BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

(ADJUDICATION ORDER NO: Order/AS/VC/2022-23/24875)

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

In respect of

SIC Stocks & Services Private Limited

(PAN: AAHCS8176P)

(SEBI Regn. No.: INZ000289933)

In the matter of SIC Stocks & Services Private Limited

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India ('hereinafter referred to as **'SEBI'**) conducted inspection of SIC Stocks & Services Private Limited (hereinafter referred to as the **'Noticee'** or **'Company'** or **'SIC'**). The Noticee is registered with SEBI as a Stock Broker (Registration no. INZ000289933) at BSE, NSE and MSEI. The registered office of the Noticee is at 29 30, M.G. Road, Prestige Meridian II, Bangalore, 560001. The inspection was conducted during February and March, 2022 and the period covered under inspection was from April 01, 2020 to June 30, 2021 (hereinafter referred to as **'Inspection period'**). The observations made during the course of inspection were recorded as inspection report and findings were communicated to the Noticee *vide* SEBI letter dated March 31, 2022. The

Noticee had submitted its comments / explanations on the aforesaid observations of the inspection vide its letter June 10, 2022.

2. Based on the findings of inspection, SEBI initiated adjudication proceedings against the Noticee for alleged violations of the provisions of the following Act, SEBI Regulations and SEBI Circulars:

Table No. 1

Sr. No.	**Alleged violations**	**Regulatory provisions violated**
A	Mis-utilisation of Client Funds	Section 23D of SC(R) 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
B	Non-settlement of client' Funds and Securities	Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
C	Incorrect reporting done under Enhanced Supervision data	Clause 3.2 read with Clause 6.1.1 j of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
D	Incorrect Journal Vouchers passed in Client Ledgers	Clause 1 of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993, Clause (a) (ix) of SEBI circular SMD-1/23341 dated November 18, 1993 and Clause 2.4.2 of Annexure of SEBI Circular

		SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
E	Non-segregation of Clients' Fund	Section 23D of SC(R) Act, 1956 read with Clause 1 & 2 of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993; Clause 2.4.2 of Annexure of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
F	Not maintained proper nomenclature of Bank accounts maintained by the Noticee	Clause 1.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Clause 6.1.1. (f) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
G	Incorrect reporting of data under Risk Based Supervision	Clause 6.1.1.e read with Clause 6.1.1 j of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
H	Non-reconciliation of securities	Clause 6.1.1 j of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
I	Incorrect margin reporting	SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 read with Clause 6.1.1 (j) of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
J	Flaws in client registration process	SEBI Circular nos. CIR/MIRSD/16/2011 dated August 22, 2011, MIRSD/Cir-26/2011dated December 23, 2011 read with SEBI Circular No. MIRSD/ SE /Cir-19/2009 dated December 03, 2009
K	Undue funding of debit balance clients	Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated

		September 26, 2016 read with Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017
L	Mismatch in details of Email IDs and Mobile numbers	Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated Auegust 02, 2011
M	Not maintained proper client order placement records and call recordings	Clause III of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017
N	Non production of valid NISM certifications	Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007.
O	Non closure of Exchange Level Internal Alerts generated	BSE notice no. 20130307-21 dated March 07, 2013 and 20170118-11 dated January 18, 2017
P	Not furnished cash flow statements	Clause 6.1.1. (c) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
Q	Non-maintenance of minimum Net worth requirement and incorrect computation of Net worth	Clause 6.1.1(i) and Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI appointed the undersigned as the Adjudicating Officer, *vide* order dated October 21, 2022, under Section 15-I (1) of the SEBI Act, 1992 read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995

(hereinafter referred to as **'SEBI Adjudication Rules, 1995'**) and under section 23-I of the SC(R) Act, 1956 read with Rule 3 of Securities Contracts (Regulations) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter referred to as **'SCR Adjudication Rules, 2005'**) to inquire into and adjudge under the provisions of the Section 15HB of the SEBI Act, 1992 and Section 23D of the SC(R) Act, 1956 for the violations alleged to have been committed by the Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice dated December 02, 2022 (hereinafter referred to as **'SCN'**) was issued to the Noticee in terms of the provisions of rule 4(1) of the SEBI Adjudication Rules read with section 15-I of the SEBI Act, 1992; and rule 4(1) of the SCR Adjudication Rules read with section 23-I of the SC(R) Act, 1956, requiring the Noticee to show cause as to why an inquiry should not be held against it and why penalty, if any, should not be imposed upon the Noticee under section 15HB of the SEBI Act, 1992 and section 23D of the SC(R) Act, 1996 for the alleged violations. I note that SCN issued to Noticee was duly served up on the Noticee and it was acknowledged by the Noticee.

5. *Vide* email / letter dated December 23, 2022, Noticee sought extension of 30 days' time for responding to the SCN on account of illness and resignation of its director, which was granted to the Noticee. Since reply to the SCN was not received, in the interest of natural justice, an opportunity of hearing on February 09, 2023 was granted to the Noticee through video conference on Cisco Webex platform, *vide* Hearing Notice dated January 31, 2023. Noticee *vide* email dated February 01, 2023 informed that they are in the process of filing the settlement application and requested to adjourn the hearing and to keep the proceedings in abeyance. *Vide* email dated February 08, 2023, attention of Noticee was drawn to the Regulation 8(1) of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 and accordingly Noticee was advised that the adjudication proceedings initiated *vide* the SCN dated December 02, 2022 and the settlement proceedings are independent of each other and merely process of filing of

settlement application doesn't affect the continuation of the adjudication proceedings. Therefore, request to adjourn the hearing and to keep the proceedings in abeyance was not acceded to. Noticee was advised to file reply to the SCN and avail the opportunity of hearing scheduled on February 09, 2023.

6. Authorized Representatives (hereinafter referred to as **"ARs"**) of Noticee attended the hearing on February 09, 2023 and *inter alia* submitted that the business was founded and run by his father Late Mr. Rajinder Handa, who died before the inspection period during the Covid-19 wave. During inspection, due to restrictions and skeletal staffs, the affairs of the business could not be managed properly and hence correct picture could not be presented due to lack of business knowledge and understanding. The ARs further added that, they are in the process of winding up the business and have initiated the process. The ARs further sought time for making written submissions, and time was granted till February 28, 2023 for the same.

7. Thereafter, Noticee *vide* email / letter dated February 28, 2023 submitted reply to the SCN.

CONSIDERATION OF ISSUES AND FINDINGS

8. I have carefully perused the charges levelled against the Noticee in the SCN, submissions made by the Noticee and material available on record. The issues that arise for consideration in the present case are as follows:
   - **I.** Whether the Noticee has violated the provisions of the SC(R) Act, SEBI Regulations and Circulars as indicated in table no. 1?
   - **II.** Does the violation, if any, attract monetary penalty under section 15HB of the SEBI Act, 1992 and section 23D of the SC(R) Act, 1956?
   - **III.** If so, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15-J of the SEBI Act, 1992 read with Rule 5(2) of the SEBI Adjudication Rules; and

Section 23-J of the SC(R) Act, 1956 read with Rule 5(2) of the SCR Adjudication Rules?

9. Before proceeding further, it is pertinent to refer to the relevant provisions which are alleged to have been violated. The said provisions are reproduced hereunder:

Section 23D of SC(R) Act, 1956

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

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

SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993

1. It shall be compulsory for all Member brokers to keep the money of the clients in a separate account and their own money in a separate account. No payment for transactions in which the Member broker is taking a position as a principal will be allowed to be made from the client's account. The above principles and the circumstances under which transfer from client's account to Member broker's account would be allowed are enumerated below.

A] Member Broker to keep Accounts: Every member broker shall keep such books of accounts, as will be necessary, to show and distinguish in connection with his business as a member -
i. Moneys received from or on account of each of his clients and,
ii. the moneys received and the moneys paid on Member's own account.

B] Obligation to pay money into "clients accounts". Every member broker who holds or receives money on account of a client shall forthwith pay such money to current or deposit account at bank to be kept in the name of the member in the title of which the word "clients" shall appear (hereinafter referred to as "clients account"). Member broker may keep one consolidated clients account for all the clients or accounts in the name of each client, as he thinks fit: Provided that when a Member broker receives a cheque or *draft representing in part money belonging to the client and in part money due to the Member, he shall pay the whole of such cheque or draft into the clients account and effect subsequent transfer as laid down below in para D (ii).*

C] What moneys to be paid into "clients account". No money shall be paid into clients account other than -
i. money held or received on account of clients;
ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;
iii. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para D given below;
iv. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.

D] What moneys to be withdrawn from "clients account". No money shall be drawn from clients account other than -
i. money properly required for payment to or on behalf of clients or for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;
ii. such money belonging to the Member as may have been paid into the client account under para 1 C [ii] or 1 C [iv] given above;
iii. money which may by mistake or accident have been paid into such account in contravention of para C above.

E] Right to lien, set-off etc., not affected. Nothing in this para 1 shall deprive a Member broker of any recourse or right, whether by way of lien, set-off, counter-claim charge or otherwise against moneys standing to the credit of clients account.

2. It shall be compulsory for all Member brokers to keep separate accounts for client's securities and to keep such books of accounts, as may be necessary, to distinguish such securities from his/their own securities. Such accounts for client's securities shall, inter-alia provide for the following:-
a. Securities received for sale or kept pending delivery in the market;
b. Securities fully paid for, pending delivery to clients;

c. Securities received for transfer or sent for transfer by the Member, in the name of client or his nominee(s);
d. Securities that are fully paid for and are held in custody by the Member as security/margin etc. Proper authorization from client for the same shall be obtained by Member;
e. Fully paid for client's securities registered in the name of Member, if any, towards margin requirements etc.;
f. Securities given on Vyaj-badla. Member shall obtain authorization from clients for the same.

SEBI circular SMD-1/23341 dated November 18, 1993

SEBI is of the view that member-brokers of the Exchanges should compulsorily follow the precautions suggested in Part [a] below which should form a part of their operating system, whereas those suggested in Part [b] may be treated as guidelines and followed as and when circumstances warrant.

