings:

10. Thereafter, a Post-Enquiry Show Cause Notice dated May 16, 2024 (hereinafter referred to as “**Post Enquiry SCN**”) was issued to the Noticee enclosing a copy of the Enquiry Report dated May 13, 2024, submitted by the DA, while calling upon it to show cause in terms of Regulation 27 of the Intermediaries Regulations as to why actions as recommended by the DA should not be taken against the Noticee in terms of the said Regulations.
11. I note that the said Post Enquiry SCN was issued to the Noticee through SPAD and e-mail dated May 16, 2024 and were duly delivered. The Noticee confirmed the receipt of the e-mail dated May 16, 2024 vide its e-mail dated May 27, 2024. Thereafter, vide e-mail dated June 05, 2024 the Noticee submitted the soft copy of its preliminary reply and submitted the hard copy of the same to SEBI on June 06, 2024. Vide the said reply, the Noticee sought for inspection of certain documents, which was granted on July 24, 2024. Thereafter, the Noticee was granted an opportunity of personal hearing on September 24, 2024 vide e-mail dated September 03, 2024. However, the Noticee vide its letter dated September 12, 2024 sought for the adjournment of the said personal hearing, which was granted. Accordingly, a last and final opportunity of personal hearing was granted to the Noticee on October 08, 2024, which was availed by it. Thereafter, vide e-mail dated October 03, 2024, the soft copy of the detailed reply dated October 01, 2024, was submitted, while the hard copy was submitted on October 04, 2024. During the said personal hearing, the Noticee sought time to file its post hearing reply in the matter, for which, time has been granted to it till October 22, 2024. Accordingly, the Noticee submitted its post hearing reply vide letter dated October 21, 2024, received by SEBI on October 22, 2024.

Consideration and Findings:

12. I have carefully perused the Post Enquiry SCN dated May 16, 2024 including the Enquiry Report dated May 13, 2024, served on the *Noticee*, other materials/information submitted by the *Noticee* and other relevant materials available on record. After considering the allegations levelled against the *Noticee*

in the instant matter as spelt out in the post Enquiry SCN, the issue which arises for my consideration in the present proceeding is whether the *Noticee* has violated various provisions of the SEBI Act, Rules, regulations and the relevant circulars relating to its broking operations.

13. I note that the Post Enquiry SCN contained the following observations made by the DA.

S.No.	Alleged Violations	Observations of the DA
1	Misuse of clients' funds, Verification of Proprietary MTM loss and Analysis of Enhanced supervision data (Weekly): a) G negative – On 12 out of 38 sample instances, funds of credit balance clients mis-utilized for meeting the obligations of debit balance clients and/or for its own purpose. The average misutilised amount is Rs. 1.56 Crore. The amount of misutilization ranges from Rs.22.9 Lakh to Rs.3.74 Crore. b) Further, value of 'J' is positive in 2 out of 38 sample instances, funds of clients mis-utilised towards margin obligations of debit balance clients and proprietary trading. The average misutilised amount is Rs. 6.26 Crore. The amount of misutilisation ranges from Rs. 98.75 Lakh to Rs. 11.54 Crore.	Violation of Section 23D of SCRA Act, 1956 read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, stands established
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4	Reporting and short collection of Margin: Broker has done wrong reporting	Violation of Clause 4.1.2, 4.1.5 of SEBI Circular

	of End of Day Margin ("EOD margin") in 1 instance amounting to Rs. 2.22 Lakh.	SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/ 2020/146 dated July 31, 2020, stands established.
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9	Net Worth verification: Net worth reported as on 31st March 2022 -Rs. 7.56 Crore Net worth as per calculation -Rs. 3.18 Crore Net worth overstated -Rs. 4.38 Crore	Violation of Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and Annexure A to NSE Circular NSE/COMP/48895 dated July 10, 2021, stands established.
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17	Cyber security and cyber resilience: a. broker did not have cyber security policy in place before July 05, 2021 b. Off- the-shelf products were not STQC certified	Violation of Clauses 2 and 36 of Annexure-1 to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018, stands established.												

