

**BEFORE THE ADJUDICATING OFFICER  
SECURITIES AND EXCHANGE BOARD OF INDIA  
[ADJUDICATION ORDER NO: Order/SD/KS/2022-23/17042]**

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**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.**

*In respect of:*

**M/s Anand Rathi Share and Stock Brokers Limited**

**PAN:AAACN3405F**

Express Zone A-Wing, 10th Floor,  
Western Express Highway,  
Goregaon (East), Mumbai- 400063  
SEBI Reg no: INZ000170832

*In the matter of*

*M/s Anand Rathi Share and Stock Brokers Limited*

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**BACKGROUND**

1. Securities and Exchange Board of India (hereinafter be referred to as, "**SEBI**") initiated adjudication proceedings under Section 15HB of SEBI Act, 1992 (hereinafter be referred to as, the "**SEBI Act**"), under Section 23D of the Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as '**SCRA**') and also under Section 19G of Depositories Act 1996(hereinafter referred to as '**Depositories Act**') against M/s Anand Rathi Share and Stock Brokers Limited (hereinafter be referred to as, "**the Noticee/ ARSSBL** ") for the various violations alleged to have been committed by the Stock Broker viz, M/s Anand Rathi Share and Stock Brokers Limited (hereinafter referred to as '**Noticee/broker**').)

## **APPOINTMENT OF ADJUDICATING OFFICER**

2. The undersigned was appointed as the Adjudicating Officer, vide communique dated August 11, 2021 under Section 19 read with Section 15-I of the SEBI Act read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Adjudication Rules**'), under Section 23-I of Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as '**SCRA**') read with Rule 3 of Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter referred to as '**SCRA Adjudication Rules 2005**') and also under Section 19H of Depositories Act 1996 read with Rule 3 of Depositories (Procedure for Holding Inquiry and Imposing Penalties Rules, 2005 (hereinafter referred as the Depositories Rules) to inquire into and adjudge under the provisions of section 15HB of the SEBI Act, the provisions of the Section 23D of the SCRA and also under the provisions of the Section 19G of Depositories Act for the various alleged violation of the provisions of law by the Noticee.

## **SHOW CAUSE NOTICE, HEARING AND REPLY**

3. Show Cause Notice ref. SEBI/HO/EFD1/EFD1\_DRA5/P/OW/2021/34475/1 dated November 29, 2021 (hereinafter referred to as '**SCN**') was issued to the Noticee in terms of Rule 4 of the Adjudication Rules and Rule 4 of the SCRA Adjudication Rules 2005, and Rule 4 of the Depositories Rules 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 on the Noticee under the provisions of section 15HB of the SEBI Act.
4. The allegations levelled against the Noticee in the SCN, *inter alia*, mentioned as below:-

### **A. Misutilisation of Funds and Securities of Clients**

- i. *It is observed that on 36 instances out of 36 sample dates, the value of G is negative. Therefore, it alleged that on such 36 instances, the Noticee has mis-utilised credit balance client funds' for the purpose of debit balance clients' and for own purposes in the range of Rs 13.77 cr to Rs. 108.89 cr.. Thus, it is alleged that the Noticee has violated the following provisions:*
  - a. *Section 23D of SCRA read with SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993.*

b. Clause 3.3.1 of annexure of Enhanced supervision circular.

**B.Non-Settlement of Clients funds and Securities:-**

ii. It is also observed that the member has not settled funds and securities worth Rs 102,33,16,613/- {Rs. 38,99,44,254.4 (active clients )+ Rs ( inactive clients) 63,33,72,359.45} from the period April 2018 to March 2019. Therefore, it is alleged that the Noticee has violated the following provisions:

a. SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009

b. Clause 8.1.1 of Annexure of Enhanced supervision circular

**C. Stock Reconciliation:**

iii. It is observed that securities worth Rs. 814.50 (1 ISINs) were recorded in ROS/back office however same were not reflected in DP statement of the member. Securities worth Rs. 59,007 (60 ISINs) were reflecting in the DP statement, but were not recorded in the ROS/back office. Therefore, it is alleged that Noticee violated the following provisions:

Clause 2.3 of SEBI circular MRD/DOP/SE/Cir-11/2008 dated April 17, 2008

**D. KYC Discrepancies related to Email ID & Mobile numbers:**

iv. It is observed that Single email id was mapped to multiple clients i.e total of 189 email ids were mapped to 547 clients, Single mobile number was mapped to multiple clients i.e total of 150 mobile number mapped to 466 clients. It was observed that email ids of 77 clients were not uploaded to Exchanges, It was also observed that Category of 2 clients were not correctly uploaded to Exchange, and Mobile numbers of 44 clients were not uploaded to Exchange. Further, email ids of 691 clients uploaded to Exchange does not match with email id in TM record, and it was observed that in respect of 502 clients mobile numbers uploaded to Exchange did not match with mobile number in TM record,. In view of this, it is alleged that Noticee had violated the Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011.

v. It was also observed that to 315 Clients Contract Notes deemed not sent, in this regard, Noticee is alleged to have violated the Clause B.2 in Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.

**E. Financial Statement Analysis:**

vi. It is observed that Noticee had engaged in business other than of the securities business by extending loans to 2 entities worth Rs. 233.05 Crores and it is also observed that the loans were not found to be incidental to or consequential upon the securities/broking business. Further, the loans were extended despite having significant payables to the clients at the time.. Thus, it is alleged that the Noticee has violated the following provisions of Rule 8 (1)

(f) and Rule 8 (3) (f) of Securities Contract (Regulation) Rules, 1957 read with SEBI Circular SMD/POLICY/CIR-6/97 dated May 07, 1997 And Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992.

#### **F. Incorrect reporting of Networth**

vii. It was observed that TM has reported Networth of Rs. 26.40 crores as on 31-03-2019. However, it was observed that the Networth as per exchanges' calculation was Rs.11.55 crore because of the following reasons

- a) Trading member has not deducted 30% of marketable securities,
- b) Advances given to associate company for their office expenses;
- c) Provision for doubtful debt has been reduced by TM from ageing value of doubtful debt overdue more than 90 days as on networth calculation day however TM could not substantiate that said provision belongs to said overdue debtors only and hence benefit of provision of doubtful is not given;
- d) Exchange have reduced 10% on marketable securities as per clearing member's var on the same.

In view of the discrepancy in calculation of networth / incorrect reporting of networth to exchange, it is alleged that Noticee had violated the provisions of Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Rule 33 of Chapter II of the Rules of NSEIL and NSE Circular NSE/MEMB/2739 dated July 30, 2001.

#### **G. Failure in Reporting Risk Based Supervision Data:**

viii. It was observed that the Noticee had reported a difference of Rs. 22.63 Crores in Brokerage income and incorrectly reported difference of Rs. 12.16 Crores related to the total available collaterals from all debit balance clients as on 31-03-2019. Therefore, it is alleged that Noticee had violated Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 September 26, 2016.

#### **H. Incorrect reporting of weekly enhanced supervision data:**

ix. From the analysis of the data, following irregularities with reporting of data were observed

- a) Total end of the day balance in client and settlement bank accounts - Difference of Rs. 64.45 crore.
- b) Collateral deposit with clearing member/clearing corporation in form of cash or cash equivalent - Difference of Rs. 13.42 crore.
- c) Total Credit balance of all clients - Difference of Rs. 1.63 crore.
- d) Total debit balance of all clients - Difference of Rs. 1.79 crore.

- e) Value of non-funded portion of BG across Exchanges - Difference of Rs. 137.8 crore.
- f) Margin utilized for positions of Credit Balance Clients- difference of Rs. 55 lakh.
- g) Free/ Unblocked collateral deposited with Clearing member / clearing corporations - Difference of Rs. 135.01 crore.
- h) Value of own securities deposited as collateral with Clearing corporation/ Clearing member - Difference of Rs. 10 lakhs.

In view of the above differences in reporting data, it is alleged that Noticee had violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

**I. Observations pertaining to Office Management, Authorized Person and Trading terminals**

x. it was observed that CTCL ids of 42 terminals were not uploaded to Exchange however the same were found active in TM record. It was also observed that Active/Inactive status of 3 terminals were not correctly reported to Exchange Refer Annexure 8A and CTCL ids of 19 terminals were found active in Exchange record however not found active in TM record.

xi. With respect to Authorised Person, the inspection team had verified that whether the notice board as required is displayed at AP location, terminals are operated by approved person only. All terminals found at location are properly reported to Exchange. In this regard, it is observed that 4 Terminals were operated persons by other than approved persons at AP address A-401,4TH FLR, SABARMATI CHS,CROSS ROAD. NO.3,KANDIVALI EAST 400092.

xii. In view of this, the Noticee has alleged to have violated Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and NSE circular no. NSE/MEMB/3574 dated 29-Aug-02, NSE/MEMB/3635 dated 25-Sep-02 and NSE/MA/22732 dated 13-Feb-2013 and NSE circular NSE/MEM/3574 dated August 29, 2002.

**J. Incorrect reporting of Enhanced Supervision Monthly data of client's balances of Funds and securities:**

xiii. It is observed that fund balances of 2421 number of clients were not reported, which was aggregating to Rs.96,45,181.97/-. Further, it was observed that Securities balances of 68 inactive clients were not reported under monthly submission file, which was aggregating to Rs 932464.10/- Refer Annexure 10A and incorrect funds balances of 11661 clients were reported under monthly submission, which was aggregating to Rs.118,72,17,470.89/- Annexure 10B. Therefore, it is alleged that Noticee has violated Clause 7.1.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

#### **K. Non-maintenance of evidence for client order placement**

xiv. It is observed that during the inspection, trading member could not provide any appropriate evidences where orders are received from clients over telephone with respect to 9 clients. The details of 9 client has been provided in following table.

| Client Code | Applicant Name               |
|-------------|------------------------------|
| VDRHNS102   | Mr. SHIRISH R PATEL          |
| GPU74V113   | Vilas Balu Lohar             |
| GMUB059     | Blandina Lobo                |
| GKOPV1N114  | NILU SINGH                   |
| GKOHNY103   | YOGESH KUMAR NIGAM           |
| JMMUM074    | MPSHARMA SHARMA              |
| DRWA221     | ARUNKUMAR RAO CHILLARA       |
| GKOPV1B120  | Binod Kumar Singh            |
| GBN12R030   | RAJESH SUBHASHCHANDR KOTHARI |

xv. In view of this, it is alleged that the Noticee has violated Clause II and IV of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.

#### **L. Failure to send statement of accounts:**

xvi. It is observed that retention statement was not sent to 8 clients for 17 instances and Retention statement issued to 1 client does not contain correct details

| Client Code | Applicant Name      | Period Days      |
|-------------|---------------------|------------------|
| VDRHNS102   | Mr. SHIRISH R PATEL | Arbitration case |
| GPU74V113   | Vilas Balu Lohar    | 38.00            |
| GMUB059     | Blandina Lobo       | 32.00            |
| GKOPV1N114  | NILU SINGH          | 29.00            |
| GKOHNY103   | YOGESH KUMAR NIGAM  | 26.00            |
| JMMUM074    | MPSHARMA SHARMA     | 25.00            |

|            |                              |       |
|------------|------------------------------|-------|
| DRWA221    | ARUNKUMAR RAO CHILLARA       | 19.00 |
| GKOPV1B120 | Binod Kumar Singh            | 15.00 |
| GBN12R030  | RAJESH SUBHASHCHANDR KOTHARI | 14.00 |

Therefore, the Noticee is alleged to have violated the Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009.

#### **M. Discrepancies in KYC process:-**

xvii. The KYC documents of sample clients were reviewed to verify various compliances pertaining to KYC. Upon the inspection of KYC documents, it is observed that CRD did not contain Index giving brief significance of each document and CRD was also not segregated as mandatory and voluntary. Thus it is alleged that the Noticee was in non-compliance during the inspection period and has violated SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011.

xviii. It is observed that there was a Delay in upload of KYC details on the system of CKYCR. Thus it is alleged that Noticee has violated SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 read with SEBI Circular CIR/MIRSD/66/2016 dated July 21, 2016.

xix. It is also observed that there was a Delay in upload of KYC details on KRA portal. In view of this, it is alleged that Noticee has violated the Clause 2 of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 read with SEBI Circular MIRSD/Cir-23/2011 dated December 2, 2011 and SEBI circular MIRSD/Cir-5/2012 dated April 13, 2012.

xx. Further, it is observed during the inspection that the member did not provide the copies on IBT agreement obtained from client for verification at the time of client's registration. Therefore, it is alleged that the Noticee has violated Clause 7 of the Annexure A of the SEBI Circular No. MIRSD/ SE /Cir-19/2009 dated December 03, 2009 and Annexure 3 (D) of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011.

#### **N. Discrepancies in issuance and execution of DIS (DP observations):**

xxi. It is observed that In few instances, transfer instructions from Anand Rathi Share and Stock Brokers Ltd-Stock Broker-Client account to Margin Account have been processed using Form no. 22 (Pay-out by clearing member) instead of Form no. 36 (Combined Delivery Instructions by Client).

xxii. In one case of Inter Depository Transfer, it is observed that the client has mentioned reason code as 99 for a Buyback instruction instead of 5. Although the Participant has captured the correct reason code in the system, In this regard, it is alleged that the relevant corrections have not been made on the instruction slip/intimated to the client. Thus, the Noticee is alleged

to have violated NSDL Circular NSDL/POLICY/2014/0092 dated August 25, 2014 and NSDL/POLICY/2014/0076 dated June 23, 2014.

**O. Transmission requests (DP observation):**

xxiii. During the inspection it is observed that Participant is not using NSDL prescribed form for processing transmission requests. The date on which the transmission form is received by DP at its branches is not been captured in the (Data Processing and Management) DPM system, instead the date on which the transmission request is received at the H.O is captured. Further, in three out of four instances, a delay of more than seven days is observed in processing transmission requests. Therefore, it is alleged that the Noticee has not complied with the NSDL Circular No. NSDL/POLICY/2018/0018 and NSDL/POLICY/2016/0042 Dated April 11, 2016

**P. Account Modifications (DP Observations):**

xxiv. The inspection team has verified the Account modification such as Address change/ Nomination Change/ Bank details change/ BO Name change/ PAN/email change/ mobile no. change/SMS/Signature/Standing Instructions of sample clients to check whether guidelines/ procedure as specified in the CDSL Operating Instructions and whether SEBI guidelines for implementation of KRA Regulations are followed. In this regard, it is observed that DP has obtained old modification form for minor name corrections. In this regard, it noted that DP to ensure that the demat account holder whose name is to be corrected submits a duly filled and signed modification form as per Annexure B mentioned in communiqué. CDSL/OPS/DP/POLCY/2019/17 dated January 09, 2019. Thus, in view of the above, it is alleged that Noticee has violated the CDSL Communiqué CDSL/OPS/DP/POLCY/2019/17 dated January 09, 2019.

