

**SECURITIES AND EXCHANGE BOARD OF INDIA
ORDER**

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

In respect of

Sr. No.	Name of the Noticee	PAN	SEBI Registration No.
1.	GRD Securities Limited	AABCG7534M	INZ000193937

In the matter of GRD Securities Limited

1. The Noticee is registered as a Stock Broker with Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”). The present proceeding is originating from the Enquiry Report dated September 27, 2024, submitted by the Designated Authority (hereinafter referred to as “**DA**”), in terms of the applicable provisions of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred as “**Intermediaries Regulations**”). The DA, based on the various facts and observations so recorded in the Enquiry Report, has recommended that in terms of Regulation 26 of the SEBI (Intermediaries) Regulations, 2008, regulatory censure may be issued to GRD Securities Limited (hereinafter referred as Noticee).
2. SEBI, jointly with the Stock Exchanges (NSE and BSE), had conducted an inspection of the Noticee for the period from April 01, 2021 to November 30, 2022 (hereinafter referred to as “**inspection period**” / “**IP**”) with respect to its stock broking activities. The findings/ observations made during the course of inspection were communicated to the Noticee by SEBI vide letter dated March 06, 2023. After examining the reply submitted by the Noticee vide letter dated March 21, 2023 and email dated August 18, 2023, it was observed that the Noticee had allegedly violated various provisions of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as “**Stock Brokers Regulations**,”

1992”) and applicable SEBI Circulars. The summary of violations alleged to have been committed by the Noticee and the corresponding provisions of Stock Brokers Regulations, 1992 and SEBI Circulars are given in the table below:

Table 1

Sr.No.	Alleged Violations	Regulatory Provisions
1	Segregation of client's funds and securities	Clause 2.4.2 of Annexure to the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 on Enhanced supervision of Stock Brokers/DPs
2	Monthly / Quarterly settlement of Funds and Securities	Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, clause 12 of Annexure of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated 16th June 2021
3	Reconciliation of Stock Mismatch alerts	Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 read with Clause A(2) & A(5) of the code of conduct, read with Regulation 9(f) of the SEBI (Stock Brokers) Regulations, 1992 and Clause 4 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019
4	Reporting and short collection of Margin	SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019
5	Stock reconciliation	Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008
6	Client Registration Process (KYC and KRA Process)	SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 Clause A(2) & A(5) of the code of conduct, read with Regulation 9(f) of the SEBI (Stock Brokers) Regulations, 1992
7	Verification of Email ID & Mobile numbers / Unique Client Code (UCC) Verification	Clause 2(B) of SEBI Circular No. CIR/MIRSD/15/2011 dated August 02, 2011

3. Based on the findings of the said inspection, a DA was appointed to inquire into and to submit a report pertaining to the aforesaid allegations. The DA issued a show-cause notice dated April 26, 2024 to the *Noticee* under Regulation 25(1) of the Intermediaries Regulations for the violations alleged to have been committed by the Noticee, as mentioned above at Table No. 1. The Noticee was advised to submit its reply, if any, within 21 days of receipt of the notice.
4. In response to the aforesaid allegations, the *Noticee*, vide its letter dated May 21, 2024 submitted a detailed reply to the aforesaid show-cause notice. Pursuant to the receipt of the said reply, an opportunity of personal hearing was granted to the *Noticee* by the DA on September 11, 2024, which was availed by the Authorized Representatives (ARs) of the Noticee.
5. After considering the allegations levelled in the show-cause notice, reply filed by the *Noticee* and the material available on record, the DA, submitted the aforesaid Enquiry Report and made the following recommendation:

“With regard to the above violations, Noticee has been penalised vide Adjudication Order No. Order/BM/DS/2024-25/30811 dated September 26, 2024. Given the above, it is recommended that in terms of Regulation 26 of the SEBI (Intermediaries) Regulations, 2008, regulatory censure may be issued to the Noticee.”