[a] Mandatory –

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(ix) No adjustment between one client account to another should be made unless express authority has been obtained from the clients. Such authority should be preserved by the broker.

SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

Annexure

1. Naming/Tagging of Bank and Demat Accounts by Stock Broker

1.2. The nomenclature for bank accounts and demat accounts to be followed is given as under:

1.2.1. Bank account(s) which hold clients funds shall be named as "Name of Stock Broker - Client Account".

1.2.2. Bank account(s) which hold own funds of the stock broker shall be named as "Name of Stock Broker - Proprietary Account".

1.2.3. Demat account(s) which hold clients' securities shall be named as "Name of Stock Broker- Client Account".

1.2.4. Demat account(s), which hold own securities of the stock broker, shall be named as "Name of Stock Broker-Proprietary Account".

1.2.5. Demat account(s), maintained by the stock broker for depositing securities collateral with the clearing corporation, shall be named as "Name of Stock Broker-Collateral Account".

1.2.6. Demat account(s) held for the purpose of settlement would be named as " Name of Stock Broker - Pool account".

1.2.7. Bank account(s) held for the purpose of settlement would be named as " Name of Stock Broker - Settlement Account".

2. Reporting of Bank and Demat accounts maintained by Stock Broker:

2.4. In line with the prevalent regulatory requirement, it is reiterated that;

2.4.2. Transfer of funds between "Name of Stock Broker - Client Account" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker - Client Account" to "Name of Stock Broker - Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.

2.6. Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in.

3. Monitoring of Clients' Funds lying with the Stock Broker by the Stock Exchanges

3.1. Stock Exchanges shall put in place a mechanism for monitoring clients' funds lying with the stock broker to generate alerts on any misuse of clients' funds by stock brokers, as per the guidelines stipulated in para 3.2 & 3.3 below.

3.2. Stock brokers shall submit the following data as on last trading day of every week to the Stock Exchanges on or before the next trading day:

A- *Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across stock exchanges*

B- *Aggregate value of collateral deposited with clearing corporations and/or clearing member (in cases where the trades are settled through clearing member) in form of Cash and Cash Equivalents (Fixed deposit (FD), Bank guarantee (BG), etc.)(across Stock Exchanges). Only funded portion of the BG, i. e. the amount deposited by stock broker with the bank to obtain the BG, shall be considered as part of B.*

C- *Aggregate value of Credit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations)*

D- *Aggregate value of Debit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients, uncleared cheques issued to clients and the margin obligations)*

E- *Aggregate value of proprietary non-cash collaterals i.e. securities which have been deposited with the clearing corporations and/or clearing member (across Stock Exchanges)*

F- *Aggregate value of Non-funded part of the BG across Stock Exchanges*

P- *Aggregate value of Proprietary Margin Obligation across Stock Exchanges*

MC- *Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges*

MF- *Aggregate value of Unutilized collateral lying with the clearing corporations and/or clearing member across Stock Exchanges*

3.3. Based on the aforesaid information submitted by the stock broker, Stock Exchanges shall put in place a mechanism for monitoring of clients' funds lying with the stock brokers on the principles enumerated below:

3.3.1. Funds of credit balance clients used for settlement obligation of debit clients or for own purpose:

Principle:
The total available funds i.e. cash and cash equivalents with the stock broker and with the clearing corporation/clearing member (A + B) should always be equal to or greater

than Clients' funds as per ledger balance (C)Stock Exchanges shall calculate the difference i.e. G as follows –

$$G = (A+B)-C$$

If difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of G may indicate utilisation of clients' funds for other purposes i.e. funds of credit balance clients are being utilized either for settlement obligations of debit balance clients or for the stock brokers' own purposes. The negative value of G acts as an alert to the Stock Exchanges.

Thereafter, the absolute value of G shall be compared with debit balance of all clients as per client ledger D as follows:

If the absolute value of (G) is lesser than |D|, then the stock broker has possibly utilised funds of credit balance clients towards settlement obligations of debit balance clients to the extent of value of G.

If the absolute value of (G) is greater than |D|, then the stock broker has possibly utilised a part of funds of credit balance clients towards settlement obligations of debit balance clients and remaining part for his own purposes. In such cases the amount of client funds used for own purpose is calculated as follows:

$$H = |G| - |D|$$

3.3.2. Funds of clients used for Margin obligation of proprietary trading:

Stock Exchanges shall thereafter, verify whether the proprietary margin obligations (across Stock Exchanges) is less than the own funds and securities lying with the Stock Exchanges as collateral deposit, as follows:

Principle:

The sum of Proprietary funds and securities i.e. (G + E + F) lying with the clearing corporation/clearing member should be greater than or equal to Proprietary margin obligations (P)

If value of G is positive (i.e. A+B > C), then proprietary funds are lying with the clearing corporation/clearing member and/or client bank accounts along with the clients funds to the extent of positive value of G.

The sum of the proprietary funds (positive value of G), the value of proprietary securities (E) and the non-funded portion of bank guarantee (F) available in the Stock Exchanges is compared with the Proprietary margin obligations (P).If P > (G+E+F), then Stock Exchange shall calculate the difference I, which is the amount of proprietary margin obligation funded from clients assets.

$$I = P - (G+E+F)$$

If G is negative, then, value of G is considered as 0, as there is no proprietary funds lying with the stock exchange.

The value of I indicates the extent of funds and securities of clients which is possibly utilised towards proprietary margin obligations. This value of I acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' assets towards proprietary margin obligations.

3.3.3. Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading:

Stock Exchanges shall thereafter, verify whether the clients funds lying with the clearing corporation/clearing member are utilised towards margin obligations of debit balance clients and proprietary margin obligations.

Principle:

The clients' funds lying with the clearing corporation/clearing member should be less than or equal to sum of credit clients' margin obligations (MC) and free collateral deposits available with the clearing corporation/clearing member (MF)

If value of G is negative (i.e. A+B < C), then fund lying with the clearing corporation/ clearing member (B) is entirely clients' fund. In such cases, Bis compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/ clearing member. The value of J is calculated as under:

$$J = B - (MC + MF)$$

If value of G is positive (i.e. A+B > C), then fund lying with the clearing corporation/clearing member (B) may contain proprietary and clients' fund. Hence, the value of clients funds lying with the clearing corporation/ clearing member i.e. (C-A) shall be considered in the place of B.

In such cases, (C-A) is compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/clearing member. The value of J, which is clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations, is calculated as under:

$$J = (C - A) - (MC + MF)$$

The value of J, if positive, indicates the extent of clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations. This value of J acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' funds towards margin obligations of debit balance clients and proprietary margin obligations.

3.4. Based on the alerts generated, Stock Exchange shall, inter-alia, seek clarifications, carry out inspections and initiate appropriate actions to protect the clients' funds from being misused. Stock Exchanges shall also maintain records of such clarifications sought and details of such inspections. The aforesaid calculations are illustrated in tabular format in Table 1, 2 & 3 given at the end of the annexure.

3.5. Stock Exchanges shall put in place the aforesaid monitoring mechanism within three months from the date of this circular and carry out the monitoring of clients' funds for all stock brokers, except for those who are carrying out only proprietary trading and/or only trading for institutional clients.

3.6. Stock Brokers shall ensure due compliance in submitting the information to the Exchanges within the stipulated time.

*6. **Standard Operating Procedures for Stock Brokers/Depository Participants - Actions to be contemplated by Stock Exchanges/Depositories for any event based discrepancies***

6.1. As per existing norms, Stock Exchanges/Depositories are required to monitor their members/depository participants. It has been decided that the Stock Exchanges and Depositories shall frame various event based monitoring criteria based on market dynamics and market intelligence. An illustrative list of such monitoring criterias are given below:

6.1.1. Monitoring criteria for Stock Brokers

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c. Failure to furnish Annual Audited Accounts by September 30th of the relevant year.

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e. Failure to submit data for the half yearly Risk Based Supervision within the time specified by Stock Exchange.

f. Failure to assign appropriate Bank and Demat nomenclature within the time specified and to report the same to the Stock Exchanges.

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i. If, at any point of time, Net worth of the Broker is negative or lower than 75 per cent of the requirement.

j. In case stock broker shares incomplete/wrong data or fails to submit data on time.

8. Running Account Settlement

8.1. In partial modification of circular on running account settlement, the stock broker shall ensure that;

8.1.1. There must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements.

8.1.2. For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.

8.1.3. The required bank details for initiating electronic fund transfers shall be obtained from new clients and shall be updated for existing clients. Only in cases where electronic payment instructions have failed or have been rejected by the bank, then the stock broker may issue a physical payment instrument.

8.1.4. Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled.

SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009

Annexure-A

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 payout. 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.

Relevant provisions of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011

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

7. The penalty shall be collected by the Stock Exchange within five days of the last working day of the trading month and credited to its Investor Protection Fund.

Relevant provisions of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011

6. The client will now be required to sign only on one document i.e. Account Opening Form. Further, in the same form, the client shall continue to put his signatures instead of saying 'yes' or 'tick mark' while indicating preferences for trading in different exchanges / segments, in accordance with existing requirements. However, in case the investor wants to avail Running Account facility, execute Power of Attorney, etc., he would have to give specific authorization to the stock broker in order to avoid any dispute in the future.

Relevant provision of SEBI Circular MIRSD/ SE /Cir-19/2009 dated December 03, 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 payout. However, a client may specifically *authorize the stock broker to maintain a running account subject to the following conditions:*

c. The authorization shall contain a clause that the Client may revoke the authorization at any time.

SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64

2. SEBI has received further representations from the market participants regarding certain provisions of the aforesaid circular. Based on the discussions with different stakeholders, following clarifications are made:

d. Clause 2.6 stands modified as, "Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017 or as may be issued from time to time. "This clause would be effective from August 1, 2017.

SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011

2. As an additional measure, it has now been decided in consultation with the major stock exchanges and market participants that the stock exchanges shall send details of the transactions to the investors, by the end of trading day, through SMS and E-mail alerts. This would be subject to the following guidelines:

B. Uploading of mobile number and E-mail address by stock brokers

i. Stock exchanges shall provide a platform to stock brokers to upload the details of their clients, preferably, in sync with the UCC updation module.

ii. Stock brokers shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address.

iii. Stock brokers shall ensure that the mobile numbers/E-mail addresses of their employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.

iv. Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the stock broker may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' *for this purpose would mean self, spouse, dependent children and dependent parents.*

SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017

III. To further strengthen regulatory provisions against un-authorized trades and also to harmonise the requirements across markets, it has now been decided that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, it could be, inter alia, in the form of:

a. Physical record written & signed by client,

b. Telephone recording,

c. Email from authorized email id,

d. Log for internet0 transactions,

e. Record of SMS messages,

f. Any other legally verifiable record.

When dispute arises, the burden of proof will be on the broker to produce the above records for the disputed trades.

SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007

Obligation to obtain certificate

3. (2) An associated person on being employed or engaged by an intermediary on or after the date specified by the Board shall obtain the certificate within one year from the date of being employed or engaged by the intermediary.

10. Based on perusal of the material available on record and giving regard to the facts and submission of the Noticee and circumstances of the case, I record my findings hereunder:

Issue I. Whether the Noticee has violated the provisions of the SC(R) Act, SEBI Regulations and Circulars as indicated in table no. 1?

11. At the outset, I find that there are 17 major alleged violations to be established for attracting the provisions stated in issue- I, in the instant matter:

    A. Mis-utilisation of Client Funds,

B. Non-settlement of client’ Funds and Securities,
C. Incorrect reporting done under Enhanced Supervision data,
D. Incorrect Journal Vouchers passed in Client Ledgers,
E. Non-segregation of Clients’ Fund,
F. Not maintained proper nomenclature of Bank accounts maintained by the Noticee,
G. Incorrect reporting of data under Risk Based Supervision,
H. Non-reconciliation of securities,
I. Incorrect margin reporting,
J. Flaws in client registration process,
K. Undue funding of debit balance clients,
L. Mismatch in details of Email IDs and Mobile numbers,
M. Not maintained proper client order placement records and call recordings,
N. Non production of valid NISM certifications,
O. Non closure of Exchange Level Internal Alerts generated,
P. Not furnished cash flow statements,
Q. Non-maintenance of minimum Net worth requirement and incorrect computation of Net worth.

A. Mis-utilisation of Client Funds

A1. ‘G’ negative: Mis-utilisation of clients' funds for other purposes

12. It was alleged in the SCN that ‘G’ was negative on 99 dates out of 100 sample dates [43/43 in SEBI sample verification and 56/57 in BSE sample verification]. The misutilisation ranged from Rs. 2,00,379 to Rs. 7,96,22,489.

Reply of Noticee

13. Noticee denied the allegation and submitted that the data uploaded on BSE BEFS website were in accordance to ERBS submissions weekly fillings and Noticee ensured that G negative is not reported. There is no mis-utilisation of funds. Noticee further submitted that it was using a 2006 version of software which did not support auto calculation system generated ERBS and hence its staff prepared manually

generated ERBS to upload on exchange platform which was cumbersome and might have caused human error as it was prepared manually and uploaded, therefore, the above has been miscalculated erroneously. Noticee has implemented the new version of software since Feb 2022 and no mis-utilization is reported since then.

Findings

14. I note that as per SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 the principle is that the total available funds i.e. cash and cash equivalents with the stock broker and with the clearing corporation/clearing member (A + B) should always be equal to or greater than Clients' funds as per ledger balance (C). Stock Exchanges shall calculate the difference i.e. G as follows:

$$G = (A+B)-C$$

If difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of G may indicate utilisation of clients' funds for other purposes i.e. funds of credit balance clients are being utilized either for settlement obligations of debit balance clients or for the stock brokers' own purposes.

15. I find that the Noticee has denied the allegation and submitted that there is no mis-utilisation of funds, however it has not furnished any evidence to substantiate its claim. Further, I find that Noticee has stated that it was using a 2006 version of software which did not support auto calculation system generated ERBS and hence its staff manually prepared and generated ERBS to upload on exchange platform which was cumbersome and might have caused human error, and thus the above has been miscalculated erroneously. Such explanations are not acceptable as the Noticee being a registered stock broker is expected to have the necessary infrastructure like adequate office space, equipment and man power to effectively discharge its responsibilities as a stock broker and submit accurate data. Therefore, I hold that value of 'G' was negative on 99 dates out of 100 sample

dates as alleged in the SCN and thus the Noticee has not complied with the above referred SEBI circular.

A2. 'I' Positive: Misutilisation of funds of credit balance clients for proprietary margin obligations

16. It was observed that the indicative value of misutilisation i.e. "I" was positive on 5 out of 100 sample instances [1/43 in SEBI sample verification and 4/57 in BSE sample verification]. The misutilisation ranged from Rs. 45,000 to Rs. 4,00,046. It was alleged that, Noticee has done proprietary trading during the inspection period.

Reply of Noticee

17. In response to the above allegation, Noticee submitted that it has not done any trading and surrendered the currency derivative membership since June 2021. No trading in the segment is done since March 2021. The calculation is baseless. On one day "I" was positive due to an error in the data retrieved from back office because of system error. Margin for proprietary trading has never been used.

Findings

18. I note that as per SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 the principle is that the sum of the proprietary funds (positive value of G), the value of proprietary securities (E) and the non-funded portion of bank guarantee (F) available in the Stock Exchanges is compared with the Proprietary margin obligations (P). If P > (G+E+F), then Stock Exchange shall calculate the difference I, which is the amount of proprietary margin obligation funded from clients assets.

$$I = P - (G+E+F)$$

If G is negative, then, value of G is considered as 0, as there is no proprietary funds lying with the stock exchange. The value of I indicates the extent of funds and securities of clients which is possibly utilised towards proprietary margin obligations.

19. Noticee stated that funds of credit balance clients were not used for proprietary margin obligations and it has surrendered the currency derivative membership since June 2021 and not done any trading in the segment since March 2021. However, I find that the inspection findings are not limited to Currency Derivatives segments but covers all segments. Further, period of inspection was from April 01, 2020 to June 30, 2021 and the instances of 'I' positive alleged in the SCN pertains to the period up to March 2021, thus, it can be inferred that violation persisted during inspection period, therefore, the submission of the Noticee is not acceptable. Further, I note that Noticee has admitted the value of 'I' was positive on 1 day due to an error in the data retrieved from back office because of system error. Therefore, I hold that value of 'I' was positive as alleged in the SCN and thus the Noticee has not complied with the above referred SEBI circular.

A3. 'J' Positive: Misutilisation of funds of credit balance clients for Margin obligations of debit balance clients and/or proprietary trading

20. It was observed that the indicative value of "J" was positive on 78 out of 100 sample instances [43/43 in SEBI sample verification and 35/57 in BSE sample verification]. The misutilisation ranged from Rs. 15,472 to Rs. 91,26,013. Accordingly, it was observed that the broker has misutilised the funds of credit balance clients towards Margin obligations of debit balance clients and proprietary trading.

Reply of Noticee

21. In response to the above allegation, Noticee submitted that the calculation is erroneous. 'J' Positive appears as an error in the data retrieved from back office because of system error (old software and manual preparation of data).

Findings

22. I note that as per SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 the principle is that the clients' funds lying with the clearing corporation/ clearing member should be less than or equal to sum of credit clients'

margin obligations (MC) and free collateral deposits available with the clearing corporation/clearing member (MF).

If value of G is negative (i.e. A+B < C), then fund lying with the clearing corporation/ clearing member (B) is entirely clients' fund. In such cases, B is compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/ clearing member. The value of J is calculated as under:

$$J = B - (MC + MF)$$

If value of G is positive (i.e. A+B > C), then fund lying with the clearing corporation/ clearing member (B) may contain proprietary and clients' fund. Hence, the value of clients funds lying with the clearing corporation/ clearing member i.e. (C-A) shall be considered in the place of B.

In such cases, (C-A) is compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/ clearing member. The value of J, which is clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations, is calculated as under:

$$J = (C - A) - (MC + MF)$$

The value of J, if positive, indicates the extent of clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations. This value of J acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' funds towards margin obligations of debit balance clients and proprietary margin obligations.

23. I find that Noticee has accepted that the calculation is erroneous and ‘J’ Positive appears as an error in the data retrieved from back office because of system error. Therefore, I hold that the value of ‘J’ on 78 dates was positive as alleged in the SCN and thus the Noticee has not complied with the above referred SEBI circular.

24. In this regard, I note that the measure taken by SEBI (provisions of the circular) are intended to increase transparency in fund / client management by the stock

brokers. The funds in the client's accounts cannot be used for any purpose other than what is permissible under SEBI rules and regulations. However, as discussed in foregoing paragraphs it is observed that the funds of the clients were mis-utilised by the Noticee. Therefore, I hold that the allegation that Noticee violated the provisions of section 23D of SC(R) Act, 1956 read with clause 1 of Annexure 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, stand established.