**Q. Concurrent Audit Report. (DP observation):-**

xxv. It is observed from the inspection of Concurrent Audit Reports submitted by the auditor that Concurrent Audit Report submitted by the auditor is not as per the CDSL format. The same has been accepted by the Noticee, in its reply letter dated July 14, 2020. Therefore, Noticee is alleged to have Communiqué 2018 205 dated April 18, 2018.

**R. Stamp not affixed on DIS, Demat (DP Observation):**

xxvi. It is observed from the inspection of sample data pertaining to Affixing of Stamp on the documents that Noticee has affixed received stamp and date after the execution of transaction. The same has been accepted by the Noticee, in its reply letter dated July 14, 2020 In this regard, it is alleged that the Noticee has violated the CDSL Operating Instructions 6.5.4.3

5. The SCN with reference number SEBI/HO/EFD1/EFD1\_DRA5/P/OW/2021/34475 /1 dated November 29, 2021 was issued to the Noticee via Speed Post Acknowledgement Due (SPAD), which was duly served on the Noticee as per the Tracking details obtained from the India Post website.
6. In response to the said SCN, the Noticee vide its email dated December 07, 2021 sought certain annexures mentioned in the SCN. Vide email dated December 23, 2021, the Noticee sought time till first week of January 2022 to submit its reply to the SCN. Further, vide its email dated January 08, 2022, the Noticee had submitted the detailed reply dated January 07, 2022 with regard to the allegations made in the SCN.
7. Thereafter, In the interest of natural justice and in order to conduct an inquiry in terms of Rule 4 (3) of the Adjudication Rules, vide email dated January 28, 2022, the Noticee was granted an opportunity of personal hearing in the matter on February 22, 2022, through the online Cisco webex platform. The said hearing scheduled on stipulated date was attended by Mr. Deepak Kedia, Senior Vice President\_ Compliance Head and Mr. Sumedh Pitale, Senior Manager\_ Compliance, the Authorized Representatives('AR's) and during the course of personal hearing, the AR reiterated the submissions made by the Noticee in its reply dated January 07, 2022
8. The Noticee vide letter dated January 07, 2022 inter-alia made the following submissions:

**A. Misutilization of Fund and Securities of Clients**

*We humbly submit that 'The National Stock Exchange of India Limited' ("NSE") had earlier conducted inspection of ARSSBL for the period April 2017 to November 2018 already covered the said issue. Further Order dated June 06, 2020 (Annexure A) passed by the MCSGFC against us a monetary penalty of Rs.59,97,000/- was imposed upon ARSSBL. Out of the total penalty of Rs. 59,97,000/-, a penalty of Rs. 54,01,000/- was imposed on the ground of alleged misutilization of Fund and Securities of Clients. Further we have submitted an additional documents / facts in addition to our previous replies and submissions in SAT review letter dated July 22, 2020,( Annexure B) which would substantiate and prove that there was no misutilization of client funds and therefore being it's a repetitive observation no penalty on that count ought to be imposed on us.*

*Further, we would like to highlight certain paras from the relevant circular (s) to explain our position.*

Circular bearing no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 ("September 2016 Circular") issued by SEBI on "Enhanced Supervision of Stock Brokers/Depository Participants" is intended to monitor clients' funds lying with the Stock Broker by the Stock Exchanges, through a sophisticated alerting and reconciliation mechanism, to detect any mis-utilisation of clients fund.

Para 3.1 of September 2016 Circular provides that the exchanges shall put in place 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 therein. Thus, para 3.2 and 3.3 is merely a guidelines to calculate mis-use of client funds by the member/broker.

As per para 3.3 of September 2016 Circular, stock exchange is required to check if (i) Funds of credit balance clients used for settlement obligation of debit clients or for own purpose; (ii) Funds of clients used for Margin obligation of proprietary trading. Notably, ARSSBL has neither used credit balance of the clients for settlement obligation of debit clients/own purpose nor has used client funds for margin obligation of proprietary trading.

As per para 3.3.1 of September 2016 Circular:

*"The value of G may indicate utilization 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."*

We would humbly submit that the legislative intent of all the applicable circulars are to ensure that client's funds and securities are not mis-utilized by the brokers and the same has never been the case.

We also pleased to interpret the provisions of applicable circulars keeping in mind the intention and purpose thereof; i.e., "to ensure that client's funds and securities are not mis-utilized by the trading members towards their proprietary trading and to ensure that adequate funds are available to meet the clients dues". ARSSBL never did any proprietary trading during the said period and had ample funds available to meet all clients' dues as provided by the above details and documents.

**Calculation of clients' funds and 19 instances of alleged shortfall in the month of October 2018 is erroneous and incorrect for following reasons:**

In the month of October 2018, ARSSBL had Fixed Deposits (FDs) worth Rs. 72,12,50,000/-, out of which FDs around Rs. 60,92,50,000/- was created with Bank of India ("BoI") in the month of November 2016 to June 2018 having maturities between November 2018 to October 2019. Amongst the above mentioned FDs of BoI, ARSSBL had FDs worth around Rs. 33.2 crores against which Bank Guarantee ("BG") of Rs. 66.4 crores was obtained for NSE F&O clearing through National Securities Clearing Corporation Limited ("NSCCL") and upon shifting of clearing and settlement (self-clearing) with ISSL from March 19, 2018, NSCCL released the BG and accordingly the same was surrendered resultantly the FDs were lying free with us. Additionally, ARSSBL also had FDs Rs. 8,75,00,000/- with HDFC Bank, Rs. 2,45,00,000/- with IndusInd Bank which were not placed with exchange.

ARSSBL further submits that the FDs with PCM and exchange which has been duly considered for the purpose of calculation of clients' funds ("G") had an accrued interest around Rs. 4,44,72,607/- and free FDs lying with ARSSBL had an accrued interest of over Rs. 4,70,03,893/- as on September 30, 2018. (List of FDs (free FDs and FDs lying with Exchange) along with the accrued interest as on September 30, 2018 is enclosed as

(Annexure C). The liquid fund placed with exchange/PCM to the tune of 75 crore also accreted Rs. 2,35,38,640/- in the value based on the NAV of those funds as on September 30, 2018. (List of value of mutual funds as on September 30, 2018 is enclosed as (Annexure D)

We hereby annex as (Annexure E) calculation of clients' funds during 19 instances of alleged shortfall during October 2018 considering free FDs [as per (i) above] and accrued interest on FDs considered for the purpose of calculation of clients' funds; accrued interest on free FDs; accretion in value of liquid fund placed with exchange/PCM based on the NAV of those funds as on September 30, 2018 [as per (ii) above].

**Calculation of clients' funds and 17 instances of alleged shortfall in the month of December 2018 is erroneous and incorrect for following reasons:**

On November 06, 2018, ARSSBL had created Fixed Deposits (FDs) worth Rs. 50,00,00,000/- with ICICI Bank. These FDs which were available during the relevant period were subsequently placed with the PCM (i.e. with ICICI Bank w.e.f. May 10, 2019) for obtaining the trading limits and is thus eligible for getting considered against the client funds. Notably, these FDs were created by ARSSBL to obtain working capital facility worth Rs. 100,00,00,000/- from ICICI Bank Limited in the form of Bank Guarantee to be submitted with Professional Clearing Member ("PCM"). Annexed hereto as Annexure F (collectively) a copy of 'Credit Arrangement Letter' dated October 31, 2018 issued by ICICI Bank Limited in connection with Working Capital Facility in the form of Bank Guarantee together with email dated November 06, 2018 sent by an official of ARSSBL to ICICI Bank official for creation of FDs for third party bank guarantee. Your attention is drawn to page no. 3 of the ICICI Bank letter dated October 31, 2018, wherein the purpose of the BG has been stated, "For meeting margin requirements/trade guarantee fund/security deposits with the MCX, NCDEX, NSE, BSE, MSEI for cash segment, F & O segment, currency derivative segment, SLB segment and PCM and TCM for equity/derivative segment". Also, in the aforesaid ICICI Bank letter dated October 31, 2018 it has been mentioned that "To be issued in favour of Phillip Capital (India) Private Limited / Share Holding Limited / SMC Global Securities Limited / Edelweiss / Axis Bank Corporation of India Limited / IL&FS Securities Services Limited / Global Capital Markets". Therefore, it is humbly submitted that the entire purpose of the said Bank Guarantee was to be issued in name of our PCM during the relevant time i.e. IL&FS Securities Services Limited.

You will further appreciate that in the aforesaid email dated November 06, 2018, it has been categorically stated that "The above FDR will be utilised against Third party Bank Guarantee limit sanction in Anand Rathi Share and Stock Brokers Ltd".

It may be noted that ICICI Bank Limited had sanctioned the facility to issue the said bank guarantees to the PCM on behalf of ARSSBL. However, at about that time, a major fraud was discovered in IL&FS Limited resultantly, ICICI Bank Limited refused to issue bank guarantees to ISSL (a group company of IL&FS Limited). Due to the aforesaid events, ARSSBL was constrained to change the PCM from ISSL to ICICI Bank itself. Once the PCM was changed, the same ICICI Bank FDs of Rs. 50,00,00,000/- was given to ICICI Bank as the PCM towards the said clearing and settlement functions and the issue was thus resolved. Therefore, it was only the said exceptional unforeseen events which were totally beyond our control, that prevented ARSSBL for submitting the collaterals to the then PCM (ISSL). It is therefore submitted that the said ICICI Bank FDs ought to be considered for the purpose of calculation of availability of clients' funds and the same was

in fact available towards the clients dues. Annexed hereto as Annexure 'G\_' a flow chart explaining the timeline.

Further, ARSSBL also had free FDs of Rs. 58,34,50,000/- created with Bank of India ("BoI") in the month of May 2017 to October 2017 having maturities between May 2019 to October 2019. Amongst the above mentioned FDs of BoI, ARSSBL had FDs worth around Rs. 33.2 crores against which Bank Guarantee ("BG") of approximately Rs. 66.4 crores was obtained for NSE F&O clearing through National Securities Clearing Corporation Limited ("NSCCL") and upon shifting of clearing and settlement (self-clearing) with IL&FS from March 19, 2018, NSCCL released the BG and accordingly the same was surrendered resultantly the FDs were lying free with us.

It is noteworthy to mention here that ARSSBL creates FDs only for the purpose of obtaining margin either by placing directly with exchange or obtaining bank guarantee against the same. This is thus corroborated from aforementioned facts regarding ICICI Banks FDs of Rs. 50,00,00,000/-. It is further submitted that the aforementioned free FDs of Rs. 58,00,00,000/- created with BoI were also created for the purposes of obtaining the margin through bank guarantee against the said FDs. A copy of surrender of Bank Guarantee of Rs. 66.40 crore surrendered to BoI vide letter dated March 22, 2018 upon shifting of PCM to ISSL is attached as Annexure H. Notably, from the aforesaid BoI letter, it is evident that the FDs of BoI were used for obtaining the BG limits to be placed as collaterals with PCM.

Additionally, ARSSBL also had FDs over Rs. 8 Crore with HDFC Bank, over Rs. 3 Crore with IndusInd Bank and Rs. 2 Crore with Axis Bank which were not placed with exchange.

ARSSBL further submits that the FDs with PCM and exchange which has been duly considered for the purpose of calculation of clients' funds ("G") had accrued interest amounting to Rs. 7,69,85,514/- and FDs lying with ARSSBL had accrued interest amounting to Rs. 5,39,53,415/- as on November 30, 2018. The liquid fund placed with exchange/PCM to the tune of Rs. 75,00,00,000/- also accreted Rs. 2,30,39,885/- in the value based on the NAV of those funds as on November 30, 2018.

We further draw your attention to Annexure E (as marked above) which also contains calculation of clients' funds during 17 instances of alleged shortfall in the month of December 2018 considering free FDs including ICICI Bank FDs [as per (iv) above] and accrued interest on FDs considered for the purpose of calculation of clients' funds; accrued interest on free FDs (including ICICI Bank FDs); accretion in value of liquid fund placed with exchange/PCM based on the NAV of those funds as on November 30, 2018 [as per (vii) above]. We also annex herewith as Annexure I (collectively) an excel sheet containing details of FDs, interest accrued on FDs, (as on November 30, 2018), value of liquid funds (as on November 30, 2018) and certificates issued by banks certifying availability of FDs and interest accrued thereon as on November 30, 2018.

(i) The FDs, accrued interest, accreted value of liquid funds etc. as more particularly mention hereinabove ought to be considered as available for paying the liabilities of creditors.

The credit balance of the clients were always deployed in FD placed with Exchange, free FDs (due to reasons mentioned above), liquid mutual funds and income/interest accrual thereof.

Further as regards the said observation of misutilisation of client funds as on December 28, 2018, it is pertinent to note the following facts in relation to the clearing function of ARSSBL during the relevant time:

- a. Until March 18, 2018 - ARSSBL was a Self-Clearing Member ("SCM") and used to clear and settle clients' trades itself.
- b. From March 19, 2018 to May 09, 2019 - ARSSBL shifted the clearing and settlement functions from itself to a Professional Clearing Member ("PCM"); i.e. IL&FS Securities Services Limited. ('ISSL') (Annexure J1)
- c. From May 10, 2019 to March 01, 2020 - ARSSBL shifted the clearing and settlement function from ISSL to ICICI Bank. (Annexure J2)
- d. From March 02, 2020 onwards – ARSSBL once again took over the clearing and settlement function to itself and again became a SCM. (Annexure J3)

It is our humble request that in the interests of justice and the balance of convenience, the implementation of the said Order may be deferred till the matter does not conclude by Hon'ble Securities Appellate Tribunal (SAT).

- i. We await your favourable response. We would also be happy to furnish any additional explanations, information, clarifications or documents as the Hon'ble Committee may require.