6. The DA report was forwarded to the Noticee in terms of Regulation 27(1) of the Intermediaries Regulations vide Show Cause Notice (hereinafter referred to as “**SCN**”) dated October 15, 2024. It was stated in the said SCN that if the Noticee wishes to file any submission/information along with any supporting documents, it may do so within 21 days from receipt of the said SCN and pursuant thereto, the matter would be proceeded with in accordance with Regulation 27(5) of the Intermediaries Regulations.

7. I note that the SCN was delivered to the *Noticee* and pursuant to the same, the *Noticee*, vide its letter dated November 05, 2024 filed its preliminary reply and requested for inspection of documents. The inspection of documents was done by the ARs of the *Noticee* on November 14, 2024. Pursuant thereto, the *Noticee* filed its reply vide letter dated December 13, 2024.
8. Subsequently, upon the request of the *Noticee*, an opportunity of personal hearing was also provided to the *Noticee* and the same was conducted on January 14, 2025 which was attended to by the ARs of the *Noticee*. During the personal hearing, the ARs of the *Noticee* reiterated the submissions made vide letter dated December 13, 2024. Pursuant thereto, post hearing submissions vide letter dated January 28, 2025 was filed by the *Noticee*.

CONSIDERATION AND FINDINGS:

9. I have carefully perused the Enquiry Report issued to the *Noticee* along with the SCN dated October 15, 2024 and the replies filed by the *Noticee* and other material available on record. In the instant proceedings, the DA has recommended issuance of a regulatory censure to the *Noticee*.
10. The SCN issued by the DA contained allegations on seven counts as mentioned above at Table 1. In response thereto, the *Noticee* filed its reply to the DA vide letter dated May 21, 2024. In her report, the DA observed that the *Noticee* has violated the following provisions:
 - a) Clause 2.4.2 of Annexure to the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 on Enhanced supervision of Stock Brokers/DPs;
 - b) Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, clause 12 of Annexure of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated 16th June 2021;
 - c) Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 read with Clause A(2) & A(5) of the Code of Conduct, read with Regulation

9(f) of the SEBI (Stock Brokers) Regulations, 1992 and Clause 4 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019;

d) SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019;

e) SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.

11. As regards the remaining 2 violations, the DA found that the alleged violation relating to Stock reconciliation and Verification of Email ID & Mobile numbers / Unique Client Code (UCC) verification have not been established.

12. In respect of the 5 violations noted above at paragraph 10, the Noticee, vide its reply dated December 13, 2024 and post hearing submissions dated January 28, 2025 has, *inter alia*, submitted the following:

Segregation of client's funds and securities

- i. All transfers made by the Noticee from the clients' accounts to the proprietary accounts via the settlement account were legitimate transfers made to meet client margin obligations, within the purview of the norms of SEBI and such an arrangement to maintain adequate margin obligations of clients is adopted for the purpose of ease of doing business, while safeguarding client interests, ensuring that no client faces delays in pay-outs or adverse impacts on their obligations.
- ii. There is no evidence to suggest that clients' funds transferred to proprietary accounts via settlement account were being misused to meet proprietary obligations or debit client obligations.
- iii. The mere act of transferring funds from clients' accounts to proprietary accounts, via settlement account, does not constitute a failure of segregation in the absence of evidence indicating that such funds were misused by the Noticee stock broker.
- iv. It is submitted that the intent of the Enhanced Supervision Circular is to prevent the misuse of client funds for proprietary purposes or to meet obligations of debit clients and to ensure that clients' funds are only utilised for the benefit of such clients. In the present case, it is submitted that the

Noticee has not utilised the clients' funds hence the Noticee has fully complied with the spirit of the circular.

Monthly / Quarterly settlement of Funds and Securities –

- i. The total instances of alleged non-compliances are minimal, amounting to less than 1% of the 21,600 client settlements undertaken during the inspection period (April 01, 2021 to November 30, 2023) spanning six quarters. Specifically, there were only 9 instances (0.042%) of non-settlement of clients' accounts, 104 instances (0.481%) of delayed settlement of clients' accounts and 60 instances (0.278%) of not sending retention statements to clients.
- ii. Such alleged discrepancies arose due to technical glitches in the back-office systems and were inadvertent and beyond the control of the Noticee. Pertinently, the Noticee promptly rectified all such technical issues and took corrective measures upon learning of such errors.
- iii. The DA has recognized the efforts of the Noticee of taking corrective steps.