B. Non-settlement of client' Funds and Securities

25. SCN alleged that the Noticee has not settled active clients' accounts within the 30/90 days' period as per authorization given by the clients in the following instances for active clients:

Table No. 2: Quarter wise non-settlement of funds of active clients

Quarter	**No. of clients**	**Amount of non-settlement (in Rs.)**
April to June 2020	3	30,20,349
July to Sept 2020	19	1,82,48,016
Oct to Dec 2020	4	1,97,26,149
Jan to March 2021	35	9,52,62,675
April to June 2021	42	5,93,67,568

26. On verification of credit balances of inactive clients on quarterly basis, It was observed that the Noticee has not settled the funds of inactive clients as mentioned in the below table:

Table No. 3: Quarter wise non-settlement of funds of inactive clients

Quarter	No. of inactive clients not settled	Amount of non-settlement (in Rs.)	No. of inactive clients not settled (with ledger balance of more than Rs.1000*)	Amount of non-settlement (in Rs.)
April to June 2020	409	72,41,104	191	71,70,612
July to Sept 2020	455	2,03,92,907	216	2,03,15,914
Oct to Dec 2020	465	1,01,81,484	207	1,00,94,555
Jan to March 2021	439	3,94,67,921	192	3,93,87,296
April to June 2021	462	1,29,65,662	208	1,28,83,673

**Rs.1000 may be retained for DP charges etc.,*

27. Thus, it was alleged in the SCN that Noticee has not settled funds in 103 instances in case of active clients and 2230 instances in case of inactive clients. The total non-settled amount is Rs.19.56 crores (active clients) and Rs. 9.02 crores (inactive clients).

28. It was observed for six clients, the retention statements provided by the Noticee was showing zero balance whereas the ledgers for the clients has a balance. Noticee has stated that the discrepancy was due to system issues at their end. Further, it was observed that the format of retention statement was incorrect and the Noticee has not maintained retention statement for few clients for few quarters.

Reply of Noticee

29. In response to the above allegation, Noticee submitted that the inspection period coincides with peak COVID period, and SIC’s staff faced extreme difficulties in coming to office and doing most tasks. The settlement of accounts for all active clients was done, the quarterly settlement of few clients was not done because of old software which doesn't permit the settlement to be done, and manually the same could not be done. Now with the migration to new software of tech XL, Noticee is able to do the settlement from the software itself and same is being

implemented at their end. All active clients have been settled and their UCC made inactive in the software, as on 1/4/2022. Settlement and retention reports are now auto generated from back office and fully automated system is being implemented in ensuring 100% compliance.

30. The allegation that the Notice has not settled funds in 103 instances in case of active clients and 2230 instances in case of inactive clients is false, and Noticee denied this as error data was provided by old software. The data that total non-settled amount is Rs. 19.56 crores (active client) and Rs. 9.02 Crores (inactive clients) is totally erroneous and derived from old software since inception of the company, by the inspection teams. Noticee was member in BSE / NSE / Mutual Fund / Currency / MCX, so software gave only individual exchange wise ledger which is in credit in BSE, (Credit in one and debits in other exchanges), when global ledgers of all clients is taken, all accounts are settled. This allegation is totally false and baseless.

Findings

31. I note that as per SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, there must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements. SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 specify that 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.

32. I find that Noticee has accepted the allegation of non-settlement of clients' funds and stated that the quarterly settlement of few clients was not done because of old software which didn't permit the settlement to be done, and manually the same could not be done. Noticee's contention that all active clients have been settled now cannot be accepted as this does not absolve Noticee from the past violations that persisted during inspection period. At the same time Noticee also submitted that allegation is totally false and baseless and the data is erroneous and derived

from old software. These contentions of the Noticee are not acceptable as Noticee has not furnished any evidence / supporting documents to substantiate its claim. Therefore, I hold that Noticee has done the quarterly settlement of funds of Rs.19.56 crores in 103 instances in case of active clients and Rs. 9.02 crores in 2230 instances in case of inactive clients.

33. In response to allegations of incorrect format of retention statement and non-maintenance of retention statement for few clients for few quarters, Noticee submitted that the settlement and retention reports are now auto generated from back office and fully automated system is being implemented in ensuring 100% compliance. However, it does not absolve the Noticee from violation that persisted during inspection period. Thus, I hold that the format of retention statement was incorrect and the Noticee has not maintained retention statement for few clients.

34. With regard to allegations of difference in balances in retention statements provided by the Noticee and ledgers of the clients, the Noticee has not submitted any reply, which indicates that Noticee has nothing to submit in this regard and the allegations levelled against Noticee is accepted by it. Thus, I hold that there was difference in balances in retention statements provided by the Noticee and ledgers of the clients.

35. In this regard, I note that the said SEBI circular intends that the stock brokers should settle the funds of clients periodically, so that clients' funds are not kept unsettled by the stock broker for indefinite period on any pretext. The circular was issued with a view to instill greater transparency and discipline in the dealings between the clients and the stock brokers and to keep the investor informed about his/her account, so as to curb any mis-utilisation of funds by the stock brokers, thereby safeguarding the integrity of the market which in the instant case, has been disregarded by the Noticee. In view of the same, I hold that the allegation of violation of the provisions of Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 8.1 of

Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, stand established.

C. Incorrect reporting done under Enhanced Supervision data

36. SCN alleged that the ledgers of three clients viz., CSBM133 (DOLF LEASING LIMITED), CSBM141 (DELTA INDUSTRIAL RESOURCES LIMITED); and CSBM143 (SHREE WORSTEX LIMITED) that amounts totaling to Rs.4.76 cr were debited from their ledgers by way of Journal Voucher ("JV") with narration being "MARGIN CURRENCY" or "MAR EQUITY" or "EQUITY MARGIN" despite there being no trading by the client. And the amounts so debited towards margins by way of JVs were not added back to the ledger balances while arriving at the clear ledger balance of credit clients ("C") for Enhanced Supervision Reporting or in the data submitted to the inspection team. These JVs were mere book entries without any actual movement of funds in the bank account. As a result, the ledger balance of the client was either Zero or in negative. Thereby, the value of "C" as submitted by the Noticee was deflated to the extent of JVs and the artificially reduced ledger balances continue till the date of reversal of the said JVs to the respective clients' ledger.

37. For instance, discrepancy in ledger balances as on 31.03.2021 for the three clients were as under:

Table No. 4

Sr. No.	Client code	Balance as per TB as on 31.03.2021 (in Rs.)*	Correct Balance as per ledger as on 31.03.2021 (in Rs.)
1	CSBM133	-1,88,09,867	2,22,90,132
2	CSBM143	-24,80,077	19,922
3	CSBM56	2,50,25,170	1,08,110

**debit balances are shown as negative*

38. As a result of the aforesaid JVs, the Noticee has under-reported the creditors and over-reported the debtors on 40 days out of the 43 days taken up for verification. The differences in creditors was in the range of Rs.1,00,00,000/- to Rs.3,55,00,000/- and debtors was in the range of Rs.3060/- to Rs.1,89,00,000/-.

Thus, overall resulting in either positive value of 'G or reducing the negative value of G.

39. Accordingly, revised creditors and debtor's balances were worked out after reversing the Margin JVs passed in the aforementioned client ledgers and the value of G was negative on all the 43 days as mentioned above. Out of the 43 days, the absolute value of G was more than Rs.1 cr in 40 days indicating there's a continuous shortfall of funds to the minimum extent of Rs.1 cr.

40. Further, SCN alleged that BSE observed that the Noticee has reported incorrect balances towards weekly reporting made under enhance supervision to the exchange for all 57 dates.

Reply of Noticee

41. In response to the above allegation, Noticee submitted that Noticee had submitted correct data, the inspection team asked Noticee to remove the JV entries which is way of moving funds from one exchange to there as the trade done was in currency segment and margin was debited to be given to globe member (currency broker). However, since the JV was removed it lead to false G value.

Findings

42. I find that the allegation is that the amounts were debited from three clients ledgers by way of JVs with narration being "margin currency" or "mar equity" or "equity margin" despite there being no trading by the client. The amounts so debited towards margins by way of JVs were not added back to the ledger balances while arriving at the clear ledger balance of credit clients. Thus, revised creditors and debtor's balances were worked out after reversing the Margin JVs passed in the aforementioned client ledgers. Thus, I note that the issue of passing JVs for moving funds does not arise as claimed by the Noticee and the Noticee has not furnished any evidence in support of its claim that the trade done was in currency segment and margin was debited to be given to globe member (currency broker). Therefore,

the contention of the Noticee are accepted and I find that the Noticee under-reported the creditors and over-reported the debtors on 40 days out of the 43 days.

43. With regard to allegation that BSE observed that the Noticee has reported incorrect balances towards weekly reporting made under enhance supervision to the exchange for all 57 dates, the Noticee has not submitted any reply, which indicates that Noticee has nothing to submit in this regard and the allegations levelled against Noticee is accepted by it. Thus, I hold that Noticee has reported incorrect balances towards weekly reporting made under enhance supervision to the exchange for all 57 dates.

44. I note that as per SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, stock brokers are required to submit the obligatory data as on last trading day of every week to the stock exchanges on or before the next trading day. The objective of the SEBI circular is to increase transparency in dealings of the stock brokers, so that the funds and securities of clients are regularly monitored by stock exchanges and stock brokers should not misuse the funds and securities of clients. I find that by incorrect reporting of information, the intent of the said circular was disregarded by the Noticee. In view of the same, I hold that the Noticee has violated the provisions of Clause 3.2 read with Clause 6.1.1.j of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

D. Incorrect Journal Vouchers passed in Client Ledgers

45. During inspection, the Journal register for the inspection period was examined and clarification was sought from the Noticee in respect of 120 JVs passed in the client ledgers. It was alleged in the SCN that on verification of the client ledgers, Bank statements and submissions made by the Noticee, the following was observed:

a) 6 instances passed in client ledgers towards inter client adjustments such as credit transfer between clients;

b) 11 instances – Debit JVs passed towards Margins despite there was no trading and in 5 instances credit JVs passed towards “Margin Release” & “Credit Margin”;

c) 18 instances- Credit JVs totaling to Rs.4.08 cr passed in two client ledgers (CSBM10 & CSBM56) with narration as “AMT RCVD”, AMT PAID” without corresponding funds received in the bank account;

d) In one instance, JV118 -Credit of Rs.29,00,000/- lying in the ledger of the client, VASUPRIYA PVT LTD (client code -V300) was transferred to the non-client ledger code VASU (also belong to VASUPRIYA PVT LTD). VASUPRIYA PVT LTD was registered as a client with Noticee under the client code V300 and Noticee was also having another non-client ledger for the same entity under the code VASU. Client ledger of VASUPRIYA PVT LTD was having a credit balance of Rs.29,00,000/- and the Noticee has transferred the said credit to the non-client code ledger of the same entity by passing a debit JV.

e) JV396: In 18 instances, credits / debits balances in client ledgers were reversed through JVs with the narration of “own amount credited”.

f) 1 instance- Debit JV passed as “Brokerage Credit” in the client ledger on October 07, 2020 and was reversed on December 03, 2020;

g) 1 instance – Debit JVs passed in OWN ledger and credit given in client account;

h) 1 instance- Debit JV passed in OWN ledger for Rs.5.47 cr;

46. It was observed that, the above JVs passed by the Noticee without proper fund trails and basis has an impact on the accuracy of the balances as per the client ledgers. The incorrect ledger balances have in turn affected the enhanced supervision reporting, running account settlement, reporting of client balances.