14. From the above, I note that multiple allegations have been alleged against the Noticee and for the sake of convenience and clarity, I shall deal with each of the allegations independently in the following paragraphs.

a. Misuse of clients' funds, Verification of Proprietary MTM loss and Analysis of Enhanced supervision data (Weekly):

i. As regards the allegation that G was negative in 12 out of 38 sample instances and J was positive in 2 out of 38 sample instances, I note as under;

A. I note that for the alleged violation of G negative, the Noticee has submitted the following to the undersigned:

a. **03.11.2021:** Trade Guarantee Fund (TGF) of BSR of Rs.5,00,000/- (i.e. 50% of Rs.10,00,000/-), another amount of Rs.25,00,000/- which was deposited with the clearing member – Edelweiss Custodial Services Ltd., the Base Minimum Capital (BMC) of Rs.15,00,000/- and the value of 5 uncleared cheques worth Rs.21,95,500/- were not considered by SEBI while calculating 'G'. In support of the same, the

Noticee submitted a copy of statement dated 03.11.2021 issued by Indian Clearing Corporation, consolidated report dated 03.11.2021 in the books of Edelweiss Custodial Services Ltd., copy of the base minimum capital breakup for 03.11.2021 and copies of summary of cheques along with copies of bank statements.

- b. **25.11.2021:** Three amounts i.e. TGF of Rs.5,00,000/-, BMC of Rs.15,00,000/- and 6 uncleared cheques worth Rs.43,43,500/- were not considered while calculating the value of G for that day by the inspection team.
- c. **14.02.2022:** 3 amounts i.e. TGF of Rs.5,00,000/-, BMC of Rs.15,00,000/- and 16 uncleared cheques worth Rs.87,08,550/- were not considered while calculating the value of G for that day by the inspection team.
- d. **12.04.2021 and 24.01.2022:** Creditor balances considered by NSE were without considering uncleared cheques, if added then G negative would have been lesser on these days.

B. Further, for the alleged violation of J positive, the Noticee has submitted the following:

An amount of Rs.23,38,55,071 on 17.03.2022 and Rs.22,32,00,000 and Rs.25,76,99,555/- in respect of collateral deposit in the form of cash with exchange, were not considered by SEBI.

C. I note that the Noticee has further submitted that it kept bank guarantee of Rs.3,00,00,000/- with the exchange. Non-funded part of Rs.1,50,00,000/- is towards margin of pro-trades.

D. Further, Noticee stated that the funds of the credit balance clients were never used or utilized by the Noticee for proprietary trading or any other purpose.

E. From April 2022 to present date, there has not been a single instance where the G is negative. Even in the enquiry report it is mentioned that the above can be considered as mitigating factor.

F. Noticee further submitted that it had already paid the penalty levied by the exchange on three occasions vide order dated 01.07.2022, 30.08.2022 and

23.09.2022 of the Ld. Member and Core Settlement Guarantee Fund Committee of NSE for value of G being negative for the period which coincide with the period of inspection by SEBI.

- ii. With regards to the alleged violation of G negative, I note that the Noticee has contended that TGF and BMC has not been considered for calculation of value of G. In this regard, I note that it was clarified by SEBI as under:

“As per Exchange notice no. 20240406-4 dated 6-Apr-2024 regarding Operational Guidelines for Monitoring of Client Funds under Enhanced Supervision, it is clarified that only collateral deposited with clearing corporations/ clearing member in the form of cash and cash equivalents can only be considered. Further to computation purpose, only Cash, Fixed Deposit and Mutual Fund Overnight Schemes (MFOS) are permitted, as specified in notice.

Since Base Minimum Capital is a requirement for Exchange membership and trading exposure on it is not available, it is not being considered towards availability of client funds as per guidelines clarified above. However, Trade Guarantee Fund (TGF) is a deposit with clearing corporation (CCs) and its exposure is available. Therefore, TGF can be considered for the availability of client funds.”

- iii. Accordingly, I note that the TGF can be considered towards calculation of ‘G’. However, I note that even after considering TGF for calculation of ‘G’ for the aforesaid dates, the value of G remains negative. Thereafter, as regards the BMC, I note that it is a reserve amount to be maintained by a broker, for trading on the exchange. As no exposure is allowed against the BMC, it is not considered for calculation of G. Further, as regards the uncleared cheques, I note that the Noticee itself stated that the creditor balances considered by the NSE inspection team were taken directly from back office of the Noticee without removing the effect of the uncleared cheques. It means, the Noticee maintained the creditor balance with inclusion of uncleared cheque of the client that has been taken by the inspection team while doing the inspection

at the Noticee's office for calculation of value of 'G'. In this connection it appears that the Noticee was not serious in providing correct data despite the inspection being carried out subsequent to the instances of penalty imposed on three occasions by the Member and Core Settlement Guarantee Fund Committee of NSE on the violation for G being negative for which the Noticee had paid the penalty amount as well. Apart from this, the Noticee was also warned by the exchange with a possibility of prohibiting from onboarding new clients for one month in case of failure to demonstrate the availability of funds in future. Further, I also note that the aforesaid discrepancy made to the undersigned, was not brought to the notice of the inspection team neither during the inspection nor at the time of replying to the specific observation of inspection on the G negative as well as with the DA. This clearly shows the casual approach of the Noticee towards the regulatory requirements to be complied with.