Reconciliation of Stock Mismatch alerts

- i. It is humbly submitted that 5 of the 9 instances of stock mismatch alerts were generated due to errors in the back office software and as stated above, the Noticee has already taken on corrective steps to ensure that no discrepancies in the back-office software of the Noticee arise in the future.
- ii. For the remaining 4 instances, the discrepancies in the stock reporting occurred because certain client securities were lying in the Client Unpaid Securities Account (hereinafter referred to as "CUSA"). The DA in the Enquiry Report has held that the Noticee has violated Clause 4 of the SEBI Circular dated June 2019 since the Noticee had failed to auction the shares lying in CUSA within 5 days as mandated in such circular. In this regard, it is submitted that that Clause 4.3 of the SEBI Circular dated June 20, 2019, permits stock brokers to retain securities in CUSA until the respective clients' payout obligations are met, which is the mandate followed by the Noticee in the present case. In support, the Noticee placed reliance on a letter dated October 18, 2022, issued by BSE Limited to a stock broker,

where BSE Limited had directed the said stock broker to transfer shares held in CUSA to the respective clients' demat accounts once fund obligations are fulfilled. Thus, it is a permissible practice followed by stock brokers and does not violate regulatory provisions of SEBI Circular dated June 20, 2019.

Reporting and short collection of Margin

- i. The alleged instances of incorrect EOD margin reporting has arisen only in 6.4% of the sampled instances (125 instances across 125 sample dates for 125 unique clients) and constitute a mere 0.016% of the total of ₹ 15,000 crores worth of total margins reported by the Noticee during the investigation period from April 01, 2021 to November 30, 2023.
- ii. Such minor instances of incorrect reporting have occurred due to inadvertent clerical error and have not adversely impacted the interests of the Noticee's clients. The Noticee has taken all corrective measures to ensure that no errors in reporting arise in the future. The DA has also recognised and recorded the fact that there has been no mis-utilisation of clients' funds due to incorrect margin reporting of enhanced supervision of data.

Client Registration Process (KYC and KRA Process)

- i. Such discrepancies in taking running account authorisations, occurred only in 5 Unique Client Codes which is only 0.22% of the client base of approximately 3,600 client codes the Noticee was managing during the inspection period.
- ii. All such discrepancies have arisen due to clerical and inadvertent errors which have since been rectified by the Noticee.
- iii. The Noticee had no malafide behind not capturing authorisations and there was no loss of any kind or any damage to investors' interests were caused on account of such inadvertent errors of the Noticee in capturing authorization of details of such clients. Further, there were no investor complaints against the Noticee.

Other submissions

- i. The purpose of inspection of trading members / stock brokers / intermediaries by the regulators is not to take punitive action but to ensure that the intermediary complies with procedural requirements, laid down in the regulations, circulars and policies of SEBI and stock exchanges particularly regarding the maintenance of records and reporting of funds and to prevent any mischief or manhandling of clients' funds, which is the ultimate intent of such circulars. In support, the Noticee has relied on Order passed by Hon'ble SAT in the matter of *DSE Financial Services Limited vs SEBI*¹.
 - ii. None of the violations alleged and established by the DA in the Enquiry Report have resulted in losses to the Noticee's clients'. Despite the alleged reporting discrepancies, the clients' funds remained intact and protected and there was no misuse of clients' funds nor was there any shortfall in maintenance of the clients' margins. Noticee's books and records were also inspected for any investor complaints during the investigation period however, no investor complaints were found in the books and records of the Noticee and also on the SEBI 's SCORES platform.
 - iii. No adverse order may be passed in the present proceedings until the appeal filed by the Noticee before the Hon'ble SAT against the Adjudication order, which has been passed by SEBI on the same cause of action as the present proceedings, is pending and has not attained finality before the Hon'ble Securities Appellant Tribunal.
13. In its written submissions as well as oral submissions during the hearing, the Noticee had pressed for staying the present proceedings until the appeal filed by it before the Hon'ble SAT against the Adjudication order has not attained finality. It is noted that for the same set of allegations, adjudication proceedings were also initiated by SEBI which were concluded with passing of Adjudication Order dated September 26, 2024 whereby the Adjudicating Officer imposed a penalty of ₹9,00,000 on the Noticee. The Noticee had filed an appeal against the said Order before Hon'ble SAT who by way of an interim direction, stayed