47. It was further observed that, Noticee has done inter client adjustments, transfer of credits from client ledgers to non-client code ledger, amount debited for Margin by way of JVs despite there being no trading; old debits/credits were reversed from

the client ledgers by JVs without corresponding fund trails. From the above instances, it was observed that the Noticee has not segregated the funds of respective clients and has not exercised due care in maintaining the client ledgers.

Reply of Noticee

48. In response to the above allegations, Noticee submitted para wise reply as under:

a) JV305/JV304/JV953/- these are adjustments for husband wife accounts of debit credit M013/N013 and husband was also a registered remesier in BSE who introduced a few clients, the credits of remesier is adjusted against debits of his clients who have not paid and cleared debits, Noticee have undertaking from him for these JVs. JV219 -These are family accounts and group undertaking is given to adjust debit of csbm10 and csbm131.

b) These JVs are against actual credits received in bank passed for margin purposes for trading in currency derivatives for respective clients, (dates of funds received mentioned in broker remarks). Only 3 instances the JVS were wrongly initiated same have been reversed and mentioned in narration namely JV512/JV21/JV1186.

c) Same have all been reversed as they were passed with client consent for inter familiar group accounts all these 18 JVs stand reversed.

d) This was a balance sheet item wrongly entered in client account 9 years ago (error by accounting staff) the said account code is inactive and never traded once with us, the same entry has been appearing in balance sheet as a balance sheet item year on year, for accounting purposes.

e) JV396: In 18 instances, credits / debits balances in client ledgers were reversed through JVs with the narration of "own amount credited". These are Noticee's own accounts held in multiple codes for prop trading, all reconciled and all bad debits / credits are netted.

f) The client was given a credit of brokerage and same was reversed on future date as there was an error in communication with the particular client.

g) Shares buy back money is received from ICCL in Noticee's own ledger same is credited to client account as it was clients' shares buy back.

h) No reply given by the Noticee.

49. Noticee further submitted that it was treating family entities as one ledger and only taking net off as their actual credit or debit balances, after the inspection teams have enlightened Noticee with the correct procedure, Noticee have implemented same and ensuring no debits are held and all credits are paid to all such family entity accounts and group ledgers in individual capacity. These were family debit credits JVs passed, hence all were reversed and only net balances were reported. Ever since all the debtors have been asked to pay up for clearing their debit balances and the creditors are paid as per the bank details available. Corrective measures have been taken and as per guidelines all such JVs have been reversed.

Findings

50. With regard to para 45 (a) i.e. 6 instances passed in client ledgers towards inter client adjustments such as credit transfer between clients, the Noticee has submitted that JV305/JV304/JV953 were adjustments for husband wife accounts, and the credits of remesier was adjusted against debits of his clients who have not paid and cleared debits, Noticee have undertaking from him for these JVs. JV219 are family accounts and group undertaking is given to adjust debit of csbm10 and csbm131. In this regard, I note that Clause (a) (ix) of SEBI circular SMD-1/23341 dated November 18, 1993 states that "*No adjustment between one client account to another should be made unless express authority has been obtained from the clients. Such authority should be preserved by the broker.*" Further, the Noticee has not submitted the undertakings to substantiate his claim. Thus, the reply of the Noticee cannot be accepted.

51. With regard to para 45 (b) to (g), the Noticee has furnished that these JVs were passed for various reasons as detailed above in Para 48 (b) to (g). However, the Noticee has not submitted any evidence to substantiate his claims in all these instances, thus, the reply of the Noticee cannot be accepted and I hold that the

Noticee passed JVs without proper fund trails and basis. Therefore, I note that violations alleged in 45 (b) to (g) persisted during inspection period.

52. With regard to para 45 (h) i.e. 1 instance of debit JV passed in Noticee own ledger for Rs. 5.47 crores, the Noticee has not submitted any reply, which indicates that Noticee has nothing to submit in this regard and the allegation levelled against Noticee is accepted by it.

53. I note that the Noticee submission that it was treating family entities as one ledger and only taking net off as their actual credit or debit balances cannot be accepted as Clause (a) (ix) of SEBI circular SMD-1/23341 dated November 18, 1993 states that "*No adjustment between one client account to another should be made unless express authority has been obtained from the clients. Such authority should be preserved by the broker." Further,* the Noticee itself accepted the violations and stated that corrective measures have been taken, thus, this does not absolve Noticee from the past violations that persisted during inspection period.

54. Further, I note that SEBI circular dated September 26, 2016 provides that transfer of funds between Client Account and Proprietary Account is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred. In view of the above, I hold that the Noticee was non-compliant during inspection period and violated the provisions of Clause 1 of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993, Clause (a) (ix) of SEBI circular SMD-1/23341 dated November 18, 1993 and Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

E. Non-segregation of Clients' Fund

55. It was observed that Noticee has not maintained daily reconciliation statement of funds moved from Client/settlement bank accounts to Own bank accounts and there was no segregation between client and own funds. Summary of transfer of funds between Client/settlement bank accounts to Own bank accounts during the inspection period are as under:

Table No. 5

Bank Account no.	**Amount transferred from Client/ settlement bank accounts to own bank accounts**	**Amount transferred from own bank accounts to Client/ settlement bank accounts**	**Net transfer from Client/settlement bank accounts to own bank accounts**
46801020 0005876	23,10,042	15,00,000	8,10,042
86201000 27406	3,46,16,753	1,73,82,000	1,72,34,753
86201100 00783	2,000	0	2,000
Total	**3,69,28,795**	**1,88,82,000**	**1,80,46,795**

56. Noticee has moved net amount of Rs.1,80,46,795/- from Client/settlement bank accounts to own bank accounts against the brokerage (including statutory/regulatory dues) of Rs.1,28,78,322/- reported by them during inspection period. It was also observed that there are transfer of funds to and fro Client/settlement bank accounts to persons other than clients and the details are summarized as under:

Table No. 6

Bank Account no.	**Amount received from non-clients**	**Amount transferred to non-clients**
8620100027406	2,48,06,500.00	1,06,61,000.00
468010200005876	95,690.00	2,70,00,000.00
8620110000783	731.00	-
Total	**2,49,02,921.00**	**3,76,61,000.00**

57. Thus it was observed that Noticee transferred excess amount of Rs. 51, 68,473 (Rs. 18046795 – Rs. 12878322) from client/settlement bank account to own bank

account. Thus, the Noticee has not segregated client funds from its own funds and has moved money from client/settlement bank accounts to own backs accounts in excess of the statutory dues. The Noticee has also not maintained daily reconciliation statement of funds moved from Client/settlement bank accounts to Own bank accounts.

58. With regards to transfer of Rs. 1,80,46,795 from client/settlement bank accounts to own bank accounts, the Noticee has provided the details of brokerage income along with DP income and GST amounting to Rs. 1,62,16,263 against transfer of Rs. 1,80,46,795. However, Noticee has failed to submit any evidence to substantiate the DP income and statutory charges of Rs. 33,37,941 (Rs.1,62,16,263-Rs.1,28,78,322). Further, the Noticee has not provided any explanation for charges of Rs. 18,30,532 (Rs. 1,80,46,795 – Rs.1,62,16,263).

59. Thus, it was alleged that the Noticee has transferred excess amount of Rs. 51,68,473 (Rs. 18046795 – Rs. 12878322) from client / settlement bank account to own bank account.

Reply of Noticee

60. In response to the above allegation, Noticee submitted that whilst all measures are taken to ensure compliance to this regards, with regards to segregation of clients funds Noticee submitted that the summary shown the difference of Rs. 1,80,46,795 is exclusively Brokerage Income, DP income and other statutory dues as given in the table below. The amount over drawn was previous year brokerage (FY 19-20) not taken in expenditure account due to sudden lockdown from 25th March 2020.

Table No. 7

Particulars	Amount
Brokerage	12878322
DP income	1442403
GST	1895538

61. Whilst all measures are taken to ensure complete compliance to this regards, the inspection period coincides with the peak COVID lockdown period both in Mumbai and Bangalore, due to the Pandemic the staff was working from home, banks were not providing 100 % online facility, Noticee's staff was trying their best to ensure businesses can function and due to the above technical issues and errors may have happened inadvertently because of COVID. With things easing out, and lockdowns opening up Noticee have ensured proper systems and daily reconciliation is done from 01/04/2022 and all the proper daily compliance is followed of the said circular on segregation of client and own funds. Noticee is now 100% Compliant as on date.

62. With regards to transfer of funds to and from client/settlement bank accounts to other than clients Noticee submitted that as per the summary shown the figures are not tallying. The funds of other than clients are listed below:

Table No. 8

PARTICULARS	**DR**	**CR**
Shanu investment		1197350
Unrec clients		15058
Rumination labs	3523604	
Total	**3523604**	**1212408**

Findings

63. I note that as per SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993, it is shall compulsory for all Member brokers to keep the money of the clients in a separate account and their own money in a separate account. No payment for transactions in which the Member broker is taking a position as a principal is allowed to be made from the client's account. Further, SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, provides that the transfer of funds between Client Account and Proprietary Account is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock

broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.