- iv. Lastly, as regards the amount of Rs.25,00,000/- deposited with the clearing member, Edelweiss Custodial Services Limited, I note that the Noticee has submitted a daily activity sheet of FRR for the date 03.11.2022, which shows that Rs.25,00,000/- has been deposited with the exchange instead of with the clearing member. I note that SEBI sought the Daily Margin Statements for the specific dates from the Noticee to verify the claims of the Noticee. However, I note that the Noticee again submitted the aforesaid Daily Activity Sheet, as submitted in earlier occasions instead of the Daily Margin Statements, which fails to substantiate his contention. Accordingly, I note that the Noticee is making mere statements without any documentary evidence on support of the claims made to consider it on merit.
- v. Based on the aforesaid observations, I find no merit in the contentions of the Noticee regarding value of 'G' being negative.
- vi. With regard to the allegation of J being positive on 2 days, I note that the Noticee has contended that an amount of Rs.23,38,55,071 on 17.03.2022 and Rs.25,76,99,555/- on 25.03.2022 in respect of free/Unblocked Collateral Deposits with Clearing Corporations and Rs.22,32,00,000 on 25.03.2022 in

respect of Collateral Deposit in form of cash were not considered by SEBI. In this regard, I note that no documentary evidence in support of the aforesaid claim has been submitted to consider the same on merit.

- vii. Further, with regards to the contention of the Noticee that penalty imposed by Member and Core Settlement Guarantee Fund Committee of NSE for the G being negative, includes the inspection period of SEBI, I note that none of the dates are overlapping between this proceeding and the aforementioned NSE inspection with respect to the allegation of G being negative. Further, from the above I note that Noticee has submitted that Member and Core Settlement Guarantee Fund Committee of NSE had found the Noticee in violation for G being negative in three occasions and for which the Noticee has paid the penalty amount as well. This clearly shows the casual approach of the Noticee towards the regulatory requirements to be complied with. In this regard, I also note that even exchange had warned the Noticee of prohibiting from onboarding new clients for one month in case of failure to demonstrate the availability of funds.

b. Monthly / Quarterly Settlement of Funds and Securities:

- i. Before proceeding, I would like to refer to the applicable provisions of SEBI circulars which are alleged to have been violated by the Noticee while settling the funds of unique 339 Inactive Clients accounts as on August 31, 2022 amounting to Rs.16,32,648/- and the same reads as under:

SEBI Circular no. MIRSD/SE/Cir-19/2009 dated December 3, 2009

Running Account Authorization ...

12. Unless otherwise specifically agreed to by a Client, the settlement of funds/securities shall be done within 24 hours of the pay-out. However, a client may specifically authorize the stock broker to maintain a running account subject to the following conditions: ...

- (e) The actual settlement of funds and securities shall be done by the broker, at least once in a calendar quarter or month, depending on the preference of the client. While settling the account, the broker shall send to the client

a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

Rights and Obligations document for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 4 of the SEBI Circular no. CIR/MIRSD/16/2011 dated August 22, 2011

33. The stock broker shall make pay out of funds or delivery of securities, as the case may be, to the Client within one working day of receipt of the payout from the relevant Exchange where the trade is executed unless otherwise specified by the client and subject to such terms and conditions as may be prescribed by the relevant Exchange from time to time where the trade is executed.
- ii. In this regard I note that the Noticee submitted that 1 client Mr. Suresh Gupta's dues was settled on 01.09.2022, as 31.08.2022 was a public holiday on account of Ganesh puja. However, I note that unless otherwise specifically agreed by a client, settlement of funds/securities have to be done within 24 hours of the payout. Further, I note that the Noticee has not submitted any evidence to show that Mr. Suresh Gupta had specifically permitted it to settle the dues one day later.
- iii. Next, as regards its NRI client, Nupur Dhamani having credit balance of Rs.2.85 Lakh, the Noticee submitted that the funds could not be settled because the account turned dormant. In this regard, I note from the documents submitted by the Noticee that the said account of the client appears to be inactive, and, the Noticee has submitted only one communication of Yes Bank with Noticee. However, as per the relevant circulars, in case a member is unable to settle a client's dues due to non-availability of client's bank account details then the said member has to make all efforts to trace the said client in order to settle its funds/securities and maintain an audit trail on the same for such efforts. Therefore, I find that the Noticee has not provided sufficient documents to show that efforts were made by it towards settling the dues of

its client, Nupur Dhamani and thus, I do not find any merit in the submission of the Noticee, in this regard.