## **B. Non-Settlement of Client funds and Securities :-**

We reiterates that the present observation pertains to inspection period April 2018 to November 2019 ("Inspection Period") basis joint inspection by SEBI, Depositories and Exchanges. We humbly submit that the NSE had earlier conducted inspection of ARSSBL for the Previous Inspection Period and had covered this issue. Without prejudice to ARSSBLs' right to challenge the observations made by MCSGFC for the Previous Inspection Period, we submit that since the said issue has already been covered in Previous Inspection Period, the observation made herein should be dropped. Without prejudice to what has been stated in this para, we are submitting our reply/comments on observations regarding settlement of clients' fund.

Settlement of active client (as referred in Annexure 3 A)

At the outset, it is denied that any amount was deliberately/intentional retained by us instead of paying back to its clients. We have been settling the funds and/ or securities of our clients as per the SEBI circular MIRSD/ SE/Cir-19/2009 dated December 03,2009. In this regard, please find current details enclosed herewith regarding settlement of 51 sample (49 unique clients) enclosed as Annexure K.

Further with regards to observation on non -settlement of inactive clients (as referred in Annexure 3 B)

We humbly submit that out of around 24,492 inactive clients for the quarter July - Sep 18 (145 common clients which were part of NSE's order has been subtracted from total number of clients and non -settlement value. There are 11,992 clients having credit balances of more than Rs.100 /- only have been considered, out of which we have

completed settlement of funds and securities for around 3120 clients and for remaining 8872 Clients settlement could not be processed due to reasons of active clients having no releasable value, fund transferred to separate bank account due to incomplete bank account details, etc...Summary of settlement pertaining to inactive clients Annexed hereto as (Annexure K1).

For the quarter Sep - Dec 18 we submit that out of 29,197 inactive clients, there are 12,496 clients having credit balances of more than Rs.100 /- only have been considered. We have completed settlement of funds and securities for around 3370 clients and for remaining 9126 Clients settlement could not be processed due to reasons of active clients having no releasable value, fund transferred to separate bank account due to incomplete bank account details, etc....Summary of settlement pertaining to inactive clients Annexed hereto as (Annexure K1).

For the quarter Dec 18 - Mar 19 we submit that out of 27,078 inactive clients, there are 12,357 clients having credit balances of more than Rs.100 /- only have been considered. Out of which we have completed settlement of funds and securities for around 3454 clients and for remaining 8903 Clients settlement could not be processed due to reasons of active clients having no releasable value, fund transferred to separate bank account due to incomplete bank account details, etc...Summary of settlement pertaining to inactive clients Annexed hereto as (Annexure K1).

Further We have complied as per SEBI Master circular for stock brokers SEBI/HO/MIRSD/DOP1/CIR/P/2018/87 dated June 01, 2018. The settlement of running account of funds of the client shall be done by the trading member after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges, at least once within a gap of maximum 30 / 90 days between two settlements of running account as per the preference of the client. We would also like to submit that clients have submitted a declaration expressing their intention to maintain running account so as to avoid multiple and/or frequent pay-in/pay-outs, which would continue until the same is revoked by the respective client. A sample copy of declaration submitted by the clients i.e. Letter of Authority is annexed as (Annexure L). However there is no grievances pending whatsoever on this issue from any of our clients. Also, we are maintaining an exclusive/dedicated e-mail id for redressal of investor complaints. We request you to consider our submission and drop disciplinary action in this regards, if any.

### **C. Stock Reconciliation :**

With reference to your said observation we have referred Exchange circular NSE/INSP/10605 dated 21st April 2008 and humbly submitting our reply pointwise as mentioned below :-

The present observation pertains to inspection period April 2018 to November 2019 ("Inspection Period") basis joint inspection by SEBI, Depositories and Exchanges. We humbly submit that the National Stock Exchange of India Limited ("NSE") had earlier conducted inspection of ARSSBL for the period April 2017 to November 2018 ("Previous Inspection Period") and had covered this issue. Without prejudice to ARSSBLs' right to challenge the observations made by 'Member and Core Settlement Guarantee Fund Committee' ("MCSGFC" or "Committee") for the Previous Inspection Period, we submit that since the said issue has already been covered in Previous Inspection Period, the observation made herein should be dropped. Without prejudice to what has been stated

*in this para, we are hereby submitting our reply/comments on observations regarding stock reconciliation.*

*As per the applicable Exchange guidelines, we are in practice of reconciliation of back office holdings with the client/beneficiary demat holding. As observed by the Exchange officials, there were few inadvertent mismatch noticed as we had received stock through corporate actions and due to system unable to analyse the holding quantity in decimal or in fraction, which is been rectified now. Further, we have also provided case to case clarification in (Annexure M) for your perusal.*

*We also submit that in order to prevent mis-utilization of client's securities, SEBI had issued circular/s requiring brokers to maintain proper record of client's collateral. Further, as per the circulars, on mis-utilised of client collateral by a broker, appropriate penalty for violation of norms has been provided. It is noteworthy to mention here that mis-match observed during inspection RSSBL is due to reasonable cause and we have not mis-utilized client's securities.*

*Further We are highly complied with Exchange circulars NSE/INSP/29096 dated March 11, 2015 subject to Actual Settlement of Client Accounts and SEBI Master circular for stock brokers SEBI/HO/MIRSD/DOP1/CIR/P/2018/87 dated June 01, 2018.*

**D. KYC Discrepancies related to Email ID and Mobile Numbers :**

*With regard to observations mentioned herewith pertains to email and mobile number We are submitting our pointwise reply with respective Annexures and suitable comments as below. Kindly refer Annexure N.*

*Please find enclosed Annexure 5 along with appropriate response against each of the remarks / observation made herewith. Our latest response can be categorized as following.*

*In this regard, it is humbly submitted that same email ids have been mapped for some set of clients as these clients are related to each other, in the sense that one of the client was dependent on the other (i.e. dependent children, spouse, dependent parents, etc.) These details have been provided by the clients in their respective KYC/Account opening forms and accordingly the same has been captured. Also, the sample size includes instances/cases wherein UCC has been closed and which ought to be exclude from the observed instances.*

*Please find enclosed Annexure 5A along with our response categorized against each of the remarks/observation made herewith :-*

*It is humbly submitted that same phone numbers have been mapped for some set of clients as these clients are related to each other, in the sense that one of the client was dependent on the other. These details have been provided by the clients in their respective KYC/Account opening forms. Also, the sample size includes instances/cases wherein UCC has been closed and which could be exclude from the observed instances*

*Please find enclosed Annexure 5C along with our response against each of the remarks/observation made herewith:*

*we humbly submit that email id's are updated based on the instructions of the respective client. It is submitted that under the SEBI circular dated September 8, 2005, there is no bar on common email ids. The relevant extract of the said circular clearly spells out that*

*“The usual mode of delivery of ECNs to the clients shall be through emails. For this purpose, the client shall provide an appropriate email account to the member which shall be made available at all times for such receipts of the ECNs.” Therefore, the choice of the email id is purely that of the client and as a broker we have to follow the instructions of the client and mail the ECNs to the said email id as provided by the clients. Further, for majority of the cases, email id of the clients have not been uploaded in Exchange data as the said cases pertain to dormant accounts.*

*In the reply of Annexure 5D, we humbly submit that client category and PAN details for client AHMC125 and GNPB211 are correctly mentioned and enclosed herewith Annexure 5D containing appropriate remarks along with necessary supporting.*

*Please find enclosed Annexure 5E containing our remarks on instances wherein mobile number of clients not uploaded to Exchange. It is humbly submitted that we have updated mobile number, email id as per preference of the client. In some cases, the clients have not provided phone numbers and in these cases only email id of the clients were provided to the exchange. Further we are in process of reconciliation and keep updating our records on timely basis. Also, the sample size includes instances/cases wherein clients are dormant, which could be excluded from the observed instances.*

*Please find enclosed Annexure 5F containing our remarks on instance wherein email ID uploaded in exchange record does not match with TM records. In this case, we are submitting our responses with appropriate remarks and comments for your ready reference. It is pertinent to submit that our maker and checker process and reconciliation process are effective to avoid any interruption in servicing client as well as reporting to the concerned exchange.*

*Please find enclosed Annexure 5G containing instance wherein mobile number of clients uploaded in exchange record does not match with TM record. In this case, we are submitting our responses with appropriate details. It is pertinent to submit that our maker and checker process and reconciliation process are effective to avoid any interruption in servicing client as well as reporting to the concerned exchange.*

*Also periodic reconciliation is done to update the client contact details as per Exchange circular NSE/ISC/47869 dated April 01, 2021 subject to Mandatory fields in Unique Client Code (UCC) information provided to Exchange. However, there are no grievances from any of our client regarding this.*

*We ensure that respective circulars are followed i.e. SEBI circular CIR/MIRSD/15/2011 dated August 02, 2011, Exchange circulars NSE/INVG/21841 dated October 4, 2012, NSE/INSP/27339 dated August 12, 2014 and NSE/INSP/27368 dated August 18, 2014 and NSE/INSP/32471 regarding updation of E-mail IDs and mobile numbers of retail clients.*

#### **E. Financial Statement Analysis**

*.At the outset, we would like to quote Rule 8 (3) (f) of SCRR which states, “No person shall be eligible to be elected as a member if he is engaged as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability unless he undertakes on admission to sever his connection with such business”*

*In this regard, you may kindly note that ARSSBL has extended ICDs to SEBI registered intermediary/sister companies and the same has been subsequently recovered.*

*It may kindly be noted that ICDs given by ARSSBL to the group/sister companies were repaid as under:*

*(i) Anand Rathi Financial Services Ltd. -28th May 2019;*

*(ii) Anand Rathi Ventures fund management Ltd.- 31st Dec 2018;*

*(iii) Anand Rathi IT Pvt. Ltd. -16th Mar 2019*

*After clearing the ICD on the aforesaid dates, no further ICDs have been granted to these entities till date. It is pertinent to mention that NSE has already inspected this issue of ICD and has concluded the matter favorably.*

*It would not be out of place to mention here that ARSSBL has an active liquidity management system within which it manages its daily fund positions. Also, any surplus over and above the client funds was temporarily onward deployed in Inter Corporate Deposit and was repayable on demand. The funds advanced to the intermediaries are a part of the Inter Corporate Deposit bearing interest on the same.*

*Further, the lending amount being computed during the inspection factors only the total of debit side and does not factors in the repayments made during the same period as under :-*

*(i) Anand Rathi Financial Services Ltd.– 62,07,02,872 /-*

*(ii) Anand Rathi Ventures fund management Ltd. – 232,00,31,189 /-*

*Attached herewith loan ledgers (Annexure O) of our group entities for the period Apr 1 2018 to Dec 21 2021 for your ready reference.*

*It is also noteworthy to mention here that advancing of loans to parent and/or group company cannot be construed as a separate business activity. For any activity to be classified as business activity there should be several activities with several clientele. However in the instant matter, it is only parent/group company whom loan was advanced and the same was duly repaid as well, Hence, lending to own parent/group company cannot be treated as separate business activity of ARSSBL.*

*As per law there is no restriction on the inter-corporate loans given by a SEBI registered intermediary.*

*The main purpose of rule 8(3) (f) of SCRR is to prohibit the brokers to invest the clients' money in other businesses which is not in the present case and clients' money was never exposed to any risk. 8. There is no investor grievance against ARSSBL for the said lending to its parent/group company. Also, there is neither any manipulation by ARSSBL by aforesaid lending, nor any loss to any investor as such.*

*Accordingly, ARSSBL requests that the computation be amended/rectified accordingly and the observation be dropped.*

**F. Incorrect reporting of Networth**

*On the said observation, please find our appropriate brief clarification on the computation of the Net worth as on March 15, 2019.*

As regards the above mentioned issue of doubtful debt, it is submitted that as per the L.C. Gupta method for computation of net-worth, debtors with ageing over three months are to be reduced from the total of capital plus free reserves. The remark/observations made by the auditors in Exhibit 7 that, "Difference in figure is there because TM has reduced provision for doubtful debt of Rs. 3,98,38,956.18 from total figure. However we have not reduced as it might belong to other debtors which is not overdue more than 3 months", is incorrect. Please note that the provision for doubtful debts of Rs. 3.98 Cr. is related to broking debtors and therefore should be reduced from debtors with ageing more than three months. It is pertinent to note here that since provisions of Rs. 3.98 crores against the said debtors have already been made in the profit and loss statements therefore, benefit of provision of doubtful debt has to be given by the Exchange. If the same is not granted, then the same will be against the basic principles of computation. List of client whose overdue has been for more than three months is attached for your reference as Annexure P.

It may further be noted that against the DP debtors, we have security deposits amount of Rs. 2.29 Crore from the client having demat account with us. This security deposit has not been taken into consideration by the auditor while calculating the net worth of ARSSBL. As per our networth calculation, the entire debit balance of the client have been deducted. We humbly submit that the total amount of the DP debtors out to have been netted by security deposit of Rs. 2.29 Crore and the balance amount should be taken into consideration by the auditors while doing the computation of net-worth of the company. List of client having DP security deposit is attached for your reference as Annexure Q

As regards the issue of business advances, it is pertinent to mention that the due date of these business advances have not come and therefore these could not be construed as overdue. The business advances given to vendors and third party cannot be reduced for the purpose of calculation of net-worth.

We further humbly submit that the advances given to associate companies should not be reduced from company's net-worth, as they pertain to routine administration & management activities. Hence, these are not expected to vitiate the net worth of core business.

Without prejudice to this, we humbly submit that as per the L.C. Gupta method of net-worth computation advances overdue for more than three months is not included in the net-worth. The business advances given to vendors and third party may involve continuous services and there cannot be any reference point to calculate the due date. Therefore, it is humbly submitted that advances given to associate company/vendors/third party cannot be reduced while computing net-worth.

As regards the issue of trading member having not deducted 30% of marketable securities; the auditor has stated that "TM has not deducted any value of own investment in MF of 75 crores. We have reduced it by 10% as clearing member applies 10% on the same". In this regard, please note that it is our humble submission that liquid Mutual Funds should not be equated with other marketable securities for the purposes of computation of net-worth as per L.C. Gupta method. Your Honor will appreciate that risk of loss is high in shares as compared to Mutual Funds. Therefore, any investment made by the company in Mutual Funds are not as risky as an investment in other marketable securities such as shares. Further, it would not be out of place to mention here liquid mutual funds are considered as cash collateral by the exchange and the margin given against these liquid mutual fund is high as mutual funds are not likely to be susceptible

for erosion of its value. Therefore, it is humbly submitted that liquid mutual funds should not be categorized under or equated with other marketable securities.