64. It was alleged that the Noticee has transferred excess amount of Rs. 51,68,473 (Rs. 1,80,46,795 – Rs. 1,28,78,322) from client / settlement bank account to own bank account over and above the brokerage including statutory and regulatory dues. In response to the allegation, the Noticee stated that an amount of Rs. 1,62,16,263 was transferred on account of brokerage income, DP income and GST, however, I find that Noticee has not submitted any evidence to substantiate its claim, therefore the contention of the Noticee is not acceptable. Further, the Noticee has also not provided any explanation for transfer of the remaining amount of Rs. 18,30,532 (Rs. 1,80,46,795 – Rs.1,62,16,263). Therefore, I hold that the Noticee has transferred excess amount of Rs. 51, 68,473 from client/settlement bank account to own bank account.

65. With regards to Noticee submissions that the amounts of transfer of funds to and from client/settlement bank accounts to other than clients are not tallying cannot be accepted as Noticee has not submitted any evidence with respect to the same. Therefore, I hold that client bank account were used for other than specified purposes.

66. In view of the above, I find that the allegation that Noticee has violated the provisions of clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 12 of Annexure of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009, stands established.

F. Not maintained proper nomenclature of Bank accounts maintained by the Noticee

67. It was alleged in SCN that the Noticee has not maintained proper nomenclature in respect of the following 3 bank accounts held by it out of 10 sample bank accounts.

Table No. 9

Sr No.	Bank Account Number	Purpose reported to exchange	Nomenclature as per the Bank statement	Nomenclature as prescribed in the SEBI Circular
1	008620110 000783	Client	SIC Stocks & Services Pvt Ltd.	Bank account(s) which hold client's funds to be named as "Name of Stock Broker - Client Account
2	044810100 05465	Client	SIC Stocks & Services Pvt Ltd. Demat Section	
3	008620100 027346	Settlement	SIC Stocks & Services Pvt Ltd.	Bank account(s) held for the purpose of settlement to be named as " Name of Stock Broker - Settlement Account"

Reply of Noticee

68. In response to the above allegation, Noticee submitted that the nomenclatures in the accounts was earlier as per SEBI circulars, where bank account were clearly mentioned. When Noticee had exhausted the old cheque leaves and a new request for cheque printing was given to bank, then banks have made an error in the new cheques which were printed and the banks have changed the nomenclature without Noticee's consultation. Since most business was carried out online, Noticee didn't notice this, same has now been communicated by Noticee to the respective banks and asked for change in nomenclature.

Findings

69. I note that SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 provide the nomenclature for bank accounts and demat accounts to be followed. I find that Noticee has submitted that the banks have made an error in the new cheques and banks have changed the nomenclature of accounts without their consultation. However, such an explanation cannot be accepted, as in case of any error by the bank as claimed, the Noticee should have ensured that the error was rectified. It cannot take shelter for non-compliance by quoting such reasons. Therefore, I hold that Noticee has not maintained proper nomenclature in respect of the 3 bank accounts held by it and the allegation that Noticee has violated the Clause 1.2 of Annexure of SEBI Circular

SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Clause 6.1.1. (f) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, stands established.

G. Incorrect reporting of data under Risk Based Supervision

70. It was alleged in SCN that the Noticee has incorrectly reported the following data to the exchange:

Table No. 10

Particulars	**Data Reported by Noticee (Rs.)**	**As per Exchange working (Rs.)**	**Difference (Rs.)**
Total debit balance of all clients	1,17,46,078	6,22,96,885	5,05,50,807
Delay payment charges	0	8,000	8,000
Brokerage Income	91,05,544	91,21,613	16,069

Reply of Noticee

71. In response to the above allegation, Noticee submitted that as per audited Balance Sheet total debit balance of all clients is Rs 5,66,36,684/-, Delay payment charges is 0 and Brokerage income is Rs 91,08,544/-. There may be typing error by staff whilst uploading RBS data, apologies for the same and same must be ignored and actual data must be taken.

Findings

72. I find that the Noticee has accepted that difference existed on account of typing error by staff while uploading RBS data. Further, even if the balances re submitted by Noticee as per audited balance sheet be considered, the discrepancy between data reported by Noticee and data as per exchange's working still exists. Therefore, the reply of the Noticee cannot be accepted.

H. Non-reconciliation of securities

73. It was observed during inspection that the securities reconciliation of 83 ISINs have not been done properly by the Noticee in back-office system in comparison with

DP holding statement as on October 01, 2020. Out of the 83 ISINs, securities lying in 81 ISINs were not reported to the exchanges and securities lying in 2 ISINs were incorrectly reported to the exchange.

74. Thus, it was alleged that Noticee has not done the securities reconciliation of 83 ISINs on October 01, 2020 and has not closed two demat accounts as required to be closed in terms of below mentioned SEBI Circulars dated June 20, 2019 and February 25, 2020. There was difference of 6,54,387.26 securities between securities reported by Noticee and as per demat statements.

Reply of Noticee

75. In response to the above allegation, Noticee submitted that it was also a registered Depository Participant, as per SEBI guidelines all stock that comes in pool of SIC Broker is automatically transferred to the Client BEN account in T+2 days subject to debit clearance. Same is followed strictly and needful is done, the back office software Noticee using is old and may not have the updated reports readily available as its done from back end at CDSL Software directly, since Noticee use the old version tech XL software, the same may have shown erroneously as stocks held, but in actuality the system from CDSL is automated and same is followed in 100% compliance.

76. With regards to the 2 other accounts Noticee stated that the accounts were held in OBC NSDL DEPOSITORY in 2004, now PNB NSDL accounts. One is used for NSDL payin payout purposes and other is an Own DP Account, request for closure of the same account is submitted. Shares are held in the above account which all are delisted or not tradable and hence account cannot be closed.

Findings

77. With regards to non-reconciliation of securities of 83 ISINs, I find that the Noticee has accepted that mismatch in securities is on account of error in software.

78. With regards to non-closure of demat account 1202060001332271 and IN30107180055027, the Noticee has submitted that the request for closure of account has been submitted. Further, I find from the documents available in the records that BSE vide email dated August 13, 2022 submitted the said accounts are under freeze by depositories. Thus, Noticee’s reply is accepted in regard to the said observation.

79. In view of the above, I hold that the Noticee had not done the securities reconciliation of 83 ISINs and securities lying in 81 ISINs were not reported to the exchanges, therefore, the Noticee has violated the provision of Clause 6.1.1.j of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

I. Incorrect margin reporting

80. It was alleged in SCN that the Noticee has done incorrect reporting of margin in 21 out of 50 instances amounting to Rs.1,65,74,993/-.

Reply of Noticee

81. In response to the above allegation, Noticee submitted that for all active clients, margin was calculated manually as the old software was not equipped to give statement of margin account directly, so same was done manually daily for each client and uploaded so there may be some human error as manually it is almost impossible to calculate margin daily up to 100% accuracy. Now after observation from the inspections team, and since SIC’s migration to new software of tech XL, Noticee is able to do margin calculation to closest accuracy from the software itself and same is being implemented at its end. Margin calculation is now an automated process. Due to corona and old software it was difficult to manually create margin report by Noticee’s staff and upload hence there may have been an error, same is now rectified and 100% compliance achieved.

Findings

82. I note that as per SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, if during inspection it is found that a member has reported falsely the margin collected from clients, the member shall be penalized 100% of the falsely reported amount along with suspension of trading for 1 day in that segment. The objective of the circular is that the members should report the margins correctly to the Exchanges, to increase the transparency in dealings of the stock brokers, so that the margins of clients are regularly monitored by stock exchanges and client collateral is not used for any purposes other than meeting the respective client's margin requirements.

83. I find that the Noticee has accepted the incorrect margin reporting and stated that the old software was not equipped to give statement of margin account directly, so same was done manually daily for each client and uploaded so there may be some human error. Noticee further submitted that now after observation from the inspections team, and since SIC's migration to new software of tech XL, Noticee is able to do margin calculation to closest accuracy from the software itself and 100% compliance achieved. In this regard, I note that it does not absolve the Noticee from the violation that persisted during inspection period.

84. In view of the above, I hold that the Noticee had done incorrect reporting of margin in 21 out of 50 instances amounting to Rs.1,65,74,993/-, therefore, the Noticee has violated the provision of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 read with Clause 6.1.1 (j) of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

J. Flaws in client registration process

85. With respect to the Client registration process, during inspection the following was observed on verification of the 37 sample accounts:
    a) The Noticee has not segregated document as voluntary & mandatory, not issued index document along with Client Registration Documents and & not intimated policy & procedure to the sample clients in respect of 29 accounts;

b) Running account authorisation clause not provided in respect of 16 accounts.

Thus, in the above instances the Noticee was alleged to have not carried out the account opening process of the clients in accordance with extant circulars.

Reply of Noticee

86. In response to the above allegation, Noticee submitted that all 100 % compliance to this is done for segregated documents as voluntary & mandatory, issued index document along Client Registration Documents and & intimated policy & procedure to the sample clients in respect of 35 accounts.

87. With regard to running account authorisation Noticee submitted that all 100 % compliance to this is done for running account authorisation as in respect of 27 accounts.

Findings

88. With regards to lapses in respect of 29 accounts, Noticee submitted that it is in compliance with the SEBI requirements . However, I find that the Noticee has not submitted the necessary documents to substantiate its claim. Thus, I hold that the violation persisted for 29 (out of 37 sample clients) client accounts, as alleged in the SCN.

89. With regards to running account authorization clause in 16 accounts, though Noticee has replied that is in compliance, I find that the Noticee has not submitted the running account authorization in respect of these accounts. Thus, I hold that the violation persisted for 16 (out of 37 sample clients) client accounts and Noticee is found to be non-compliant during inspection period.