¹ Appeal No. 153 of 2012

the recovery of penalty from the Noticee subject to the Noticee depositing 50% of the penalty amount i.e. ₹ 4.5 lakhs with SEBI. The Noticee had remitted the said amount. However, it is noted that the scope and purpose of the present proceedings and the Adjudication proceedings is entirely different. In terms of section 11(1) of the SEBI Act (contained in Chapter IV), SEBI is empowered to protect the interests of investors in securities and to promote the development of, and to regulate the securities market, by such measures as it thinks fit. Further, Chapter VI of the SEBI Act, 1992, empowers SEBI to adjudicate and impose penalty, by appointment of an adjudicating officer, for violation of provisions of SEBI Act and/or Rules and Regulations made under it. Furthermore, Section 12(3) of the SEBI Act, 1992 empowers SEBI, to suspend or cancel a certificate of registration, by order, granted to any registered intermediary in such manner as may be determined by regulations.

14. For taking action against any registered intermediary, SEBI has framed the Intermediaries Regulations which *inter alia* provide the manner in which action against registered intermediaries is required to be taken. I note that the present proceedings have been initiated against the Noticee under these Intermediaries Regulations, 2008. Regulation 23 of the Intermediaries Regulations *inter alia* states that SEBI is empowered to cancel or suspend or take any other action against any registered intermediary for the contravention of any of the provisions of securities laws or directions, instructions or circulars issued thereunder and such power is without prejudice to any other action taken under the securities laws or directions, instructions or circular issued, which unequivocally includes proceedings under Chapter IV and VI of the SEBI Act. Since, SEBI is empowered to initiate multiple proceedings against the Noticee for violation of provisions of securities laws, I find no merit in the prayer made by the Noticee. Further, the stay granted by Hon'ble SAT against adjudication proceedings would not act as a bar on the continuation and disposal of the present proceedings as the same are independent of the Adjudication proceedings. Without prejudice to the discussion above, I also note that the Hon'ble SAT has not granted the stay on the adjudication proceedings based on the merits of the case. Thus, I do not find any reason to keep the present proceedings in abeyance.

15. I shall now deal with the allegations leveled against the Noticee in light of the submission made by it.

Segregation of client's funds and securities

16. Pursuant to the inspection, it was alleged that the Noticee had transferred funds from the Client bank account to its proprietary bank account, through settlement bank account. The same was observed from bank statements and bank ledger book as maintained by the Noticee. Summary of the instances observed is provided below.

Date	Amount (₹)
13/04/2021	20,00,000
17/07/2021	80,00,000
16/10/2021	20,00,000
23/10/2021	10,00,000
08/11/2021	60,00,000
19/11/2021	1,00,00,000
20/11/2021	1,00,00,000
04/12/2021	1,40,00,000
18/12/2021	1,14,00,000
18/12/2021	70,00,000
01/01/2022	20,00,000
22/01/2022	60,00,000
12/02/2022	45,00,000
01/03/2022	30,00,000
05/03/2022	80,00,000
Total	9,49,00,000

17. Thus, it was alleged that substantial amount of funds ranging from ₹10 Lakhs to ₹1.14 crores (total ₹ 9.49 Crores) have been transferred from Client Account to Proprietary Bank account via Settlement Account during 15 sample dates. Further, as alleged, the Noticee was not maintaining proper daily reconciliation statement. In this regard, the DA has observed that the Noticee had violated Clause 2.4.2 of Annexure to the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 on Enhanced supervision of Stock Brokers/DPs which *inter alia* provides that transfer of securities between 'Stock Broker -Client Account' to '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. In this context, the Noticee has submitted that all the transfers made by it were legitimate and for the purpose of ease of doing business and to meet the client margin obligations within SEBI norms. It has been argued that there is no evidence to suggest that clients' funds transferred to proprietary accounts were being misused to meet proprietary obligations or debit client obligations. Further, it is submitted that the Noticee has not misused the clients' funds and mere act of transferring funds from clients' accounts to proprietary accounts, does not constitute a failure of segregation of funds.