We request you to consider the aforesaid and give credit for the same which would finally match with the net worth submitted by us.

**G. Failure in Reporting Risk Based Supervision Data:**

In the reply of your said observation we humbly submit our point wise clarification as below :-

**1. Clarification on difference amount of Rs. 22, 63, 60,349.13** - We humbly submit that, in "Actual balance" the amount of Rs. 138.99 Crores is considered across the segments brokerage whereas "reported balances" of Rs. 116.36 Crores is showing/reflecting the brokerage earned from the NSE segment. Shared RBS data is attached for your reference and marked as Annexure R. (Requested to account team for same).

**2. Clarification on difference amount of Rs. (-) 3088.78** - We humbly submit the data related to Risk Based Supervision data verification was provided to inspection official vide email dated September 23, 2019 and email dated November 26, 2019. In this regard, we request you to refer the working of the difference amount, as explained in Annexure S. (Requested to account team for same). We humbly submit that there was no difference in our side.

**3. For difference amount of Rs. 12,16,71,696.21** – In this regard, we humbly submit that the decimal value taken by auditor is more than 2 Digit while calculating Debit Balances of clients, whereas we had considered it upto 2 digit only. For your perusal, we request you to kindly refer Annexure T (Requested to account team for same) along with the necessary remarks.

We highly complied as per SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 subject to Enhanced Supervision of Stock Brokers/Depository Participants. And As per SEBI Master circular for stock brokers SEBI/HO/MIRSD/DOP1/CIR/P/2018/87 dated June 01, 2018 and Exchange circulars issued on timely basis.

**H. Incorrectly reporting of weekly Enhanced Supervision data:**

In the reply of your respective observation please find our pointwise answers are as below :-

For the difference amount of Rs. 64, 45, 59,605.71 of point number 1 mentioned above in the table, we humbly submit that We had additional free FDs to the tune of Rs. 64.45 cr available, considering which there will not be any shortfall to cover the payable to the clients. The list of these FDs is attached for the reference (Annexure U). We request you to consider those FDs as well.

For the difference amount of Rs. 13,42,93,279.36 point number 2 mentioned above in the table, we humbly submit that 'Regarding deduction of 10% value of liquid funds which has been put with clearing member, it should be considered as cash collaterals & is insulated from value loss'.

For the difference amount of Rs. (-1,63,59,449.94) [point number 3] and Rs.1,79,31,343.43 [point number 4] mentioned in the table, we humbly submit that we are

not considering non UCC client which is include in trail balance that Start with "ZZZ" and End with "C000" and MTF balances are considered after open Bills.

For the difference amount of Rs.1,37,80,01,647.08 point number 5 mentioned above in the table, we humbly submit that amount of Rs.1,37,80,01,647.08 point is already included in the amount Rs. 4,28,60,31,637.92 [Point number 2 above mentioned in the table]. This number has been reported as additional information purpose only. We request your guidance/suggestion 'whether we should report this figure separately in this coumn or not.

For the difference amount of Rs. 55,00,000 point number 6 mentioned above in the table, we humbly submit that the reason of difference of amount of Rs.55,00,000 was showing in the table was due to, only free margin is considered by auditor while we have considered Blocked margin also.

For the difference amount of Rs.1, 35, 01, 10,091.19 point number 7 mentioned above in the table, we humbly submit that difference arisen due to, our submission was based on final balances after considering open bills and cheques but in Auditor working ledger balances had been considered. Due to which there was a difference in the creditor's balances and margin utilization. Further we humbly submit that we are not considering non UCC client included in trail balance that Start with "ZZZ" and End with "C000" and MTF balances are considered after open Bills.

For the difference amount of – Rs.10,00,000.00 point number 8 mentioned above in the table, we humbly submit that please refer Annexure V where calculation of difference amount -10, 00,000.00 is given. Further, we humbly submit that inspection official has added Total Liquid Assets and Reserved Capital whereas the actual calculation was Reserved Capital + Balance Liquid Asset Available that we had reported. Request you to consider.

- a) Our compliance is running at smoother manner after referring following Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016,
- b) Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017,
- c) Circular CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017 and
- d) Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2017/123 dated November 29, 2017.

**I. Observation pertaining to Office Management, Authorized Person and Trading Terminal :**

In the reply of the first observation mentioned we wish to humbly submit that the CTCL ids were deactivated in the Exchange records on the dates mentioned in the attached sheet. Also we are in practice of deactivating the same on the Omnesys software on the same day to avoid any mismatch. However, there was some issue in SQL data updating from Omnesys backend which we have raised to the vendor. In Omnesys application, the front end flag showing proper but the same is not updating their SQL table. Hence, there is a mismatch in the data due to the software issue. Also, in few terminals we have provided only the viewing rights for software UAT purpose or for testing a new product introduced by the Company. No trades are executed from these view terminals.

With reference to the observation mentioned in Annexure 8A wherein the Ids are inactive as per the TM records but active as per the Exchange records, we wish to state that we are in practice of activating the user terminals on the Exchange portal with the valid user certificate. Thereafter, the user terminals are uploaded in the respective software. Kindly

refer to the comments in the attached (Annexure W), wherein we have provided the deactivation and activation dates of the user terminals on the Exchange and Omnesys software for your ready reference. There is no violation with respect to the uploading of terminal on the Exchange and software.

In the reply to the said observation mentioned in Annexure 8B where ID not found in TM record however found in Exchange record, we would like to mention that we are in practice of uploading the user terminal on the Exchange portal and thereafter on the Omnesys/ NOW software. Please find the remarks and NOW active dealer list (Annexure W) from our ADMIN terminal, where we have clearly mentioned the Exchange portal and TM record upload date. We also wish to state that the terminals are provided to the users only after uploading the same to both Exchange portal and the back end software. Thereafter, the trading limit is provided and the user is activated.

In reply of observation mentioned in Annexure 9, we wish to humbly submit that we are in practice of providing the terminals to all our branches and authorized person's office as per the Exchange guidelines. The terminals are provided based on the certificates provided by the approved user after verifying the user details and validity of the same. Also, we are in practice of conducting periodic audit of all our registered offices in order to ensure the adherence of the Compliance issued by the Exchanges from time to time. We have not found any instances where other person is operating the terminal on behalf of the approved person.

However, this is an exceptional case where the terminal was operated by person other than the actual user. There was no other intention, except to facilitate the client. In case of failure to facilitate the client, the client would have raised grievance for not providing the desired service and would have claimed losses, if any. The Authorized person is not in regular offender of violation of Exchange regulations and is abiding by the rule issued by the regulators and Exchanges from time to time.

You are requested to take a boarder view in this exceptional matter.

**J. Incorrect reporting of Enhanced Supervision Monthly data of client's balances of Funds and Securities:**

On the reply of said observation We humbly submit that our submission was based on final balances after considering open bills and cheques but in auditor observation, only ledger balances have been considered. In this regard, please refer Annexure X with detailed remarks.

As regards point no. 2, we draw your reference to SEBI circular number CIR/HO/MIRSD/MIRSD/CIR/PB/2017/ 107 dated 25 September 2017 and BSE Notice No. 20180130-43 on Enhanced Supervision for monitoring the client's funds and securities. The said circulars states that the stock broker shall not be required to upload the data for client with zero funds and securities balances and also those who have not traded in the last 12 months.

Our submission was based on final balances after considering open bills and cheques in Annexure Y ledger balances have been considered.

**K- Non maintenance of Evidence for client order placement :**

With regards to said observation we humbly submit that, as per the SEBI circular no. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, members are required to maintain the proof for order placement. We are in practice of maintaining the proof of order placement as per the circular mentioned above. The order placement proof was provided to the inspection officials on sample basis. However, in some stray cases, client places order from their handset to dealers on their mobile and in these cases maintaining the proof i.e. voice recording of order placement is not feasible. The dealer cannot reject the orders in such cases as the client may otherwise raise the grievance against the members. Further, we are in practice of calling the clients on random basis for post confirmation of trades as well. We are also sending the ledgers and daily statements to the clients on their registered email ids. The client accounts are settled within one working day of the pay-out received from the Exchanges which is as per the Exchange guidelines. Even the respective exchange sends details of trade done on client's registered mobile number and email ids however there is no unresolved grievance pending from the above clients whatsoever.

**L:- Failure to send statement of accounts:**

In the reply of said observation we humbly submit that, we have complied with the Exchange circular no. NSE/INSP/36889 dated February 02, 2018 subject to FAQ on Actual Settlement of Client Accounts and also we are into practice of sending holding statement, daily margin statement and statements of accounts to the clients on monthly and quarterly basis as per the regulatory requirements. Clients' accounts are settled periodically as per client preference on 30 / 90 days basis.

In addition to above we would like to submit that clients have submitted a declaration expressing their intention to maintain running account so as to avoid multiple and/or frequent pay-in/pay-outs, which would continue until the same is revoked by the respective client. It is also noteworthy to mention here that ARSSBL has a software to process settlement of client's funds and securities. This enables ARSSBL to track the settlement status & send a system generated retention statement to the clients within prescribed timeline.

We hereby confirm that in the said observation we had done actual settlement of clients in next consecutive quarter and statement issued to clients as per holding available as per records. Enclosed herewith as (Annexure Z) for your ready reference. Also, we are using our internal RMS haircut policy while updating the details in retention statements. Mismatch observed in the retention statement for one of the instance was due to security payout received on same day. We have not received any grievances from said client during inspection period.

Also, It is noteworthy to mention here that mis-match observed during inspection is minor and not due to any reasonable cause and there is no any further malfunction intention behind the same. Each and every client's service is important for us.

**M:- Discrepancies in KYC process**

On the said we would like to humbly submit that our every CRD contains Index and also the details are properly segregated as mandatory and voluntary. Our CRF is as per the format prescribed by SEBI vide circular reference no. CIR/MIRSD/16/2011 dated August 22, 2011, there is no deviations in the format. For your perusal we have enclosed the copy of CRF"s for your re-verifications and perusal along with single index pdf in folder

Annexure AA > Exhibit 1 folder. Thus we request to drop the charges levied against the said observations.

On the said we would like to submit that, we are following the process of timely uploading the KYC details on CKYCR as per SEBI Circulars CIR/MIRSD/66/2016 dated July 21, 2016 , CIR/MIRSD/120/2016 dated November 10, 2016 and SEBI Master circular for stock brokers SEBI/HO/MIRSD/DOP1/CIR/P/2018/87 dated June 01, 2018. On certain cases there was an inadvertent error in our part uploading the CKYC within TAT due to some technical reasons. We are taking care of this aspect of compliance and will ensure of non-occurrence of such instances in future. We request you to not pass any adverse observation as the same is venial breach of law.

On the said we would like to submit that, we are following the process of timely uploading the KYC details on KRA as per SEBI Master circular for stock brokers SEBI/HO/MIRSD/DOP1/CIR/P/2018/87 dated June 01, 2018. On certain cases there was an inadvertent error in our part uploading the CKYC within TAT due to some technical reasons. We are taking care of this aspect of compliance and will ensure of non-occurrence of such instances in future. We request you to not pass any adverse observation as the same is venial breach of law.

On the said we would like to submit that we have the practice of sending copy of client registration documents (account opening kit) to all our registered clients after activation through emails, which also contains IBT agreement as per SEBI circular CIR/MIRSD/64/2016 dated July 12, 2016. Further, as per the circular we also made documents available on our website www.rathi.com. For your perusal we are enclosing the Emails sent to clients, saved in folder Annexure AA > Exhibit 2 folder. Thus, it is humbly requested to drop all the charges levied against the said aspect of Compliance.

**N:- Discrepancies in issuance and execution of DIS (DP observation)**

It is submitted that there were only few stray instances, where the instruction was inadvertently executed using format i.e Form No. 22 instead of Form No. 36. Further, we humbly submit that the transfer was within the in-house account of ARSSBL, and there was no client instruction transfer, and all the transfers was credited in the appropriate account. It is humbly submitted that no mistake had been done in the account due to incorrect format. Your Honor may kindly note that the wrong form was inadvertently executed, requesting you to not pass any adverse observation by considering venial.

As mentioned correctly we have captured proper reason code in the system for Buyback instruction, before executing the instruction. Client has mentioned Reason Name & Reason Code where Reason Name was "Buyback" properly mentioned by client but client unknownly Reason code was mentioned 99 instead of 5. We have informed the client about improper reason code mentioned, however based on client request and purpose of transfer and due to paucity of time we have executed the client instruction in order to avoid the financial loss to the client.

You will appreciate the fact, that there was only one instance noticed for Improper reason code, that too the error was from client end, the same was reported to NSDL and NSDL has accepted our reply and there was no further action taken by NSDL. We request you to not pass any adverse observation by considering venial.

As a DP we are following all the rules and procedures as per prescribed by NSDL, thus we like to humbly state that we have not violated any guidelines of NSDL Circulars

NSDL/POLICY/2014/0092 dated August 25, 2014 and NSDL/POLICY/2014/0076 dated June 23, 2014.