90. In view of the above, I hold that the alleged violations persisted during the inspection and Noticee has violated the provisions of SEBI Circular nos. CIR/MIRSD/16/2011 dated August 22, 2011, MIRSD/Cir-26/2011dated December

23, 2011 read with SEBI Circular No. MIRSD/ SE /Cir-19/2009 dated December 03, 2009.

K. Undue funding of debit balance clients

91. During the inspection it was observed that the Noticee has funded the following clients beyond T+2+5. Client wise summary is as given below:

Table No. 11

Sr. No.	Client Code	Total Client Funding Amount (Rs.)	Number of Instances
1	CSBB51	1,40,86,112	22
2	GH	1,77,73,883	36
3	N010	7,72,59,516	11
4	W003	51,07,793	6

92. It was observed that funds were transferred to the following clients despite having debit balances in the ledger.

Table No. 12

Client Code	Client Name	Relationship with the SIC	Funds transferred to the clients bank account without any credit balance in the ledger (Rs.)
S100	Siddharth Handa HUF	Promoter Group & Director	33,15,988
GH	Gita Handa	Promoter group	1,25,000
N010	Nupur Handa	Promoter Group & Director	35,000
S200	Shaunak Services Private Limited	Nupur Handa holds 50% shareholding in this entity and is also a director	13,50,758
PREM	Prem Kumar	Employee of SIC	3,06,000
Total			**51,32,746**

93. Thus, it was alleged that the Noticee has granted exposure to its clients beyond T+2+5 days and also made fund transfers to its clients despite debit balances in their ledger. Thus, Noticee has funded 4 clients (75 instances) out of 25 sample clients beyond T+2+5 days amounting to Rs. 11.42 crores.

94. Further, the Noticee was alleged to have transferred funds to 5 clients (promoter group directors, employee of the Noticee and associate) despite having debit balance in their ledgers. The total amount transferred was Rs. 51.32 lakhs.

Reply of Noticee

95. In response to the above allegation, Noticee submitted that the allegation is totally untrue and false, the amounts calculated is wrongly framed as Rs. 11.42 crores (other exchange debit credit not taken in to accounts as manually prepared data). For all active clients, daily limits were calculated manually as the old software was not equipped to give statement of risk managements across exchanges and give a clear picture for trade, so same was done at manual level daily for each client and uploaded and there may have been some human error as manually daily work may not happen to up to 100% accuracy. Now after observation from the inspections team, and since the migration to new software tech XL, Noticee have implemented a system not to allow trade for any client having debit balance in account as per exchange circular.

Findings

96. I note that as per SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017.

97. Noticee stated that the allegation that Noticee has granted exposure to its clients beyond T+2+5 days and has funded 4 clients (75 instances) out of 25 sample clients beyond T+2+5 days amounting to Rs. 11.42 crores is totally untrue and false and that the amounts calculated is wrongly calculated as Rs. 11.42 crores. The contention of the Noticee is not acceptable as Noticee has not submitted any evidence / supporting documents to substantiate its claim of erroneous calculation.

98. I note that the Noticee has stated that daily limits were calculated manually as the old software was not equipped to give statement of risk managements across exchanges and there may have been some human error. Noticee further stated that they have now implemented a system not to allow trade for any client having debit balance in account as per exchange circular. However, the corrective steps taken by the Noticee post inspection does not absolve the Noticee from the violations committed during the inspection period.

99. Therefore, I hold that the Noticee has violated the provisions of Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017.

L. Mismatch in details of Email IDs and Mobile numbers

100. During the inspection it was observed that there was mismatch in details of mobile number and email ID as per Exchange UCC & Noticee's back-office records & Noticee has uploaded same E mail ID and Mobile numbers to multiple clients other than family. However, no supportive documents of the client in respect of the family declaration proof has been produced by the Noticee. Details of which are summarized as under:

Table No. 13

Particulars	No. of accounts
Mobile mismatch	196
Email mismatch	116
Count of same email ID to multiple clients.	300
Count of same mobile no to multiple clients.	334
Total	946

Reply of Noticee

101. Noticee denied the above allegation and stated that the data uploaded on BSE BEFS website in accordance to compliance. All the inactive clients have been marked inactive in UCC database in BEFS and hence no repeated numbers and emails appear in Client masters. There may be a few of grandfather old clients (over 25 years) with no demat accounts.

102. Noticee further submitted that the only place where such violation appears which is not true to the cause is at - NRI accounts, HUF accounts and Corporate and Non Individual accounts. These are the only places where observation is valid for 200 plus NRI accounts where NRI plus NRI buy code and NRI sell code is there. As that's the mandatory compliance from RBI PiS team. Hence, 3 codes have same mobile numbers and email ids, also individual accounts who have HUF trading accounts as well, have duplicate mobile and emails, and individual who are directors in corporate for corporate accounts who also hold account in individual capacity with SIC. Have this issue of multiple phone numbers and email associated with same pan, also with joint accounts this is an issue, for all of the above categories, Noticee has obtained client consent and have undertaking for same.

Findings

103. I note that with regards to mismatch in mobile numbers and email ID between exchange UCC records and Noticee’s back office records, the Noticee has not provided any explanation, which indicates that Noticee has nothing to submit in this regard and the allegation levelled against Noticee is accepted by it.

104. With regards to mapping of same email ID and mobile number to multiple clients, the Noticee has submitted that such violation is for the clients having NRI accounts, HUF accounts and Corporate and Non Individual accounts along with individual accounts and Noticee has obtained client consent and undertaking for all the above categories. However, the Noticee has not submitted the copies of client consent and undertakings to substantiate its claim, thus the submission of the Noticee cannot be accepted. Therefore, I hold that there was mismatch in details of mobile number and email ID as per Exchange UCC & Noticee’s back-office records & Noticee has uploaded same E mail ID and Mobile numbers to multiple clients other than family and thus the Noticee has violated the provisions of Clause 2(B) of SEBI circular no. CIR/MIRSD/15/2011 dated August 02, 2011.

M. Not maintained proper client order placement records and call recordings

105. During the inspection it was observed that for the sample of 24 trades, Noticee has provided order placement document for 13 trades. On perusal of the same, it was observed that signature of the client was not available in the Order placement documents provided in respect of 4 trades. Hence, the Noticee has not provided proof of order placement from clients in respect of 15 trades.

106. With regard to call recording facility, Noticee has stated that they have withdrawn the call recording facility keeping in mind high cost involved as their office was closed during the COVID times and the same was restored from April 01, 2022 and attached billing proposal in respect of the same.

107. Accordingly, it was alleged in the SCN that the Noticee had not maintained proper order placement records from the clients for 15 trades and did not have call recording facility during the inspection period.

Reply of Noticee

108. In response to the above allegation, Noticee submitted that 95% of SIC's business happens on client mobile app, through registered systems of logs and 2FA as per SEBI guidelines. Call Recordings were not done as virtually everyone was working from home during COVID, and trading through the app from their homes. The trades placed on call were taken written consent from. A small portion of the trades in COVID have happened on the terminal. Noticee has implemented a system of daily call logs and recordings of all offline trades on terminal directly. Noticee has written consent for all trades placed during the inspection period as client were not able to come to office due to second wave closure in Bangalore office during April 2021 - May 2021. Now after observation, for the trades Noticee has asked clients to give written consent of each trade missed out for call recordings.

Findings

109. I note that as per SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017 all brokers shall execute trades of clients only after keeping

evidence of the client placing such order, it could be, inter alia, in the form of Physical record written & signed by client, Telephone recording, Email from authorized email id, Log for internet transactions, Record of SMS messages etc. When dispute arises, the burden of proof will be on the broker to produce the above records for the disputed trades. The circular intends to further strengthen regulatory provisions against un-authorized trades.

110. I note that Noticee has accepted the allegation and stated call Recordings were not done as virtually everyone was working from home during COVID, and trading through the app from their homes. Noticee further submitted that it has written consent for all trades placed during the inspection period, however, the Noticee has failed to submit any document / evidence to substantiate his claim. Thus, the reply of the Noticee cannot be accepted. In view of the above, I hold that Noticee had not maintained proper order placement records from the clients for 15 trades and did not have call recording facility during the inspection period and thus the Noticee has violated the provisions of Clause III of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.

N. Non production of valid NISM certifications

111. During the inspection it was observed that the associated person as specified in Regulation 3 of the SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 did not have valid certifications. Details are given below:

  a. Siddhesh jain: The NISM series XIII certificate of Mr. Siddhesh Jain submitted by Noticee was dated August 4, 2016. As the validity of the certificate was 3 years from the date of issue, the certificate of Mr. Jain was not valid post August 4, 2019 i.e. during inspection period (April 2020 to June 2021)
  b. Director Nupur Handa, Director's certificate for NISM series VII was expired during inspection period. However, the Noticee has submitted the NISM certificate for series VI exam. Thus, in this regard, Noticee has not submitted the relevant certificate.

c. With respect to inspection observation pertaining to certificates of Compliance officer, the Noticee has not submitted the required NISM certificates.

Reply of Noticee

112. In response to the above allegation, Noticee submitted that Currency derivatives trading has been stopped for more 1 year. Noticee's director Dr Nupur Handa has cleared both series VI & VII compliance officers NISM exams.

Findings

113. I note that as per SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 an associated person on being employed or engaged by an intermediary on or after the date specified by the Board shall obtain the certificate within one year from the date of being employed or engaged by the intermediary.

114. I find that the inspections pointed out that Director's certificate for NISM series VII expired during inspection period. In reply to the SCN, Noticee has submitted that its director has cleared both series VI & VII compliance officers NISM exams but has submitted the NISM certificate for series VI exam only. Thus, I find that Noticee has not submitted the relevant certificate and hence, the reply of the Noticee cannot be accepted.

115. Further, Noticee has not made any submission in respect of certificates of Siddhesh Jain and Compliance officer, which indicates that Noticee has nothing to submit in this regard and the allegation levelled against Noticee is accepted by it.