18. I note that there is no allegation of misuse of the clients' funds by the Noticee, However, SEBI's Enhanced Supervision Circular dated September 26, 2016, specifically stipulates that such transfer can be done 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. I note that the Noticee has merely made statements without providing any documentary proof of why such transfers were made. I also note that the DA during the personal hearing had asked the Noticee to provide explanation(s), along with supporting documents, for each of the 15 instances observed on 15 sample dates, where funds were transferred from client account to proprietary account through settlement account. In response thereto, no explanation/documents were provided by it. The mandate of the Enhanced Supervision Circular dated September 26, 2016 is unambiguous that transfer from client account to proprietary account is permitted only for legitimate purpose. Further, the legitimate purpose should also be in the nature of recovery of brokerage, statutory dues, etc. The Noticee has cited reason of ease of doing business which is not the directive of the said SEBI Circular. Thus, even though no misuse of client funds is observed, the Noticee has violated the express mandate of the Circular. Thus, I am of the view that violation of Clause 2.4.2 of Annexure to the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 is established against the Noticee.

Monthly / Quarterly settlement of Funds and Securities:

19. It was observed that the Noticee had not done settlement of client funds and securities in 9 instances (8 Clients) across 7 quarters amounting to ₹6,41,00,989.35/-. Also, retention statement was not sent to 37 clients in 60 instances. Further, with respect to 66 clients, there was a delay in settlement of clients' funds and securities in 104 instances. The summary of aforesaid 9 instances of non-settlement is provided below.

S. No.	Date of Settlement	Quarter	Client Code	Funds	Securities	Total funds/ Securities available	Total Funds / Securities to be retained	Shortfall in Actual Settlement of Funds / Securities
1	12/06/2021	Q1 (2021-22)	R029	5503.41	0	5503.41	0	5503.41
2	30/09/2021	Q2 (2021-22)	S847	28478337.81	0	28478337.8	2013771.938	26464565.87
3	30/09/2021	Q2 (2021-22)	A480	29850349.91	0	29850349.9	1478587.5	28371762.41
4	30/08/2021	Q2 (2021-22)	B066	12826166.4	0	12826166.4	4772599.508	8053566.893
5	30/09/2021	Q2 (2021-22)	A024	375918.69	0	375918.69	238220.73	137697.96
6	30/09/2021	Q2 (2021-22)	R407	33837.58	1373727.58	1407565.16	1373727.58	33837.58
7	30/09/2021	Q2 (2021-22)	A156	2213893.89	6825420	9039313.89	8453507.8	585806.09
8	31/01/2022	Q4 (2021-22)	R251	734709.63	12553434	13288143.6	13053393.63	234750.005
9	08/02/2022	Q4 (2021-22)	A024	250000	0	250000	36500.8725	213499.1275
				74768717.32	20752581.58	95521298.9	31420309.55	64100989.35

20. In terms of the provisions of Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 12 of Annexure of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, running account settlements shall be made at least once in a calendar month or quarter, depending on the preference of the client, and while settling the account, the broker shall also send a statement in which the retention of funds / securities and the details of the pledge, if any, shall be explained.
21. The Noticee has submitted that the total instances of alleged non-compliances are minimal, amounting to less than 1% of the 21,600 client settlements undertaken during the inspection period (April 01, 2021 to November 30, 2023) spanning six quarters. Specifically, there were only 9 instances (0.042%) of

non-settlement of clients' accounts, 104 instances (0.481%) of delayed settlement of clients' accounts and 60 instances (0.278%) of not sending retention statements to clients. It is submitted that such alleged discrepancies arose due to technical glitches in the back-office systems and were inadvertent and beyond the control of the Noticee. Pertinently, the Noticee promptly rectified all such technical issues and took corrective measures upon learning of such errors.