- iv. Thereafter, with regard to 28 clients having unsettled amount of Rs.38,912/-, the Noticee has submitted that they have transacted subsequently and therefore became active. However, I note that the Noticee has not demonstrated how the funds with respect to these clients were returned and even if so, it cannot take away from the fact that Noticee did not settle the funds to them when it was due. Further, with regards to the other 202 clients with unsettled value of Rs.1,73,486/-, Noticee has contended that funds of the aforesaid clients have been settled as on date and there are no pending settlements in this regard. However, I note that the Noticee has not submitted any documents in support of these statements. Therefore, I do not find any merit in the submissions of the Noticee in this regard and therefore the same cannot be accepted.
- v. More so, in this respect, the record before me shows that the Noticee instead of taking steps to ensure compliance with the mandatory provisions of SEBI circular dated December 3, 2009, was progressively defaulting in its obligations to comply with the circular. It is pertinent to note that by not receiving the statement of account on time, as stipulated by SEBI circular, the clients were kept in dark with respect to the state of affairs in their running accounts maintained with the stock broker, giving rise to the possibility of these accounts of such inactive clients being misutilised for unauthorised trading by employees, authorized persons, etc. of the stock broker. Further, clients in general, whether active or inactive, are entitled to receive the settlement statement periodically as per their preference. This is a prudential norm prescribed considering the interest of investors so that their funds are not kept unsettled by the stock broker for indefinite periods on any pretext. I note that the aforesaid circular was issued with a view to instil greater transparency and discipline in the dealings between the clients and the stock brokers and to protect the interests of investors in the securities market. The objective of the mandatory provisions of the circular is not only to keep the investor periodically informed about his/her account, so as to curb any

misutilization of funds, but also to inform and update the investors about their respective exposures to the quantum and value of various securities to ensure that the clients periodically monitor their exposure to securities market and assess if their exposure is proportionate to their potential. However, in the instant case such a regulatory intent and mandate has been completely disregarded by the Noticee. Hence, I find that the commission of the above acts of not settling the funds and securities of client by the Noticee certainly fall within the mischief of clause 12(e) of SEBI circular no. MIRSD/SE/Cir-19/2009 dated December 3, 2009 and clause 33 of Rights and Obligations document for Stock Broker, Sub-Brokers and Clients as prescribed in Annexure 4 of the SEBI circular no. CIR/MIRSD/ 16/2011 dated August 22, 2011.

- vi. As regards the allegation of not maintaining separate bank account for keeping funds of inactive clients, I note that the Noticee has submitted that the funds of inactive clients were kept in a separate account which was not used for any purpose, even though there was no separate account for keeping funds of inactive clients. In this regard, I note that the submission of Noticee is in the form of admission, since the Noticee appears to be aware of the requirement for it to open a separate client bank account to set aside the funds and securities of inactive clients who cannot be traced, in such account.
- vii. As regards the allegation of not sending SMS to clients on settlement, the Noticee submitted that the SMS could not be sent to clients on settlement due to some technical issue that was later resolved. I note that this statement of the Noticee is in the nature of admission. Further, I do not find merit in the submission of the Noticee wherein it has stated that there was no complaint for any of the inactive client for non-settlement because irrespective of complaints, the Noticee is required to send SMS to its clients on settlement, which it had failed to do.
- viii. Therefore, the submissions of the Noticee in this regard are without any merit and therefore cannot be accepted. Accordingly, I agree with the DA and find

that the Noticee has violated the provisions of Clause 5.1 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Clause 12(e) of Annexure-A to SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 8.1 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

c. Bank Book verification:

- i. As regards the allegation of not reporting 3 bank accounts (i.e. 1. HDFC- MF NSE SETL A/C with A/c No. 990610013684, which is dormant, 2. SIB PMS FEES A/c 0194.73.1651, with A/c No. 194073000001651, which is closed as on 27.05.2022 and 3. AXIS BANK - NSEIL A/C with A/c No. 918040081099072, which is active, to exchanges (BSE/ NSE), I note that the Noticee has submitted that there is no active bank account not being reported and the allegation only involves 1 dormant account not involving material bank balances of Rs.85.87 and 1 closed bank account. This response of the Noticee is similar to that made to the DA as well.
- ii. In this regard, I note that upon perusal of the provision of clause 2.3.3. of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, it is observed that it requires the Noticee to communicate the details of all existing bank and demat accounts to the stock exchanges. Thus, as regards not reporting of the 1 dormant account not involving material bank balances of Rs.85.87 and 1 closed bank account, which were active at the time of the circular, irrespective of the balance amount available in it, the Noticee was required to disclose to the stock exchanges as per the above-mentioned circular. Therefore, the Noticee by not reporting the aforesaid dormant and closed account to the stock exchanges has directly violated the above-mentioned provision of law.
- iii. As regards, the AXIS BANK - NSEIL A/C with A/c No. 918040081099072, which is active, I note that the Noticee has submitted to the DA that it was an FD account and since the SCN has not explained how the non-disclosure of the said account is a violation on the part of the Noticee, the DA has given the