116. Therefore, in view of the above, I hold that associated persons of the Noticee did not have valid certifications as alleged in the SCN and thus the Noticee has violated the provisions of Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007.

O. Non closure of Exchange Level Internal Alerts generated

117. During the inspection it was observed that the Noticee has not closed 2 surveillance alerts which has been generated for sudden trading activity in dormant account by the exchange:

Table No. 14

Date	Client	Scrip Code	Scrip Name	Alert Message	Remarks
21/10/2020	J031	516030	YASHPAKKA	Sudden trading activity in dormant accounts with client concentration- 71.70%	This broker's net volume for the particular script was 71.7% of the net market volume.
07/05/2021	S002	532628	3IINFOTECH	Sudden trading activity in dormant accounts with client concentration-11.00%	The broker's net volume for the particular script was 11% of the net market volume.

Reply of Noticee

118. In response to the above allegation, Noticee submitted that it has alerted the two clients and confirmed with them the order placed was for their own investment. The two clients were with Noticee over 10 years and Noticee has no reason to suspect any wrong doings from the mentioned clients.

Findings

119. In reply to SCN, Noticee has claimed that it has alerted the two clients and confirmed with them the order placed was for their own investment. However, no evidence has been submitted in this regard. I note that as per BSE Notice no. 20130307-21 dated March 7, 2013, members are required to implement a policy for handling these alerts duly approved by their Board. The Noticee, in its reply, has not demonstrated how it has dealt with these alerts in accordance with the provisions of aforementioned circular. Therefore, in absence of any evidence, it cannot be conclusively ascertained whether the said alerts were comprehensively analysed and dealt with by the Noticee. In view of the same, the reply of the Noticee cannot be accepted. Therefore, I hold that the broker was found to be non-

compliant during inspection period and violated BSE notice no. 20130307-21 dated March 07, 2013 and 20170118-11 dated January 18, 2017.

P. Not furnished cash flow statements

120. During the inspection it was observed that the Noticee has not submitted the cash flow statements as on March 31, 2021.

Reply of Noticee

121. In response to the above allegation, Noticee submitted that it has given repeated reminders requesting to auditor for providing the cash flow statement, but Noticee didn't get a positive response, hence Noticee have changed their auditor this year.

Findings

122. I note that as per SEBI circular, furnishing of Annual Audited Accounts by September 30th of the relevant year is the responsibility of the members. It is the obligation of the Noticee to obtain the annual audited accounts from the auditors and furnish it to the exchanges. Thus the explanation that it has repeatedly requested the cash flow statement from its auditor, but its auditor has not responded cannot be accepted. Therefore, I hold that the broker was found to be non-compliant during inspection period and violated Clause 6.1.1. (c) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

Q. Non-maintenance of minimum Net worth requirement and incorrect computation of Net worth

123. During the inspection it was observed that the net worth reported by the Noticee for the period March 2020 (Rs. 2.73 lakh) and March 2021 (Rs. 43.35 lakh) was below the minimum net worth requirement of Rs. 1 crore. Further, it was observed that the net worth reported by the Noticee to the exchange as on March 31, 2021 was computed without disallowing the doubtful debts and advances. Accordingly,

the net worth was calculated from the audited balance sheet as on March 31, 2021 which was in negative i.e. (Rs. - 4,26,31,538).

Reply of Noticee

124. In response to the above allegation, Noticee submitted that it has ensured that promoters infuse capital to the continuous eroding net worth, due to P/L losses since demonetization, GST regime implementation and COVID. Promoter group has bought in capital through share capital during NOV 21 - FEB 22 to the tune 4 crores. Minimum net worth is now restored from Rs. 13,168,056 as on 31/3/2021 to Rs. 2,56,96,009/- on 10/3/2022 (Auditors certificate has been enclosed).

Findings

125. The Noticee submitted that promoters have infused the capital during Nov 2021 to Feb 2022 to bring the net worth to Rs. 2.56 crores on March 10, 2022 and has submitted the auditors certificate to support the same. However, this increase in net worth in March 2022 does not absolve the Noticee from the violation which persisted during the inspection period. Thus, the reply of the Noticee is not acceptable. In view of the same, I hold that the Noticee was found to be non-compliant during inspection period and it has violated the provisions of Clause 6.1.1(i) and Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

Issue II. Does the violation, if any, attract monetary penalty under section 15HB of the SEBI Act, 1992 and section 23D of the SC(R) Act, 1956?

126. In the light of findings and observations made against the Noticee brought out in the foregoing paragraphs, it is evident that the Noticee has violated the regulatory provisions as indicated in Table no. 1.

127. The object of inspection of the books of accounts and records of any intermediary is to monitor and identify any non-compliances with respect process, procedure

and systems prescribed through various provisions of the SEBI Act, 1992 and Regulations made thereunder and Circulars issued from time to time and thereafter, take necessary corrective steps for orderly, fair and transparent conduct of market participants. In the present case, I find that the Noticee had failed to comply with the provisions as mentioned at Para no. 2 of this order.

128. I find from the observations made in the inspection report and other material available on record that the Noticee has failed in performing its duties as a registered stock broker and also failed to adhere to high standards of service to its clients. For most of the violations, the Noticee has submitted that the violations were committed due to Covid-19, old system and manual calculation done by staff etc. From this it is clear that the Noticee failed in its duties and is trying to take the shelter under COVID pandemic. However, in this regard, I note that neither exchange nor SEBI granted any relaxation with regard to compliance of its extant guidelines, circulars, etc on account of pandemic. Accordingly, such submissions of the Noticee are untenable. I note that explanations such as old system and manual calculation done by staff etc. are not acceptable as the Noticee being a registered stock broker is expected to have the necessary infrastructure like adequate office space, equipment and man power to effectively discharge his activities. The above violations, are serious in nature and make the Noticee liable for monetary penalty under the provisions of section 15HB of the SEBI Act, 1992 and section 23D of the SC(R) Act, 1956.

129. In this regard, reliance is placed upon the judgment of Hon'ble Supreme Court of India in the matter of **SEBI Vs. Shri Ram Mutual Fund** [2006] 68 SCL 216(SC) which inter-alia has held that –

"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant...".

130. The aforesaid violations, makes the Noticee liable for penalty under section 15HB of the SEBI Act, 1992 and section 23D of the SC(R) Act, 1956. The contents of the said provisions of law is reproduced herein below:

<u>SEBI Act, 1992</u>

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*

<u>SC(R) Act, 1956</u>

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

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

Issue III. If so, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act, 1992 read with Rule 5(2) of the SEBI Adjudication Rules; and Section 23-J of the SC(R) Act, 1956 read with Rule 5(2) of the SCR Adjudication Rules?

131. While determining the quantum of penalty, it is important to consider the factors stipulated in Section 15-J of the SEBI Act, 1992 and Section 23-J of the SC(R) Act, 1956, which reads as under: -

<u>SEBI Act, 1992</u>

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.

[Explanation. —For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.]

<u>SC(R) Act, 1956</u>

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

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;
(b) the amount of loss caused to an investor or group of investors as a result of the default;
(c) the repetitive nature of the default.

[Explanation.- For the removal of doubts, it is clarified that the power of an adjudicating officer to adjudge the quantum of penalty under sections 23A to 23C shall be and shall always be deemed to have exercised under the provisions of this section.]

132. In this case, from the material available on record, any quantifiable gain or unfair advantage accrued to the Noticee or the extent of loss suffered by the investors as

a result of non-compliance of the provisions of the SC(R) Act, 1956, SEBI Regulations and SEBI Circulars is not available. Further, from the material available on record, it may not be possible to ascertain the exact monetary loss to the investors on account of violations by the Noticee. With respect to the repetitive nature of the default, I find that *vide* Adjudicating order dated August 23, 2019, a penalty of Rs. 15,00,000 was imposed on the Noticee for violation of SEBI (Prohibition of fraudulent and Unfair Trade Practices relating to the Securities Market) Regulation, 2003 for facilitating and indulging in fraudulent and unfair trade practices. Accordingly, I find that the Noticee is repetitive defaulter. With regard to the investor complaints against Noticee, I find that no complaint is pending against the stock broker as on date. The inspection findings bring out a number of instances where the Noticee has not been complying with the requirements of the SC(R) Act, 1956, SEBI Regulations and SEBI circulars as listed above. Noticee was under a statutory obligation to abide by the provisions of the SEBI Act, rules and regulations and circulars / directions issued thereunder, which it failed to do during the inspection period. The conduct of the Noticee in not complying with the provisions of the SC(R) Act, 1956, SEBI Regulations and SEBI Circulars cannot be taken lightly. The violations by the Noticee are serious considering and have a detrimental impact on the market integrity and therefore, should be dealt with sternly by imposing monetary penalty as effective deterrence.

ORDER

133. Considering all the facts and circumstances of the case and exercising the powers conferred upon me under section 15-I of SEBI Act, 1992 read with Rule 5 of the SEBI Adjudication Rules, and section 23-I of the SCR Act read with Rule 5 of the SCR Adjudication Rules, 1956, I hereby impose the following monetary penalty under section 15HB of the SEBI Act, 1992 and section 23D of the SC(R) Act, 1956, on the Noticee:

Sr. No.	Penalty Provisions	Amount of penalty (in ₹)
1	Section 15HB of SEBI Act, 1992	₹ 20,00,000/- (Rupees twenty lakhs only)
2	Section 23D of SC(R) Act, 1956	₹ 10,00,000/- (Rupees ten lakhs only)
Total amount of penalty		**₹ 30,00,000/-** **(Rupees thirty lakhs only)**

In my view, the said penalty is commensurate with the violations committed by the Noticee in this case.

134. 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

135. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

136. In terms of Rule 6 of the SEBI Adjudication Rules, 1995, copy of this order is sent to the Noticee and also to the SEBI.

Place: Mumbai — **ASHA SHETTY**

Date: March 24, 2023 — **ADJUDICATING OFFICER**