**O- Transmission Request (DP observation)**

*On the said observation we would like to humbly submit that form used for transmission was NSDL prescribed only, however it was in Old format. The service centre had issued the old format of Transmission form to the claimant. We have noticed the instances at the time of execution. However, as transmission case is very sensitive in nature and many family emotions are attached, we handled the cases in very compassionate manner, we have executed their request as all the other formalities was duly been complied with and avoided unpleasantness and hardship on the family members. Further with respect to delay in execution of request, on the said we would like to inform you that, there was some pending requirements awaited from the client's kin to be received, after the receipt of the same we have executed the request. There was no undue delay from our part.*

*On the above we have not violated any mandatory requirements apart from latest form we have obtained all the other prescribed documents necessary for executing the transmission applications. The same has been verified by NSDL auditor. We request you to not pass any adverse observation by considering venial.*

**P:- Account Modification (DP observation):**

*The CDSL inspector have rated the observations as "Medium Risk" in the report as we have not entirely violated the CDSL Communique CDSL/OPS/DP/POLCY/2019/17 dated January 09, 2019. bearing form as per new format we have obtained all other requisite documents necessary for minor name correction together with old format prescribed, there was no procedural lapse in executing the request. Further, as per CDSL instructions we have obtained the confirmation from demat account holder of name change. We request you to not pass any adverse observation by considering venial.*

**Q- Concurrent Audit Report (DP observation)**

*The said observation is marked as "Medium Risk" by CDSL inspector. The auditor had submitted concurrent audit report as prescribed in CDSL communique CDSL/A, I&C/DP/POLCY/5755 dated February 17, 2016 instead of Communique 2018 - 205 of dated April 18, 2018. However, after the observation auditor has submitted revised Concurrent audit report in the format. We request you to not pass any adverse observation by considering venial.*

**R:- Stamp not affixed on DIS , Demat (DP Observation)**

*It was an Inadvertent error in affixing the inward stamp by the official, we will take due care on the said aspect in future and will ensure that the same is not been repeated. Further, to inform you that there was no procedural lapses or violation in accepting and execution of client instructions, all the instruction was been duly executed on timely basis and there was no complaint from client related to instruction execution in the aforesaid cases. The same has been verified by CDSL inspector and accordingly have rated the observation under "Medium Risk". We request you to not pass any adverse observation by considering venial.*

9. Thereafter, In the interest of natural justice and in order to conduct an inquiry in terms of Rule 4 (3) of the Adjudication Rules, vide email dated January 28, 2022, the Noticee was granted an opportunity of Personal Hearing in the matter on February 22, 2022, through the online Cisco webex platform. The said hearing scheduled on stipulated date was attended by Mr. Deepak Kedia, Senior Vice President\_ Compliance Head and Mr. Sumedh Pitale, Senior Manager Compliance, the Authorized Representatives('AR's) and during the course of personal hearing, the AR reiterated the submissions made by the Noticee in its reply dated January 07, 2022

**CONSIDERATION OF ISSUES AND FINDINGS:**

10. I have carefully perused the charges levelled against Noticee in the SCN and the material available on record. I have also perused the submissions made by Noticee in this regard. The issues that arise for consideration in the present case are:

- I. Whether Noticee has violated the various aforesaid provisions:
- II. Does the violation, if any, attract monetary penalty under Section 23D of SCRA, Section 19G of Depositories Act 1996 and Section 15HB of SEBI Act, 1992 ?
- III. If the answer to issue no. II is in affirmative, then what should be the quantum of monetary penalty?

11. Before moving forward, the relevant provisions of law allegedly violated by the Noticee and as mentioned in the SCN are reproduced hereunder:-- The text of the abovementioned alleged provisions is given below:

**SCRA**

**PENALTIES AND PROCEDURE**

**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**

**Clause 1**

**REGULATION OF TRANSACTIONS BETWEEN CLIENTS AND BROKERS**

*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.*

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

**Clause 2.4.2**

*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.*

**Clause 2.5**

*2.5. As per existing norms, a stock broker is entitled to have a lien on client's securities to the extent of the client's indebtedness to the stock broker and the stock broker may pledge those securities. This pledge can occur only with the explicit authorization of the client and the stock broker needs to maintain records of such authorisation. Pledge of such securities is permitted, only if, the same is done through Depository system in compliance with Regulation 58 of the SEBI (Depositories and Participants) Regulations, 1996*

**Clause 3.2**

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

### **Clause 3.3.1**

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

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)

### **Clause 6.1.1 (e ) and (j)**

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: Page 22 of 29

**6.1.1. Monitoring criteria for Stock Brokers**

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

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

**Clause 7.1.1.**

7. Uploading clients'fund balance and securities balance by the Stock Brokers on Stock Exchange system

The Stock Exchangesshall put in place a mechanism and ensure that stock brokersupload the following data on a monthly basis for every client onto each Stock Exchange system where the broker is a member

7.1.1. Exchange-wise end of day fund balanceas per the client ledger, consolidated across all segments and also net funds payable or receivable by the broker to/from the client across all Exchanges

**Clause 8.1**

**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 ref no. MIRSD/Cir- 26 /2011 dated December 23, 2011**

**Clause 1**

*1. Guidelines for Intermediaries:*

- i. After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA and send the KYC documents i.e. KYC application form and supporting documents of the clients to the KRA within 10 working days from the date of execution of documents by the client and maintain the proof of dispatch.*
- ii. In case a client's KYC documents sent by the intermediary to KRA are not complete, the KRA shall inform the same to the intermediary who shall forward the required information / documents promptly to KRA.*
- iii. For existing clients, the KYC data may be uploaded by the intermediary provided they are in conformity with details sought in the uniform KYC form prescribed vide SEBI circular no. MIRSD/SE/Cir-21/2011 dated October 05, 2011. While uploading these clients' data the intermediary shall ensure that there is no duplication of data in the KRA system.*
- iv. The intermediary shall carry out KYC when the client chooses to trade/ invest / deal through it.*
- v. The intermediaries shall maintain electronic records of KYCs of clients and keeping physical records would not be necessary.*
- vi. The intermediary shall promptly provide KYC related information to KRA, as and when required.*
- vii. The intermediary shall have adequate internal controls to ensure the security / authenticity of data uploaded by it.*

**SEBI Circular No. CIR/MIRSD/15/2011 dated August 02, 2011**

**Clause 2(B)**

*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 No. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.**

**Prevention of Unauthorised Trading by Stock Brokers**

II. The current regulatory requirements in commodity derivative markets require that "The members shall execute the trade of clients only after keeping evidence of the client placing such order; it could be, inter alia, in the form of sound recording." There are no such requirements in Equity, Equity Derivative and Currency Derivative Market side.

IV. Further, wherever the order instructions are received from clients through the telephone, the stock broker shall mandatorily use telephone recording system to record the instructions and maintain telephone recordings as part of its records.

**Schedule II of Regulation 7 of SEBI (Stock Brokers) Regulations, 1992**

**Regulation 9(f)**

**CONDITIONS OF REGISTRATION.**

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

(f) he shall at all times abide by the Code of Conduct as specified in Schedule II;

**Clause A (5)**

**CODE OF CONDUCT FOR STOCK BROKERS**

**A. General.**

(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

**Clause B.2**

**B. Duty to the Investor**

**Issue of Contract Note:** A stock-broker shall issue without delay to his client or client of the sub-broker, as the case may be a contract note for all transactions in the form specified by the stock exchange

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

**Regulation 3 (2)**

*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.

1. In this regard, the above mentioned SEBI Circulars viz. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated Sep 26, 2016, SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009, SEBI Circular ref no. MIRSD/Cir- 26 /2011 dated December 23, 2011, SEBI Circular CIR/MIRSD/120 /2016 dated November 10, 2016, and SEBI Circular No. CIR/MIRSD/15/2011 dated August 02, 2011 SEBI Circular ref no. CIR/MIRSD/ 66 /2016 July 21, 2016, SEBI Circular ref no. MIRSD/ Cir-5/2012 April 13, 2012, and SEBI Circular ref no. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 September 26, 2017 are attached as **Annexure 12A to 12H** respectively.

**SEBI Act**

**PENALTIES AND ADJUDICATION**

**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 may extend to one crore rupees.

**Depositories Act**

**Penalty for contravention where no separate penalty has been provided.**

19G. Whoever fails to comply with any provision of this Act, the rules or the regulations or bye-laws 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.

12. Now I would like to discuss the Issues i.e Whether Noticee has violated the various aforesaid Regulations and if yes, does these violations attract monetary penalty.

#### **A. Misutilization of Fund and Securities of Clients**

13. It has been alleged that value of 'G' is negative in 36 instances out of the total of 36 sample dates which indicates that the funds of the credit balance clients have been used for purpose of debit balance clients or own purpose.

| Sl. No. | Date      | Total(Client Bank Balance+settlement a/c balance) | Aggregate value of collaterals= (Cash _FD+ BG/2) | Aggregate value of Credit balance of all clients (as per trial balance after adjustments) | Principal "G"<br>G= (A+B) - C |
|---------|-----------|---------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------|
|         |           | BANK BALANCE                                      | DEPOSIT WITH EXCHANGE                            | CREDIT BALANCE                                                                            |                               |
|         |           | A                                                 | B                                                | C                                                                                         |                               |
| 1       | 1-Oct-18  | 6,53,40,268.91                                    | 3,54,00,70,638.18                                | 4,38,20,11,053.63                                                                         | -77,66,00,146.54              |
| 2       | 3-Oct-18  | 13,51,83,732.81                                   | 3,64,16,51,000.00                                | 4,32,04,21,863.61                                                                         | -54,35,87,130.80              |
| 3       | 4-Oct-18  | 13,42,19,251.55                                   | 3,67,16,51,000.00                                | 4,26,73,97,618.48                                                                         | -46,15,27,366.93              |
| 4       | 5-Oct-18  | 7,10,12,274.31                                    | 3,57,38,16,400.00                                | 4,02,07,37,836.95                                                                         | -37,59,09,162.64              |
| 5       | 8-Oct-18  | 8,01,68,083.53                                    | 3,52,16,51,000.00                                | 4,20,00,60,722.03                                                                         | -59,82,41,638.50              |
| 6       | 9-Oct-18  | 6,11,15,824.67                                    | 3,52,16,51,000.00                                | 4,18,53,58,899.66                                                                         | -60,25,92,074.99              |
| 7       | 10-Oct-18 | 9,16,98,950.47                                    | 3,62,16,51,000.00                                | 4,24,99,49,765.86                                                                         | -53,65,99,815.39              |
| 8       | 11-Oct-18 | 15,21,87,972.36                                   | 3,55,91,51,000.00                                | 4,27,92,00,924.97                                                                         | -56,78,61,952.61              |
| 9       | 12-Oct-18 | 9,22,55,112.83                                    | 3,52,38,33,500.00                                | 4,13,49,66,431.01                                                                         | -51,88,77,818.18              |
| 10      | 15-Oct-18 | 6,74,31,096.48                                    | 3,54,66,51,000.00                                | 4,35,90,02,921.22                                                                         | -74,49,20,824.74              |
| 11      | 16-Oct-18 | 4,16,19,575.87                                    | 3,52,16,51,000.00                                | 4,33,97,59,045.45                                                                         | -77,64,88,469.58              |
| 12      | 17-Oct-18 | 4,95,14,786.56                                    | 3,52,16,51,000.00                                | 4,35,57,85,811.07                                                                         | -78,46,20,024.51              |
| 13      | 22-Oct-18 | 5,90,90,155.64                                    | 3,52,16,51,000.00                                | 4,20,09,95,521.49                                                                         | -62,02,54,365.85              |
| 14      | 23-Oct-18 | 5,46,87,999.83                                    | 3,52,16,51,000.00                                | 4,15,71,36,148.94                                                                         | -58,07,97,149.11              |
| 15      | 24-Oct-18 | 2,41,20,115.56                                    | 3,52,16,51,000.00                                | 4,13,75,84,105.64                                                                         | -59,18,12,990.08              |
| 16      | 25-Oct-18 | 5,31,78,810.03                                    | 3,52,16,51,000.00                                | 4,18,43,90,402.16                                                                         | -60,95,60,592.13              |
| 17      | 29-Oct-18 | 7,47,81,348.19                                    | 3,52,16,51,000.00                                | 4,08,75,98,540.23                                                                         | -49,11,66,192.04              |
| 18      | 30-Oct-18 | 3,41,28,479.15                                    | 3,52,16,51,000.00                                | 4,14,79,07,723.32                                                                         | -59,21,28,244.17              |

|    |           |                 |                   |                   |                    |
|----|-----------|-----------------|-------------------|-------------------|--------------------|
| 19 | 31-Oct-18 | 7,59,13,608.61  | 3,30,95,26,212.50 | 3,98,10,61,156.54 | -59,56,21,335.43   |
| 20 | 3-Dec-18  | 4,01,45,978.86  | 3,50,60,74,000.00 | 4,50,25,15,295.10 | -95,62,95,316.24   |
| 21 | 4-Dec-18  | 4,04,92,829.73  | 3,49,65,72,875.00 | 3,67,48,61,390.12 | -13,77,95,685.39   |
| 22 | 5-Dec-18  | 4,76,07,452.59  | 3,48,70,75,125.00 | 4,45,34,93,721.60 | -91,88,11,144.01   |
| 23 | 6-Dec-18  | 4,10,23,068.20  | 3,50,60,72,875.00 | 4,29,84,95,990.19 | -75,14,00,046.99   |
| 24 | 10-Dec-18 | 5,29,98,720.64  | 3,54,50,81,875.00 | 4,22,22,43,551.35 | -62,41,62,955.71   |
| 25 | 11-Dec-18 | 6,34,75,486.56  | 3,59,50,81,875.00 | 4,18,88,46,791.59 | -53,02,89,430.03   |
| 26 | 12-Dec-18 | 6,54,85,895.45  | 3,59,50,80,750.00 | 4,74,94,88,872.53 | -1,08,89,22,227.08 |
| 27 | 13-Dec-18 | 4,92,18,098.93  | 3,54,50,88,175.00 | 4,56,52,01,690.60 | -97,08,95,416.67   |
| 28 | 17-Dec-18 | 4,06,76,602.94  | 3,54,50,88,568.75 | 4,21,45,70,876.05 | -62,88,05,704.36   |
| 29 | 18-Dec-18 | 2,80,25,355.28  | 3,54,50,88,568.75 | 4,30,88,00,995.38 | -73,56,87,071.35   |
| 30 | 19-Dec-18 | 26,74,78,301.83 | 3,54,50,91,325.00 | 4,28,75,75,683.13 | -47,50,06,056.30   |
| 31 | 20-Dec-18 | 7,93,37,525.10  | 3,54,51,00,100.00 | 4,60,43,48,756.74 | -97,99,11,131.64   |
| 32 | 24-Dec-18 | 6,70,83,940.30  | 3,54,50,97,568.75 | 4,26,13,16,128.88 | -64,91,34,619.83   |
| 33 | 26-Dec-18 | 3,36,06,700.31  | 3,56,50,96,500.00 | 4,16,60,91,425.98 | -56,73,88,225.67   |
| 34 | 27-Dec-18 | 6,99,04,780.19  | 3,56,01,00,325.00 | 4,17,42,04,803.89 | -54,41,99,698.70   |
| 35 | 31-Dec-18 | 8,46,61,666.36  | 3,55,95,58,773.00 | 3,96,46,66,137.57 | -32,04,45,698.21   |
| 36 | 28-Dec-18 | 8,41,51,484.36  | 3,56,45,51,000.00 | 3,95,07,61,685.38 | -30,20,59,201.02   |

14. I note from the above table that "G" in 36 instances out of the total of 36 sample dates was negative in the range of Rs 13.77 cr to Rs. 108.89 cr.