22. I note that the Noticee has admitted the allegations but has tried to justify it by calling them as minimal and due to technical glitches. As submitted, such discrepancies were inadvertent and beyond the control of the Noticee. Be that as it may, minimal number of non-compliances and technical glitches at the end of Noticee do not justify the non-compliances. Thus, violation of the provisions of Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, clause 12 of Annexure of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated 16th June 2021 is established against the Noticee.

Reconciliation of Stock Mismatch alerts:

23. In terms of the provisions of Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 read with Clause A(2) & A(5) of the code of conduct and Regulation 9(f) of the SEBI (Stock Brokers) Regulations, 1992, a stock broker is required to maintain proper records of client collateral and such records should be periodically reconciled with the actual collateral deposited with the stock broker. A stock broker is required to act with due skill, care and diligence and abide by all the provisions of SEBI Act, 1992 and rules and regulations thereunder, as applicable to it. As per the provisions of Clause 4.3 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, securities kept in the 'client unpaid securities account' shall either be transferred to the demat account of the respective client upon fulfilment of client's funds obligation or shall be disposed of in the market by TM/CM within

five trading days after the pay-out. The unpaid securities shall be sold from the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.

24. It was noted from the inspection records that 23 instances of stock mismatch alerts were observed and communicated to the Noticee for clarifications. Out of these, the Noticee's clarifications for 14 instances were accepted. For the remaining 9 instances, the Noticee attributed 2 instances to error in its back office software and 3 instances, which belonged to GRD Commodities Limited, same group Company, to glitch in its back office software which reported the said account as 'own account'. In this regard, the DA has not accepted the submissions of the Noticee considering that no document was provided by the Noticee to support its claims. Further, it is observed that even if the mismatch was due to errors in the software, it was Noticee's responsibility to ensure that all the records are properly maintained and submitted to the Exchanges.
25. For the remaining 4 instances, the Noticee has submitted that the shares were transferred to Client Unpaid Securities Account (CUSA) due to non-realization of payment from the clients. In this regard, the DA has not accepted the submissions of the Noticee and observed that the Noticee had not disposed of the client shares within 5 days after the pay-out date, as required in terms of provisions of Clause 4.3 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 and held the same to be violative of the aforesaid SEBI Circular.
26. I note that for the 5 out of the 9 instances of stock mismatch alerts, the Noticee while admitting the discrepancies has submitted that it has already taken corrective steps to ensure that no discrepancies in the back-office software of the Noticee arise in the future.
27. For the remaining 4 instances, the discrepancies in the stock reporting occurred because certain client securities were lying in the CUSA. The DA has not agreed with the submissions of the Noticee and observed that it failed to

auction the shares lying in CUSA within 5 days. In this regard, I note that as per Clause 4.3 of the SEBI Circular dated June 20, 2019, the securities kept in the 'CUSA' shall either be transferred to the demat account of the respective client upon fulfilment of client's funds obligation or shall be disposed of in the market by TM/CM within five trading days after the pay-out. The plain reading of the Circular suggests that an option is granted to the Stock Broker to either keep the securities in the 'CUSA' until the client's funds obligation are met or shall be disposed of in the market by TM/CM within five trading days after the pay-out. Securities cannot be kept in the CUSA indefinitely in case the fund obligations are not met. The Stock broker is obligated to dispose of the securities in the market within five trading days after the pay-out. Further, in terms of clause 4.4 of the said Circular, in case the clients' securities are kept in the 'CUSA' beyond seven trading days after the pay-out, the depositories are required to levy appropriate penalties upon such Stock broker(s).