benefit of the doubt to the Noticee. In this regard, I agree with the DA and find that if the said FD account of Axis bank has already been reported, then there is no violation as regards the AXIS BANK - NSEIL A/C with A/c No. 918040081099072 by the notice. Therefore, I find that as regards HDFC- MF NSE SETL A/C with A/c No. 990610013684, which is dormant, and SIB PMS FEES A/c 0194.73.1651, with A/c No. 194073000001651, the Noticee has not reported the same to the stock exchanges and therefore, has violated clause 2.3.3 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

d. Reporting and short collection of Margin:

- i. As regards the allegation of wrong reporting of End of the Day Margin in 1 instance amounting to Rs.2.22 Lakh, the Noticee submitted that SEBI has observed only one instance involving wrong reporting over the span of 15 months investigated by it. With regard to the aforesaid submission of the Noticee, it is to be noted that irrespective of the number of violation one should follow provision of law as specified, more particularly in the securities market for the interest of the investors. Further, by such reporting of the end of day margin incorrectly to the exchanges even for a single instance can affect the interest of market. Also, there is no provision of law which exempts a single instance of violation. Further, the Noticee also submitted that the same was due to software problem which was later identified and rectified by the Noticee. Thus, I note that the Noticee's submission in this regard is in the nature of admission.
- ii. Therefore, I agree with the DA that the Noticee has done wrong reporting of EOD margin in 1 instance amounting to Rs.2.22 Lakh and find that it has violated Clauses 4.1.2 & 4.1.5 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/ 2020/146 dated July 31, 2020.

e. Stock reconciliation:

- i. With regards to the alleged violation of Stock reconciliation, as detailed in table at para 13 above, I note that the Noticee has submitted that it regularly carries out reconciliation of back-office holdings of client's securities with stock lying in DP accounts. The Noticee also submitted that the mismatch in reporting of weekly holdings was only with respect to 2 ISIN on 2 different dates with mismatch of only Rs.9870/- and Rs.1970/-, which were due to interpretational issues.
- ii. In this regards, I note that the submissions of the Noticee are in the nature of admission and agree with the observation of the DA that the Noticee has neither demonstrated the interpretational issue nor has sought any clarification from SEBI in that regard. Therefore, I do not find any merit in the submission of the Noticee and while agreeing with the DA I find that the Noticee has violated, Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.

f. Client registration process (KYC, CKYC and KRA process):

- i. As regards the allegation that the Noticee has updated the KRA after 10 days, out such 12 instances the application forms were not complete in 2 instances and discrepancies were observed in IPV process in 9 instances. Further, the Noticee submitted that the delays in uploading was due to staff working from home during the post Corona Pandemic days and currently, it is updating KRAs within time limit of 10 days. Therefore, I note that the Noticee has admitted to said allegation.
- ii. Further, as regards to the allegation that the Running A/c authorization contained a clause of retaining amount of balance of less than Rs.10,000/- in ledger, which was continuing after August 2021 in 28 instances, I note, that the Noticee has submitted that the account opening forms were printed prior to August 2021 and also stated that it has not authorized its use and has settled credit balances less than Rs.10,000/-. Therefore, I note that the Noticee's submissions are in the form of admission. Further, the Noticee has

not given any documents in support of its claim that it has not authorized its use and has settled credit balances less than Rs. 10,000/-.

- iii. Therefore, I find that the Noticee has violated Clause 5.6 of SEBI Circular SEBI/HO/MIRSD/DOP/ P/CIR/2021/577 dated June 16, 2021 and Clause 1(i) of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011.

g. Verification of Email ID & Mobile Numbers:

- i. As regards the allegation that Mobile number of the Noticee's clients had not been found in the exchange record in 26 instances and email ID of client in back office were mismatched with exchange record in 14 instances, the Noticee has submitted that, there were minor lapses due to staff working from home and the updation of the UCC data on the exchange happened with a delay due to technical difficulties, which have been rectified since. I note that as per Clause 2 (B) of SEBI Circular No. CIR/ MIRSD/15/2011 dated August 02, 2011, brokers are required to update mobile numbers and e-mail details of its clients in a timely fashion. Since the submission of the Noticee is in the nature of admission, I agree with the DA and find that the Noticee has violated the provisions of Clause 2 (B) of SEBI Circular No. CIR/ MIRSD/15/2011 dated August 02, 2011.