15. Noticee has contended that 'The National Stock Exchange of India Limited' ("NSE") had earlier conducted inspection of Noticee for the period April 2017 to November 2018 already covered the said issue. In this regard, I note that Inspections by Market Infrastructure Institutions ("MII"s) are independent in nature and does not interfere with findings of a joint inspection. However, it's a settled position of law that an entity should not be charged twice for same violation (double jeopardy). With this context, I note that as per para 3.4.1 of NSE's order, the only date taken for the computation of shortfall of client funds (G negative) i.e. November 30, 2018

is not a part of dates taken during the SEBI joint inspection. Therefore, the Noticee reply that NSE has taken action for the same observation is not acceptable.

16. I note that the preliminary submission of the Noticee is that the Free FDs, liquid mutual funds should be considered in calculating client funds. Noticee has provided a details of multiple FDs, which were lying “free” with it and were not placed with Exchange or Clearing Corporation. However, I am not inclined to accept the submission of the Noticee that SEBI should also consider the Free FDs, Liquid funds while calculating the amount of mis-utilisation of clients’ funds by the Noticee. It is clear from the SEBI Circulars that for the FDs to be a part of G calculation, they must be deposited with CC/CM. I find that the same has not been done by Noticee in the instant case. Therefore, I conclude that the Noticee did misuse the funds of its credit balance clients as the total cash and cash equivalents available with it was less than the aggregate balance of its credit balance clients.
17. Noticee also stated that it had accrued interest on FDs and liquid funds, which shall be considered for the calculation of G. In this regard, I note that the accrued interest on the FDs and liquid fund goes to the member and not to the CC/CM with which the FDs/liquid fund have been placed. In view of the same, accrued interest on FDs with CM and liquid fund cannot be considered for the purpose of G calculations.
18. Noticee has further in its reply submitted the timelines about the Bank Guarantee (“BG”) and I note that the request of the Noticee to issue BG to ICICI was placed on Nov 6, 2018 via mail. However, the 50% of the G negative observations pertain to October 2018. Thus, I note that Noticee initiated the process of acquiring BGs post the date of violation observed by the inspection team. Further, I observe from the reply of the Noticee that the said BG was not placed with the clearing member for the dates of violation observed by the inspection team.
19. I note that the Noticee has further contended that it had ample funds available to meet all clients’ dues and the circular should be read in spirit of the law.
20. In this regard, I am of the view that solvency of Noticee does not absolve him for violations of the prescribed rules/regulations/circulars. Further, “*ample availability of*

*fund*” is determined as per the guidelines mentioned in the SEBI issued circulars and bye-laws of Exchanges. FDs created out of own funds and available in own bank accounts cannot be considered as available and earmarked to clients.

21. In view of these, I conclude that non-compliance during the inspection period for and has violated 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.

**B. Non-Settlement of Client funds and Securities :-**

22. It is alleged that Noticee from April 2018 to March 2019 has not settled funds and/or securities of any of its clients. It is also alleged in the SCN that in case of 51 clients out of the sample of 400 clients, the actual payment of funds and/or securities was not carried out by the Noticee and the Noticee was alleged to not payed back total value of fund and securities worth of Rs. 38,99,44,254.4/- and retained the same with it.
23. In respect of this allegation, Noticee has contended that the said issue has already been covered in Previous Inspection Period, the observation made herein should be dropped. At the first instance, I do not agree with this contention of the Noticee as I observe from the available records that in the overlapping quarters (April-June 2018 & July-Sept 2018), NSE has observed violation for 3 clients and these 3 clients do not form part of the current observation in the respective quarters.
24. Noticee also contended that it was settling the funds and/ or securities of our clients as per the SEBI circular MIRSD/ SE/Cir-19/2009 dated December 03,2009.
25. I note that with regard to observation on non-settlement of inactive client, Noticee submitted that out of around 24,492 inactive clients for the quarter July - September 2018, 145 common clients which were part of NSE's order has been subtracted from total number of clients and non -settlement value. There are 11,992 clients

having credit balances of more than Rs.100 /- only have been considered, out of which we have completed settlement of funds and securities for around 3120 clients and for remaining 8872 Clients settlement could not be processed due to reasons of active clients having no releasable value, fund transferred to separate bank account due to incomplete bank account details, etc.

26. I note that for the quarter September - December 2018, Noticee submitted that out of 29,197 inactive clients, there are 12,496 clients having credit balances of more than Rs.100 /- only have been considered. Noticee further stated in its reply that it had completed settlement of funds and securities for around 3370 clients and for remaining 9126 Clients settlement could not be processed due to reasons of active clients having no releasable value, fund transferred to separate bank account due to incomplete bank account details, etc...

27. I note that for the quarter December 2018 - March 2019, the Noticee submitted that out of 27,078 inactive clients, there are 12,357 clients having credit balances of more than Rs.100 /- only have been considered. Out of which the Noticee has completed settlement of funds and securities for around 3454 clients and for remaining 8903 Clients settlement could not be processed due to reasons of active clients having no releasable value, fund transferred to separate bank account due to incomplete bank account details, etc.

28. Upon giving reliance upon the reply of the Noticee, I do not convince with the submission that it had not settled the clients fund as there was no reasonable value, fund and having incomplete bank details. Further, with regard to the settlement done by Noticee in respect of some clients as alleged in the SCN, I find that the Noticee had done the settlement in year 2020, which implies the member was indeed in violation of SEBI circulars during the inspection period. Further, even for these settlements, Noticee has failed to provide the sufficient evidences for its submission (i.e. retention statements).

29. Thus, I am constrained to view that the Noticee had violated the provisions 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. Stock Reconciliation:-**

30. It is alleged that there was a mismatch in recording of client wise securities by Noticee from its back office with actual Depository Participants (DP) holding, as securities worth Rs. 814.50 (1 ISIN) were recorded in ROS / back office however same were not reflected in the DP statement of the member. Securities worth Rs.59, 007 (60 ISIN) were reflecting in the DP statement, but were not recorded in the ROS /back office
31. In this regard, I note that Noticee has submitted that as the issue was already covered in previous inspection period, the observation made herein should be dropped. I find from the available records and as per NSE's submission to the SEBI that, there was no overlapping of period vis-à-vis the said observation.
32. Noticee has also stated that mis-match observed during inspection RSSBL is due to reasonable cause and it has not mis-utilized client's securities.
33. However, I do not agree with the submissions of the Noticee that as it has not misutilized client's securities, the observation should be dropped. I note that the Noticee has responsibility to ensure its back office systems work accurately. By failing to do so, I conclude that the Noticee has failed to comply with the Clause 2.3 of *SEBI circular MRD/DOP/SE/Cir-11/2008 dated April 17, 2008*

### **D. KYC Discrepancies related to Email ID and Mobile Numbers :**

34. With respect to allegation at annexure 5 of SCN, Noticee submitted that same email ids have been mapped for some set of clients as these clients are related to each other, in the sense that one of the client was dependent on the other (i.e. dependent children, spouse, dependent parents, etc.) These details have been provided by the clients in their respective KYC/Account opening forms and accordingly the same has been captured. Also, the sample size includes instances/cases wherein UCC has been closed and which ought to be excluded from the observed instances.

35. With respect to allegation at annexure 5A of SCN, Noticee submitted that same email ids and phone numbers have been mapped for some set of clients as these clients are related to each other, in the sense that one the client was dependent on the other.
36. With respect to the allegation at annexure 5B of the SCN, Noticee submitted that it always ensure compliance and make sure that each of our traded client receives contract note on timely basis as prescribed by the Exchange. We always trust to upgrade better compliance practices as per regulatory guidelines.
37. With respect to allegation at annexure 5C of the SCN, Noticee submitted that email id's are updated based on the instructions of the respective client. It is submitted that under the SEBI circular dated September 8, 2005, there is no bar on common email ids. Noticee also submitted that the choice of the email id is purely that of the client and as a broker we have to follow the instructions of the client and mail the ECNs to the said email id as provided by the clients. Further, for majority of the cases, email id of the clients have not been uploaded in Exchange data as the said cases pertains are dormant account.
38. With respect to allegation at annexure 5D of the SCN, Noticee submitted that the client category and PAN details for client AHMC125 and GNPB211 are correctly mentioned and enclosed herewith Annexure 5D containing appropriate remarks along with necessary supporting.
39. With respect to allegation at annexure 5E, the Noticee has submitted that it has updated mobile number, email id as per preference of the client. In some cases, the clients have not provided phone numbers and in these cases only email id of the clients were provided to the exchange. Further we are in process of reconciliation and keep updating our records on timely basis.
40. With respect to allegation at annexure 5F & 5G, the Noticee has submitted that that our maker and checker process and reconciliation process are effective to avoid any interruption in servicing client as well as reporting to the concerned exchange. Also periodic reconciliation is done to update the client contact details as per Exchange circular regarding updation of E-mail IDs and mobile numbers of retail clients.

41. I do not agree with the contentions of the Noticee as the Noticee has provided clarification with regard to a few sample clients and it had failed to give the proper explanation along with supporting evidence with respect to large number of sample clients as alleged in the SCN.
42. Noticee also stated in its reply that observation raised during inspection is not due to a reasonable cause and no grievance has been received so far from any of its client regarding said observation. Further all trades are settled and no pending confirmation to clients. I note that this submission cannot leave the Noticee free from the guilty of the violation of various SEBI Circulars.
43. It is pertinent to mention here that uniform KYC documentation and uploading of the information on KRA portal are meant to protect the integrity of the securities market and to implement the anti-money laundering measures. Thus, KYC as a regulatory requirement is intended to ascertain identity of the investor and has attained utmost importance in strengthening the securities market and its systems.
44. The non-serious and casual approach on the part of the Noticee towards complaining with Regulations set by SEBI for implementation of KYC procedures as found in this case is unbecoming a conduct of a stock broker. The lapses from the Noticee being a registered stock broker clearly show lack of due diligence and care on its part. I note that the Noticee has failed to adhere to the prescribed code of conduct in respect of due skill, care and diligence and thereby did not abide by the provisions of Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011 and Clause B.2 in Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992. In my view, the lapses in this case with regard to non-compliance with these circulars are not venial and would attract penal action in accordance with law.

#### **E: Financial Statement Analysis**

45. It is alleged that Noticee had engaged in business other than of the securities business by extending loans to 2 entities worth Rs. 233.05 Crores. I note that the loans were not found to be incidental to or consequential upon the securities/broking business. Further, the loans were extended despite having significant payables to the clients at the time.

46. With respect to this allegation, Noticee has submitted that ARSSBL has extended ICDs to SEBI registered intermediary/sister companies and the same has been subsequently recovered. Further, ICDs given by ARSSBL to the group/sister companies were repaid as under:

- (i) Anand Rathi Financial Services Ltd. -28th May 2019;
- (ii) Anand Rathi Ventures fund management Ltd.- 31st Dec 2018;
- (iii) Anand Rathi IT Pvt. Ltd. -16th Mar 2019

47. After clearing the ICD on the aforesaid dates, no further ICDs have been granted to these entities till date. It is pertinent to mention that NSE has already inspected this issue of ICD and has concluded the matter favorably.

48. Noticee submitted that advancing of loans to parent and/or group company cannot be construed as a separate business activity. For any activity to be classified as business activity there should be several activities with several clients. However in the instant matter, it is only parent/group Company whom loan was advanced and the same was duly repaid as well, Hence, lending to own parent/group company cannot be treated as separate business activity of ARSSBL.

49. I note that the transaction with the entities named above except for Anand Rathi Financial Services (Register Broker of BSE – INB011121754 / INF011121754) cannot be said to be incidental to or consequential upon the securities business.

50. Further, I do not agree with the contention of the Noticee, as by advancing the said loans, stock broker has engaged in business other than of the securities business. I observe that the same has also been confirmed by NSE vide email dated May 06, 2021.

51. I also find it as serious violation, when Noticee has advanced such loans despite having huge amount payable to clients at the time of inspection. Thus, I am constrained to view that the Noticee had failed to exercise its due diligence as a part of broker to comply with the various regulations. Thus, I find that Noticee has violated the provisions of Rule 8 (1) (f) and Rule 8 (3) (f) of Securities Contract (Regulation) Rules, 1957 read with SEBI Circular SMD/POLICY/CIR-6//97 dated May 07, 1997 And Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992.

#### **F. Incorrect reporting of Networth**

52. It is alleged in the SCN that there was a discrepancy in calculation of network / incorrect reporting of network to exchange. During the inspection, the verification of Network reported by the Noticee was carried out in order to ensure that the same is calculated as per L.C. Gupta method. Upon verification, it was observed that Noticee has reported Network of Rs. 26.40 crores as on 31-03-2019. However, it was observed that the Network as per exchanges' calculation was Rs.11.55 crore.
53. I note from the reply of the Noticee that the Noticee has provided a brief on the computation of the Net worth as on March 15, 2019. It submitted that Noticee has reduced provision for doubtful debts of Rs. 3.98 Cr. from total figure and it is related to broking debtors and therefore should be reduced from debtors with ageing more than three months. In this regard, I cannot accept the contention of the Noticee, as the Noticee has not provided any supporting documents to prove that Rs. 3.98 cr worth of provision was made specifically for the mentioned doubtful debtors.
54. Noticee further contended that against the DP debtors, it has security deposits amount of Rs. 2.29 Crore from the client having demat account with them. This security deposit has not been taken into consideration by the auditor while calculating the net worth of the Noticee. In this regard, I note that Noticee had not provided details of security deposit at the time of inspection. Further, Noticee has not provided any supporting documents in the reply (even on sample basis) to prove that such security deposits were made. Thus, I am not convinced with the contention of the Noticee.
55. With regard to the issue of business advances, Noticee stated that the due date of these business advances have not come and therefore these could not be construed as overdue. It also stated in its reply that the business advances given to vendors and third party cannot be reduced for the purpose of calculation of net-worth. Noticee in its reply also submitted that the advances given to associate companies should not be reduced from company's net-worth, as they pertain to routine administration & management activities. Hence, these are not expected. It

further stated that advances given to associate companies should not be reduced from company's net-worth.

56. I note that the Objective of Networth as per LC Gupta is to maintain a required liquid networth and Advances given to associates and advances overdue more than 3 months should be reduced. Accordingly, I find that the same had been reduced during the inspection. Thus, I deny the submission of the Noticee in this regard.

57. Noticee in its reply also contended that liquid mutual funds are considered as cash collateral by the exchange and the margin given against these liquid mutual fund is high as mutual funds are not likely to be susceptible for erosion of its value and it submitted that liquid mutual funds should not be categorized under or equated with other marketable securities for the purposes of computation of net-worth as per L.C. Gupta method.

58. I find that as per the list of approved securities issued by NSE Clearing, the said liquid funds do not fall under the Cash or Cash Equivalent category and therefore should not have been considered by the Noticee as collaterals. The Noticee's submission to consider liquid funds as cash equivalent is therefore untenable and the haircut as levied by CC/CM needs to be applied.

59. In view of these, I find that the allegation against the Noticee that it has violated the provisions of Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD /MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Rule 33 of Chapter III of the Rules of NSEIL and NSE circular NSE/MEMB/2739 dated July 30, 2001 stands established.

**G. Failure in Reporting Risk Based Supervision Data:**

60. It is alleged that Noticee had reported a difference of Rs. 22.63 crores in Brokerage income and incorrectly reported difference of Rs.12.16 crores related to the total available collaterals from all debit balance clients as on 31-03-2019.

61. With regard to this allegation of difference amount of Rs. 22,63,60,349.13, Noticee submitted that "Actual balance" the amount of Rs. 138.99 Crores is considered across the segments brokerage whereas "reported balances" of Rs. 116.36 Crores

is showing/reflecting the brokerage earned from the NSE segment. In this regard, I note that NSE vide email dated May 06, 2021 has submitted that the actual balance has been calculated as per brokerage ledger of NSE segment provided during the inspection. Thus, I do not accept the contention of the Noticee.

62. With regard to this allegation of difference amount of Rs. (-) 3088.78, Noticee submitted that the data related to Risk Based Supervision data verification was provided to inspection official vide email dated September 23, 2019 and email dated November 26, 2019 and stated that there was no difference in Noticee side. In this regard, I observe from the NSE vide email dated May 06, 2021 that Party wise trial balance for 31 March 2019 received during the inspection was considered for said calculation. However, as the difference amount for which observations is found is very miniscule compared to the total debit balance. Thus, I accept the contention of the Noticee.

63. With regard to this allegation of difference amount of Rs. (-) 3088.78, Noticee submitted that the decimal value taken by auditor is more than 2 Digit while calculating Debit Balances of clients, whereas we had considered it upto 2 digit only. In this regard, I find from the NSE vide email dated May 06, 2021 that Balance less than 0 is considered debit balance and accordingly, calculation was done. Thus, I do not accept the contention of the Noticee as they ought to have systems in place whereby actual information is communicated to the exchange.

64. In view of this, I conclude that was in non-compliance during the inspection period and has violated Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

**H:- Incorrectly reporting of weekly Enhanced Supervision data:**

65. During the inspection, Figures submitted to exchange by the Noticee for weekly reporting of client funds monitoring as on 30-Aug-2019 have been verified for Accuracy of figures submitted to exchange for the purpose of weekly monitoring of client funds and monthly client funds & securities. Upon the verification of

aforementioned figures, it is observed that there were differences in the figures reported under following heads of weekly monitoring of Client fund assets

- a. Total end of the day balance in client and settlement bank accounts
- b. Collateral deposit with clearing member/clearing corporation in form of cash or cash equivalent
- c. Total Credit balance of all clients
- d. Total debit balance of all clients
- e. Value of non-funded portion of BG across Exchanges
- f. Margin utilized for positions of Credit Balance Clients
- g. Free/Unblocked collateral deposited with Clearing member/clearing corporations
- h. Value of own securities deposited as collateral with Clearing corporation/Clearing member

| <b>Particulars as on 30-Aug-2019</b>                                                            | <b>Reported Amount ( in Rs)</b> | <b>Actual Amount ( in Rs)</b> | <b>Difference amount in Rs ( Reported - Actual)</b> |
|-------------------------------------------------------------------------------------------------|---------------------------------|-------------------------------|-----------------------------------------------------|
| Total end of the day balance in client and settlement bank accounts                             | 73,63,93,322.04                 | 9,18,33,716.33                | 64,45,59,605.71                                     |
| Collateral deposit with clearing member/clearing corporation in form of cash or cash equivalent | 4,28,60,31,637.92               | 4,15,17,38,358.56             | 13,42,93,279.36                                     |
| Total Credit balance of all clients                                                             | 3,93,21,83,397.08               | 3,94,85,42,847.02             | -1,63,59,449.94                                     |
| Total debit balance of all clients                                                              | 1,62,25,07,956.58               | 1,60,45,76,613.15             | 1,79,31,343.43                                      |
| Value of own securities deposited as collateral with Clearing corporation/Clearing member       | 1,37,80,01,647.08               | 0.00                          | 1,37,80,01,647.08                                   |
| Value of non-funded portion of BG across Exchanges                                              | 1,42,08,12,500.00               | 1,41,53,12,500.00             | 55,00,000.00                                        |
| Margin utilized for positions of Credit Balance Clients                                         | 14,51,61,42,214.47              | 13,16,60,32,123.28            | 1,35,01,10,091.19                                   |
| Free/Unblocked collateral deposited with Clearing member/clearing corporations                  | 4,84,70,44,069.65               | 4,84,80,44,069.65             | -10,00,000.00                                       |

**(i). Total end of the day balance in client and settlement bank accounts**

With regard to the incorrectly reporting Noticee contended that the difference amount of Rs. 64, 45, 59,605.71 as alleged in SCN, Noticee had additional free FDs to the tune of Rs. 64.45 Crores available, considering which there will not be any shortfall to cover the payable to the clients. Noticee has requested to consider those FDs as well.

I find that as per SEBI Circulars, no provision was there to consider the FDs to counter the shortfall occurred to cover the payable to the clients and FDR which are not made from client bank account cannot be considered as client's assets. Thus, I do not find any merit in the Noticee request to consider free FDs to a tune of Rs. 64.45 Crores to counter the shortfall as alleged.

**(ii). Collateral deposit with clearing member/clearing corporation in form of cash or cash equivalent**

For the difference amount of Rs. 13,42,93,279.36 in Collateral deposited with clearing member / clearing corporation in form of cash and cash equivalent as alleged in the SCN, Noticee submitted that 'Regarding deduction of 10% value of liquid funds which has been put with clearing member, it should be considered as cash collaterals & is insulated from value loss'.

In this regard, I do not agree with the submission of the Noticee to consider the liquid funds put by the Noticee with the clearing member. I find that as per the list of approved securities issued by NSE Clearing, the said liquid funds do not fall under of Cash or Cash Equivalent category and therefore should not have been considered by the Noticee as collaterals deposited with Clearing Member. The Noticee's submission to consider liquid funds as cash equivalent is therefore untenable.

**(iii). Total Credit balance of all clients & Total debit balance of all clients**

For the difference amount of Rs. (-1,63,59,449.94) and Rs.1,79,31,343.43 total credit and debit balance differences as alleged in the SCN , Noticee submitted that it was not considering non UCC client which is included in trail balance that Start with "ZZZ" and End with "C000" and MTF balances are considered after

open Bills. I note that Noticee has admitted the violation by stating it had not considered certain clients in the trail balance.

Therefore, I find the allegation against Noticee about this violation is stands established.

**(iv). Value of non-funded portion of Bank Gurantees across Exchanges**

For the difference amount of Rs.1,37,80,01,647.08, Noticee submitted that amount of Rs.1,37,80,01,647.08 point is already included in the amount Rs. 4,28,60,31,637.92. This number has been reported as additional information purpose only. Noticee stated in its reply that it requires SEBI guidance/suggestion 'whether Noticee should report this figure separately in this column or not.'

In this regard, I note that the SEBI circulars with regards to various regulations are self-explanatory and as Noticee was a broker, I do not find any reason to provide further clarification regarding the same. Therefore, I find the allegation against Noticee about this violation is stands established.

**(v). Margin utilized for positions of Credit Balance Clients**

For the difference amount of Rs. 55,00,000/-, Noticee submitted that the reason of difference of amount was due to, only free margin is considered by auditor while Noticee stated that it has considered Blocked margin also.

I do not satisfy with the contention of the Noticee, as I note that Noticee had reported wrong creditors and debtors amount. As computation of Margin utilized for positions of Credit Balance Clients depends on computation of creditor balance hence same was also wrongly reported by Noticee.

**(vi). Free/Unblocked collateral deposited with Clearing Member/Clearing Corporations**

For the difference amount of Rs.1, 35, 01, 10,091.19, Noticee submitted that the difference arisen due to, Noticee submission was based on final balances after considering open bills and cheques but in Auditor working ledger balances had been considered. Due to which there was a difference in the creditor's balances and margin utilization. Further we humbly submit that we are not considering

non UCC client included in trail balance that Start with "ZZZ" and End with "C000" and MTF balances are considered after open Bills.

I note that in calculation of Free/Unblocked collateral deposited with Clearing Member/Clearing Corporations, only free collateral shall be considered. Therefore, in my opinion, any capital which is blocked cannot be considered as free collateral therefore capital shown as reserved in BSE MP File was excluded. Thus, I do not agree with the submission of the Noticee.

**(vii). Value of own securities deposited as collateral with Clearing Corporation/Clearing Member**

For the difference amount of – Rs.10,00,000.00/-, Noticee submitted that the Annexure V to be referred where calculation of difference amount -10,00,000.00 was given. Further, Noticee submitted that inspection official has added Total Liquid Assets and Reserved Capital whereas the actual calculation was Reserved Capital + Balance Liquid Asset Available.

In this regard, I note that Noticee submission is not sustainable as same liquid mutual fund was also considered in clients collateral available with Clearing Member and same was again reported under own securities by member. Liquid mutual funds of clients cannot be treated as own mutual funds. Thus, I find the allegation against Noticee about this violation is stands established.

**I. Observation pertaining to Office Management, Authorized Person and Trading Terminal :**

66. It has been alleged that Noticee has failed to upload the CTCL ID of terminals with Exchange, failed to report the correct active/ Inactive status of 3 terminals to Exchange and certain discrepancies in the status of CTCL IDs of Noticee at Exchange record and at Noticee record.

67. I note that Noticee in its reply inter-alia contended that it was in practice of deactivating/activating the inactive/active IDs on the Omnesys software on the same day to avoid any mismatch. However, there was some issue in SQL data updating from Omnesys backend which we have raised to the vendor. Noticee

further submitted that in few terminals we have provided only the viewing rights for software UAT purpose or for testing a new product introduced by the Company. No trades are executed from these view terminals.

68. I note that reply does not explain the reason for the differences in status of the terminals and for the terminals not found in the Noticee records. As per requirement, details of terminals (Neat & CTCL) at Noticee records should match with the information available with the Exchange and the information of Terminals in Member System and Exchange should be same.

69. I observe that with regard to the allegation of certain terminals operated by other persons than approved persons at AP address mentioned in the SCN, Noticee submitted that this is an exceptional case where the terminal was operated by person other than the actual user. There was no other intention, except to facilitate the client. I note that Noticee has accepted the allegation by stating that it was an exceptional case and requested to take broader view.

70. Therefore, I note that the responsibility of the Noticee to ensure that all the compliances with SEBI circulars should be in place. In this case, I find that the Noticee was in non-compliance during the inspection period and has violated Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and NSE circular no. NSE/MEMB/3574 dated 29-Aug-02, NSE/MEMB/3635 dated 25-Sep-02 and NSE/MA/22732 dated 13-Feb-2013 and NSE circular NSE/MEMB/3574 dated August 29, 2002

**J. Incorrect reporting of Enhanced Supervision Monthly data of client's balances of Funds and Securities:**

71. During the Inspection, it was observed that Noticee has failed to report fund balances of 2421 number of clients to Exchange, which was aggregating to Rs.96,45,181.97/- and it also failed to report the Securities balances of 68 inactive clients under monthly submission file, which was aggregating to Rs 932464.10/- and it incorrectly reported the funds balances of 11661 clients under monthly submission, which was aggregating to Rs.118,72,17,470.89/-.

72. I note that Noticee has contended that as per Enhanced Supervision for monitoring the client's funds and securities, the stock broker shall not be required to upload the data for client with zero funds and securities balances and also those who have not traded in the last 12 months. Further, Noticee submitted that there was a discrepancy in the fund balances as alleged in the SCN, as the in auditor observation, only ledger balances have been considered.
73. I note that Noticee has responsibility to submit the ledger balances as specified in the SEBI circulars, As per Clause 7.1.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR /P/2016/95 dated September 26, 2016 - "Exchange-wise end of day fund balance as per the client ledger, consolidated across all segments and also net funds payable or receivable by the broker to/from the client across all Exchanges". Thus, I do not agree with the Noticee submission.
74. I note from the inspection report that the observation provided by the Exchange contains inactive clients with non-zero funds and securities balance. In view of the same, I do not accept the contention of the Noticee.
75. Therefore, I am constrained to view that Noticee has violated Clause 7.1.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

**K. Non maintenance of Evidence for client order placement :**

76. It has been alleged that Noticee could not provide any appropriate evidences where orders are received from clients over telephone with respect to 9 clients. I note that Noticee has contended that the order placement proof was provided to the inspection officials on sample basis. However, in some stray cases, client places order from their handset to dealers on their mobile and in these cases maintaining the proof i.e. voice recording of order placement is not feasible. The dealer cannot reject the orders in such cases as the client may otherwise raise the grievance against the members. Further, we are in practice of calling the clients on random basis for post confirmation of trades as well. We are also sending the ledgers and daily statements to the clients on their registered email ids. The client accounts are settled within one working day of the pay-out received from the Exchanges which

is as per the Exchange guidelines. Even the respective exchange sends details of trade done on client's registered mobile number and email ids however there is no unresolved grievance pending from the above clients whatsoever.