h. Complaints and arbitration:

- i. As regards the allegation that Noticee had not resolved 4 complaints within 21 days, I note from the Noticee's reply that with respect to complaint No. SEBIE/MH21/009715/1, the Noticee has submitted the copy of Investor services cell, NSE letter dated 02.09.2021 to Hiren Visaria, the complainant that the complaint has been resolved and the e-mail dated August 22, 2021 received from NSE which shows that the complaint was resolved well within 21 days as required by Regulation 9 of the Broker regulations. Thereafter, with regard to other 3 complaints, the Noticee submitted that all the three complaints were by Mr. Suresh Gupta for the same subject matter on 30.04.2021. The Noticee further submitted that it had filed its reply to the same

on 06.06.2021. Thereafter, the Noticee submitted that it was informed vide NSE's letter dated 01.07.2021 regarding the Grievance Redressal Committee (GRC) that was formed by it for early redressal of the said complaints and accordingly advised the clients to appear before it on 19.07.2021. Next, the Noticee submitted that pursuant to its appearance before the GRC, the exchange vide its order dated 27.07.2021 had closed the complaints filed by Mr. Suresh Gupta in favour of the Noticee. The same is observed from the supporting documents submitted by the Noticee. Also, the Noticee submitted a response from NSE vide its e-mail dated 30.05.2024, which shows the dates of receipt as 12.05.2021 and closure as 27.07.2021, of these complaints, from which I note that the complaint of Mr. Hiren Visaria, was closed quickly and the three remaining complaints were resolved after 76 days pursuant to GRC of NSE in favour of the complainant.

- ii. I also note that GRC committee is formed when the complainant is not satisfied with the resolution. Therefore, I note that the Noticee has offered its resolution to the said three complaints in about 37 days which is beyond the 21 days as directed. Therefore, I find that the Noticee has violated Regulation 9(e) of the Brokers Regulations.

i. Net Worth verification:

- i. In this regard, I note that it was alleged that there was discrepancy in the networth reported on March 31, 2022 to be Rs.7.56 Crore. However, as per calculation, the net worth was only Rs.3.18 Crore and has been over stated by Rs.4.38 Crore. I note that, as regard to the said allegation, the Noticee has submitted that the net worth in this regard was calculated and certified by M/s S Raman and Aiyar & Co dated 19.10.2022 certifying networth as on 31.03.2022 at Rs.6,18,15,610/- and not Rs.7,56,00,308/- as claimed by SEBI. Upon perusal of the DA report, I observe that the DA has given the Noticee the benefit of the doubt to the extent of Rs.7.56 crore being Rs.6.18 crores, with the reason that the NSE Circular dated July 10, 2022 does not mention rental deposits to be deducted while calculating the net worth, which I am also inclined to agree with.

- ii. Further, I do not accept its submission that Unbilled Referral Fees appearing under other current assets represent revenue accrued to the company as per accounting policy consistently followed by the company and in line with generally accepted accounting principles followed in India, as the Unbilled referral revenue is in the nature of deferred revenue the same needs to be deducted as per NSE Circular NSE/CMP/48895 dated July 10, 2021, under Annexure A Sr. No. 7 “Prepaid expenses, losses” it is mentioned that deferred revenue shall be deducted at the time of calculating Net worth.
- iii. Furthermore, I note that none of the submissions of the Noticee in this regard take away from the fact that it has in fact over stated its net worth on March 31, 2021. Therefore, I find that there is no merit in the submission of the Noticee in this regard, therefore I agree with the DA and find that the Noticee has violated Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and Annexure A to NSE Circular NSE/COMP/48895 dated July 10, 2021.

j. Analysis of Enhanced supervision data (Weekly):

- i. In this regard, I note that, the Noticee has submitted as regards the allegation of incorrect reporting of data towards weekly monitoring of client’s funds on 10 sample dates, that in 1 instance i.e. 03.11.2021, the relevant explanation for the same has been given before and there is no wrong reporting involved. As regards the said instance of 03.11.2021, finding has already been given above at para 13 (a). Further, I note that the Noticee admitted that with regard to the other instances of incorrect reporting only had marginal differences. Accordingly, I do not find merit in the submissions of the Noticee in this regard. Therefore, I find that the Noticee has incorrectly reported the data towards weekly monitoring of client funds on 10 sample dates violating Clause 3.2 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/ 2016/95 dated September 26, 2016.

k. Client Level Cash & Cash Equivalent Balances and Bank Account Balances:

- i. In this regard, I note that the Noticee has submitted that Codes relating to Misdeal (Error) and Proprietary trading have not been reported by it and the same were not client codes. However, as per the relevant circular, I note that error codes are also required to be reported as they relate to client codes and proprietary trading also needs to be reported as per SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE circular NSE/ INSP/43486 dated February 10, 2020. Further, the above mentioned submission of the Noticee is in the nature of admission with respect to non-reporting of the same. Therefore, I agree with the finding of the DA that the Noticee had not reported Proprietary, Error Account and Client account client codes appearing in Trial Balance on 11 instances and find that it has violated Clause 7 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE Exchange circular NSE/ INSP/43486 dated February 10, 2020.

l. Risk based supervision (RBS):

- i. In this regard, I note that the Noticee submitted that the difference in RBS data v/s post audit data was due to rectification, write off entries passed during the course of audit. Further, I also note that the Noticee has admitted the error to be unintentional. Therefore, I agree with the finding of the DA that the allegation that the Noticee has not correctly reported the details in RBS submission, stands established. Therefore, I hold that the Noticee has violated Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

m. Demat Account Verification:

- i. As regards the allegation of not reporting closed demat accounts on the Exchange Portal in 3 instances, I note from the reply submitted by the Noticee that the said demat accounts were opened and closed immediately as there was issue with nomenclature used. Also, no securities were held in these

demat accounts and their details were subsequently updated on Exchange Portal. However, upon perusal of the relevant provision of law, it is observed that there is no distinction between demat accounts opened and closed immediately or later, irrespective, the Noticee was required to intimate the same within a week of opening and/or closing of doing so.

- ii. Further, as regards the allegation of not undertaking tagging of DP accounts in 5 instances, the Noticee has not provided any response. In the absence of any response in this regard, I am of the opinion that the Noticee has admitted to the said allegation levelled against it in the SCN. Thereafter, as regards the allegation of transferring, securities of Credit Balance(F&O) Clients to the said client's unpaid securities account (Cash Segment) in 1 instance, the Noticee has stated that securities were transferred to client unpaid securities account (CUSA) against debit balance in Cash segment. Credit in F&O segment is treated separately and considered as margin for F&O trades of the client. The Noticee also submitted that after the client had cleared in debit in cash segment, securities were released to the client. In this regard, I note that as per the material available on record, the ledger of the said client (UCC – 22150410) shows a credit balance of Rs.3,40,024.03 whereas CUSA value was Rs.2,92,422.24. This indicates that though the said client had credit balance in the ledger more than the value of unpaid securities and accordingly, there was no requirement to transfer the unpaid securities to CUSA. Further, as already noted by the DA, the Noticee has not demonstrated with documentary evidence as to why the credit balance in F&O segment was not adjusted against the debit balance in cash segment and transferred to CUSA. In view of the same, I find no merit in the aforesaid contention of the Noticee.
- iii. Therefore, it is established the Noticee has violated the provisions of Clause 4.3 of SEBI Circular No. CIR/HO/MIRSD/DOP/CIR /P/2019/75 dated June 20, 2019.

n. Engaged in other than broking activities:

- i. In this respect, I note that the Noticee has submitted a similar reply to the DA and the undersigned, wherein it has stated that it was not involved in the business of extending loans and only temporary loans were given to group company FRR Immigration which were received back from time to time. The Noticee also submitted that FRR Immigration is involved in referral business in respect of investment programs of USA and other countries whereby persons investing in securities of certain eligible projects resulting in employment generation in those countries get preference for Citizenship over other applicants.
- ii. In view of the above, I note that Rule 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957, prohibits brokers from engaging as a principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent in any other business but not involving any personal financial liability. The intent and purpose of the said Rule was interpreted by Hon'ble Madras High Court in the order ***The Madras Stock Exchange Limited vs S.S.R. Rajakumar*** dated 25.02.2003 wherein it stated that: - *'The first part prohibits the Member of the Exchange from being the principal or employee of any business other than that of securities. The second part permits his functioning as a broker or agent in a business 4 other than securities, provided he does not incur any personal financial liability by functioning as such broker or agent.'*
- *'The Stock Exchange which has the responsibility of policing the functioning of the stock brokers who, in order to function as such, must possess the qualification prescribed, and who deal with enormous sums of monies entrusted to them by their clientele, must necessarily possess power to impose penalties and to ensure that all those who desire to function as stock brokers conform at all times to the discipline required of them.'*
- iii. This implies that that the primary objective is to safeguard the client's funds, restricting the scope to the extent where the client's funds are adversely affected. Therefore, it is immaterial if the other activity of the broker was temporary in nature. This does not take away from the fact that such loans

would have created a personal financial liability for the broker which could have caused prejudice to the interest of its clients. Further, the Noticee has nowhere demonstrated or provided documents to show that its surplus fund was used to give loans to FRR Immigration as suggested in the case laws relied upon by the Noticee. Therefore, the said case laws are not relevant to the current proceeding.