77. However, I do not agree with the contention of the Noticee, as I Note that as a diligent stock broker, the Noticee is expected to maintain a record of the order placement in the account of its clients. Such basic information is critical for SEBI to identify the persons placing orders on behalf of the clients specifically for finding violation of various Regulations. It is expected of a stock broker who is a registered intermediary to maintain a proper record of order placements from the clients. The identification of the exact person who has placed orders in an account is crucial from the point of view of investigations conducted by SEBI. If a broker submits such evasive reply by not providing exact details of the person placing the order, it would be extremely difficult for SEBI to ascertain the role of entities dealing in shares, thus, crippling the entire investigation in crucial matters.

78. Therefore, I note that the responsibility to maintain order placement recording lies with the Noticee and I am of the view that Noticee had failed to exercise its due diligence. Thus, it is established that the Noticee had violated Clause III & IV of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.

**L. Failure to send statement of accounts:**

79. It is alleged that Noticee has failed to send the retention statement to 8 clients out of 17 instances verified by Inspection Team and Further, I note that the Retention statements issued to 1 client does not contain correct details. In this regard, Noticee submitted that mismatch observed in the retention statement for one of the instance was due to security payout received on same day. Noticee also stated that they have not received any grievances from said client during inspection period.

80. I note that Noticee further submitted that mis-match observed during inspection is minor and not due to any reasonable cause and there is no any further malfunction intention behind the same.

81. I note that Noticee accepted the violation by stating the mismatch observed was minor. However, I failed to understand, how a reputed broker like Noticee can even sought condonation on the ground of minor violation and I do not accept it. In view of the same, I find that the Noticee is guilty of the violation of the Clause 12 (e) of Annexure - A of SEBI Circular SEBI /MISRD/SE/Cir - 19/2009 dated December 03, 2009.

**M. Discrepancies in KYC process**

82. It is alleged that Noticee has failed to maintain CRD in requisite format as per SEBI Circular dated August 22, 2011, failed to upload KYC details on the systems of CKYCR in requisite time period, delay in upload of KYC details on KRA portal, failed to provide copies on IBT agreement obtained from client for verification at the time of client's registration.

83. I Note that Noticee in its reply submitted there is no deviation in the format prescribed by SEBI vide circular reference no. CIR/MIRSD/16/2011 dated August 22, 2011 and Noticee's CRD contains Index and also the details are properly segregated as mandatory and voluntary. However, I find from the verification of sample clients that Index giving brief significance of each document was not present and neither CRD was segregated as mandatory and voluntary. Thus, I can not accept Noticee reply that there was no deviation in the formation prescribed by SEBI.

84. Further, with regard to the allegation of delay in upload of KYC Noticee submitted that there was an inadvertent error on Noticee part in uploading the CKYC within Turn around Time ("TAT") due to some technical reasons. Noticee also stated that it is taking care of this aspect of compliance and will ensure of non-occurrence of such instances in future.

85. I note the Noticee has accepted the inadvertent error on their part in uploading the CKYC within TAT. Thus, it is established that the Noticee had violated the SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 read with SEBI Circular CIR/MIRSD/66/2016 dated July 21, 2016., Clause 2 of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 read with SEBI Circular MIRSD/Cir-23/2011 dated December 2, 2011 and SEBI circular MIRSD/Cir-5/2012 dated April 13, 2012.

86. I note that with regard to allegation of failed to provide the copies of IBT agreement obtained from client, Noticee submitted that Noticee is in practice of sending copy of client registration documents (account opening kit) to all our registered clients after activation through emails, which also contains IBT agreement as per SEBI and further stated that as per the circular we also made documents available on our website [www.rathi.com](http://www.rathi.com). However, I note that the Noticee has not provided evidences to substantiate his submission. In view of the same, I do not accept the contention and I find that Noticee has violated Clause 7 of the Annexure A of the SEBI Circular No. MIRSD/ SE /Cir-19/2009 dated December 03, 2009 and Annexure 3 (D) of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011.

**N. Discrepancies in issuance and execution of DIS (DP observation) :**

87. It has been alleged in the SCN that In few instances, transfer instructions from Anand Rathi Share and Stock Brokers Ltd-Stock Broker-Client account to Margin Account have been processed using Form no. 22 (Pay-out by clearing member) instead of Form no. 36 (Combined Delivery Instructions by Client).

88. I note from the inspection report that in one case of Inter Depository Transfer, the client has mentioned reason code as 99 for a Buyback instruction instead of 5. Although the Participant has captured the correct reason code in the system. Thus, in SCN it is alleged that Noticee has failed to make the relevant corrections on the instruction slip/intimated to the client.

89. In respect of aforesaid allegation, Noticee submitted that the transfer was within the in-house account of ARSSBL, and there was no client instruction transfer, and all the transfers was credited in the appropriate account. I note that Noticee in its reply also submitted that no mistake had been done in the account due to incorrect format.

90. However, I do not agree with the submission of the Noticee that no mistake had been done in the account due to incorrect format. I am not convinced with the argument of the Noticee to drop the allegation, as Noticee failed to provide the valid reason for using Form no.22 instead of Form no. 26 for transfer instruction from

Broker-Client account to Margin Account. Thus, I find the allegation against Noticee regarding violation of NSDL Circular NSDL/POLICY/2014/0092 dated August 25, 2014 and NSDL/POLICY/2014/0076 dated June 23, 2014

**O. Transmission Request (DP observation)**

91. I Note that SCN has alleged that the Noticee was not using the NSDL prescribed form for processing transmission request, the date on which transmission form is received by DP at its branches is not been captured in the (Data processing and Management) DPM system, instated the date on which the transmission request is received at the H. O. is captured. Further, in three out of four instances, a delay of more than seven days is observed in processing transmission requests.

92. Noticee, with respect of this allegation submitted that the form used for transmission was in Old format prescribed by NSDL. Further with respect to delay in execution of request, on the said Noticee stated that, there was some pending requirements awaited from the client's kin to be received, after the receipt of the same, the Noticee has executed the request. The Noticee also submitted that there was no undue delay from Noticee's part.

93. I considered the submission of the Noticee, however, I am not convinced with the submission with regard to the delay in processing the transmission request in respect of 3 instances as alleged in the SCN. Further, I also note that Noticee *interalia* accepted that it was using the old transmission format prescribed by NSDL rather than the prescribed format by NSDL as on date of inspection.

94. Therefore, I conclude that the Noticee has not complied with NSDL Circular No. NSDL/POLICY/2018/0018 and NSDL/POLICY/2016/0042 dated April 11, 2016.

**P. Account Modification (DP observation):**

95. It is alleged that Noticee as a DP has failed to comply with various SEBI Circulars, as it has obtained old modification form for minor name correction. I note that Noticee contended that the CDSL inspector have rated the observations as "Medium Risk" in the report as we have not entirely violated the CDSL Communique

CDSL/OPS/DP/POLCY/2019/17 dated January 09, 2019. bearing form as per new format we have obtained all other requisite documents necessary for minor name correction together with old format prescribed, there was no procedural lapse in executing the request. Further, as per CDSL instructions we have obtained the confirmation from demat account holder of name change.

96. While the Noticee has rectified the lapses post the inspection, during the inspection period there was non-compliance which has not been denied by the Noticee. Thus, I conclude that Noticee has violated CDSL communique CDSL/OPS/DP/POLICY/2019/17 dated January 09, 2019.

**Q. Concurrent Audit Report (DP observation) :**

97. It is alleged that Concurrent Audit Report submitted by Auditor is not as per CDSL format. With regard to the same, Noticee contended that the said observation was marked as "Medium Risk" by CDSL inspector.

98. I note from the reply of the Noticee that the auditor had submitted concurrent audit report as prescribed in CDSL communique dated February 17, 2016 instead of Communique 2018 - 205 of dated April 18, 2018. Noticee also stated in its reply that after the observation, the auditor has submitted revised Concurrent audit report in the format.

99. Thus, I note that the Noticee has rectified the lapse post the inspection, during the inspection period there was non-compliance which has not been denied by the Noticee. Therefore, the allegation against Noticee about violating Communiqué 2018 205 dated April 18, 2018 stands established.

**R. Stamp not affixed on DIS , Demat (DP Observation) :**

100. It is alleged that Noticee has violation the CDSL Operating Instructions 6.5.4.3 as, it had failed in affixing the stamp on the DIS, Demat. In this regard, I note that Noticee has accepted the violation and stated that there was an inadvertent error

in affixing the inward stamp by the official. Noticee also submitted that in future it will ensure that the same is not been repeated.

101. I note that Noticee's submission of ensuring itself from not repeating same will be treated as acceptance of the violations and cannot make the Noticee free from the guilt of the violation committed by it. Therefore, I find the violation of CDSL Operating Instructions 6.5.4.3 stands established.
102. While examining the facts and more particularly about the violations committed by Noticee, I observe that all the violations are absolutely avoidable. I note that Noticee was in business as Stock Broker for long time and such type of violations mentioned herein above are not expected from it. Further, violations related to mis-utilization of Fund and Securities of Clients, Non-Settlement of Client funds and Securities, KYC discrepancies, Incorrect reporting of Networth, etc., cannot be ignored and I cannot be lenient by considering the recent past scams happened in the market based on non-adherence of KYC norms and mis-utilization of Fund and Securities of Clients.
103. According to me, a role of a Stock Broker, cannot be lesser than a soldier standing at the border to guard its boundaries. It is an admitted position that Stock Broker is a main pillar of Securities Market and mere providing Trading Terminals to its members does not preclude it from the responsibilities of being a Stock Broker. Every Stock Broker is a guard and with proper due diligence, certainly he can put proper mechanism in its place which may minimise securities scams. Since, every security scam is admittedly an injury to the financial sector and more particularly to the investors at large, who suffers a lot. Therefore, besides having Regulations, Guidelines at place, the role of Stock Broker has its own importance, not only to have smooth trading but also to ensure and adherence of the implementation of procedure, guidelines under which they are supposed to act.
104. During the Personal Hearing held on webex, I observed that the Compliance Officer has ensured me that the Noticee will not repeat the violations committed by it. However, according to me at first instance itself, such violations should not have been taken place and could have been easily avoided, if Noticee would have acted with prudence. More over, assuming that there was no inspection from NSE/SEBI,

then such lapses would have been continued by the Noticee. According to me, adherence of procedure and strict follow up of guidelines, circulars and respective regulations is a basic duty of the Stock Broker and I found that the Noticee in the instant matter has miserably failed to ensure due skill and care on its part in 18 instances. Therefore, I am constrained to take serious view on it and cannot be lenient for the Noticee, as all the violations are proved beyond any reasonable doubt. Secondly, though the Noticee had mentioned that violations done by it were inadvertent, it will not have any relevance by observing the forthcoming case law

105. In this context, reliance is placed upon the order of the Hon'ble Supreme Court of India in the matter of Chairman, **SEBI Vs Shriram Mutual Fund** { [2006]5 SCC 361 } – wherein the Hon'ble Supreme Court of India 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.....”*

106. Therefore, the Noticee has failed in exercising due skill, care and diligence in the conduct of its business by violation of above mentioned Regulations of various SEBI Regulations and circulars. Thus, I conclude that the Noticee is liable for monetary penalty under the provisions of Section 15HB of the SEBI Act, and under the provisions of the Section 23D of the SCRA and also under the provisions of the Section 19G of the Depositories Act

**Issue : What would be the monetary penalty that can be imposed upon Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act?**

107. In this regard, the provisions of Section 15J of the SEBI Act and Rule 5 of the Adjudication Rules require that while adjudging the quantum of penalty, 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.

108. In view of the charges established, the facts and circumstances of the case, the quantum of penalty would depend on the factors referred in Section 15-J of the SEBI Act, stated as above. In the instant case, I find that, it is not possible from the material on record to quantify the amount of disproportionate gain or unfair advantage resulting from the default of Noticee in the instant matter. Further, I note that material available on the record also does not indicate the amount of specific loss caused to an investor or investor group. I also note that there is no evidence on record to indicate that violations of Noticee are repetitive in nature. Additionally, I note from materials available on record that Noticee had cooperated with the inspection conducted by the SEBI. I am of the view that these can be considered as mitigating factors in the present proceedings and am of the view that the abovementioned lapses on the part of the Noticee cannot be ignored because Stock Brokers are expected to act in securities markets in the most professional manner and even minor lapses and violations on the part of the Stock Brokers may have wide ramifications in the securities markets.

### **ORDER**

109. Having considered all the facts and circumstances of the case, the material available on record and the factors mentioned in the preceding paragraphs, I, in exercise of the powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules, Section 23-I of the SCRA read with Rule 5 of the SCRA Adjudication Rules 2005, Section 19-H of the Depository Act read with Rule 5 of Depository Rules hereby impose a penalty of **Rs.30,00,000/- (Rupees Thirty Lakhs only)** on the Noticee viz. M/s Anand Rathi Share and Stock Brokers Limited under the provisions of 15HB of the SEBI Act, and under the provisions of the Section 23D of the SCRA and also under the provisions of the Section 19G of the Depositories Act. I am of the view that by considering 18 violations committed by the Noticee, the said penalty is commensurate and proper for such default.

110. The Noticee shall remit / pay the said amount of penalty within 45 (forty five) days of the receipt of this order either by way of Demand Draft (DD) in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai and the

said DD should be forwarded to the Division Chief, Enforcement Department - I (EFD), Division of Regulatory Action - I [ EFD1-DRA-3 ] SEBI Bhavan, Plot No.C4-A, ' G ' Block, Bandra Kurla Complex (BKC), Bandra (East), Mumbai – 400 051 and also send an email to [tad@sebi.gov.in](mailto:tad@sebi.gov.in) with the following details:

|                                                                                                                              |  |
|------------------------------------------------------------------------------------------------------------------------------|--|
| 1. Case Name:                                                                                                                |  |
| 2. Name of Payee:                                                                                                            |  |
| 3. Date of payment:                                                                                                          |  |
| 4. Amount Paid:                                                                                                              |  |
| 5.Transaction No:                                                                                                            |  |
| 6. Bank Details in which payment is made:                                                                                    |  |
| 7. Payment is made for: (like penalties /disgorgement/recovery/Settlement amount and legal charges along with order details) |  |

**OR**

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

111. 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.
112. In terms of the provisions of Rule 6 of the Adjudication Rules, a copy of this order is sent to the Noticee viz. M/s Anand Rathi Share and Stock Brokers Limited and also to Securities and Exchange Board of India.

**Place: Mumbai**  
**Date: June 14, 2022**

**SANDEEP P DEORE**  
**ADJUDICATING OFFICER**