- iv. Next I note that, the Noticee has stated that validity of circular dated 07.01.2022 pertaining to clarification of Rules 8(1)(f) and 8(3)(f) of SCRR, is under challenge before the Hon'ble Bombay High Court. In this regard, I note that until the outcome of the Hon'ble Bombay High Court in the above issue, Rule 8(3)(f) is still valid and can be followed for the period of violation in this case. Therefore, I do not find any merit in the submission of the Noticee and agree with the finding of the DA that the Noticee has violated the provisions of Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.

o. Passing of penalty on short reporting of margin:

- i. In this respect, I note that the Noticee has submitted a similar reply to the DA and the undersigned. Hence, as regards the alleged violation of passing of penalty on short reporting of margin, against the Noticee, pursuant to the perusal of the Noticee's reply and the documents provided in support of the same, I note that Noticee has submitted that, "*We submit that we had reversed penalty levied on clients for short reporting of upfront margin on 03.12.2022....*" which I note that is in nature of admission. Therefore, I agree with the findings of the DA in this regard and find that the Noticee has violated the provisions of Clause A.5 of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/ INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.

p. Verification of member internal policies:

- i. In this regard, I note that the DA has given the Noticee the benefit of the doubt and accordingly, the Noticee has not provided any response to the undersigned.
- ii. In view of the above, I examined the reply of the Noticee submitted to the DA and note that it had submitted the sample resolutions to the DA while stating that it has adhered to the Corporate Governance Policy as review of the all the necessary requirements as mentioned in the SCN get reviewed on periodical basis during the Company's Board meetings. Hence, the DA while taking into consideration the said documents submitted by the Noticee and its reply has granted it the benefit of the Doubt. Therefore, upon perusal of the same, I am inclined to agree with the DA that the sample resolutions submitted by the Noticee to the DA sufficiently proved that it has adhered to the Corporate Governance Policy and grant the Noticee the benefit of the doubt in this regard.

q. Cyber security and cyber resilience:

- i. In this respect, I note that the Noticee has submitted a similar reply to the DA. Hence, as regards the alleged violation of not having cyber security policy in place before July 05, 2021, against the Noticee, pursuant to the perusal of the Noticee's reply and the documents provided in support of the same, I agree with the findings of the DA that the Noticee has only submitted the pdf copies of IT policies, has not submitted any proof/ document to demonstrate when these policies came into existence and further, the Noticee has not demonstrated as to how the said various IT policies satisfy the requirement with respect to Cyber Security & Cyber Resilience framework as per Annexure 1 of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018. Also, I note that as per Clause 4 of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018, the requirement for having the cyber security policy was effective from April 1, 2019, while as per the Noticee's submission the cyber security policy became effective from July 2021. Therefore, I agree with the findings of the DA in this regard and find the Noticee's contention does not carry any merit. Thus, I find that the Noticee

has violated Clauses 2 and 36 of Annexure-1 to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018.

15. It is also pertinent to note that for the same set of allegations, adjudication proceedings were also initiated by SEBI which were concluded with passing of Adjudication Order dated May 13, 2024 whereby the Adjudicating Officer imposed a penalty of ₹11,00,000 upon the Noticee, which has been paid by the Noticee (under protest).

16. Apart from the above, I take note of the fact that alleged violations on two counts have been established against the Noticee and for that monetary penalty has been imposed on the Noticee. Further, there are certain mitigating circumstances as mentioned above and the Noticee has also informed that it has taken corrective steps to rectify the alleged defaults. Therefore, I agree with the recommendation made by the DA, vide report dated May 13, 2024 and find that it may meet the ends of justice.

Directions:

17. In view of the foregoing, I, in exercise of the powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Regulation 27 of the Intermediaries Regulations, hereby prohibit the Noticee i.e. FRR Shares and Securities Limited, having SEBI registration number – INA000279232 from on-boarding new clients for a period of one (1) month, from the date of this order.

18. This order comes into force with immediate effect.

19. A copy of this order shall be forwarded to the Noticee.

DATE: October 29, 2024

PLACE: MUMBAI

G. RAMAR

CHIEF GENERAL MANAGER

SECURITIES AND EXCHANGE BOARD OF INDIA