28. For these 4 instances, the Noticee has submitted that for the client with UCC S849, the pay-out dates for the shares purchased by the client were October 25, 2021 and October 26, 2021. Due to non-realization of payment, the shares were transferred to CUSA and subsequently on meeting the fund obligations the shares were transferred to client demat account on October 26, 2021 and October 27, 2021 respectively, i.e. within 5 days from the date of purchase. Further, for the UCC client 058, the shares were first transferred to CUSA and subsequently upon realization of payment, the shares were transferred to client demat account within 5 days from the date of purchase of shares. Thus, I agree with the justification provided by the Noticee for said 4 instances. However, for the remaining 5 instance, Noticee has admitted to the discrepancies which have now been rectified.

Reporting and short collection of Margin

29. I note from the Enquiry Report that during the inspection, the Noticee had incorrectly reported End of Day (EOD) margin collection to the Exchange (NSE) in 8 instances amounting to ₹25,14,377.22. The summary of the instances, along with clarifications provided by the Noticee are provided in the table below.

Date	Client Code	Margin Shortfall	Clarifications provided by the Noticee
09/04/2021	C052	1,595.06	It had reported short collection of margin of ₹ 1595.06
03/05/2021	P279	9,58,953.61	The EOD margin requirement of CM segment was ₹1524821.34. It had reported short margin collection ₹ 1271947.39
18/05/2021	R143	1,50,363.85	The fund balance was Rs, 229700.15 and Tday Pool stock was ₹124480. It had reported short margin collection of ₹25883.85
26/05/2021	S820	6,25,070.25	The EOD margin requirement of FO segment was ₹9030890.65, the fund balance was ₹2311515.74 and pledge balance was ₹4057905.81. It had reported short margin collection ₹2692867.44
06/07/2021	S849	3,11,571.60	It had reported short margin collection of ₹311896.88
22/10/2021	J083	974.87	It had reported short collection of margin of ₹94137.40
15/03/2022	M318	4,63,916.98	It had reported short collection of margin of ₹579114.25
30/06/2022	T056	1,931.00	The EOD margin requirement of CD segment was 2773318, It had reported collateral of ₹1284777.80 and short margin collection ₹1488540.20

30. SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 provides the guidelines for collection and reporting of margins by Trading Member (TM) /Clearing Member (CM) in Cash Segment. The DA has observed that Noticee has provided explanations for the short collection and reporting of margin, while admitting to the same. In view of the same and upon considering the material available on record, DA found that the Noticee has violated the provisions of SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019.

31. In response to the Enquiry Report, the Noticee has submitted that the alleged instances of incorrect EOD margin reporting have arisen only in 6.4% of the sampled instances (125 instances across 125 sample dates for 125 unique clients) and constitute a mere 0.016% of the total of ₹ 15,000 crores worth of total margins reported by the Noticee during the investigation period from April 01, 2021 to November 30, 2023. Further, such minor instances of incorrect reporting have occurred due to inadvertent clerical error and have not adversely impacted the interests of the Noticee's clients. The Noticee has taken all corrective measures to ensure that no errors in reporting arise in the future.

32. The Noticee has clearly admitted to the contraventions while justifying them as minimal and due to inadvertent clerical error. Thus, the violation of SEBI Circular No. SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 is established against the Noticee.

Client Registration Process (KYC and KRA Process):

33. I note from the Enquiry Report that the following discrepancies were observed during the inspection of the client registration documents of the Noticee.
- a) Running Account authorization for Securities taken by the stock broker and signed by all clients registered during inspection period.
 - b) Client signature taken on blank pages of client registration documents of the UCCs – A495, B187, B184, M318, N204, P305, S866 and Y010.
 - c) Client Email IDs and Mobile Nos. were not captured in the client registration documents for the UCCs – L052, M318, N204, P306 and P305.
34. In response to these allegations, the Noticee has submitted that such discrepancies in taking running account authorisations, occurred only in 5 Unique Client Codes which is only 0.22% of the client base of approximately 3,600 client codes the Noticee was managing during the inspection period. Further, all such discrepancies have arisen due to clerical and inadvertent errors which have since been rectified by the Noticee. As argued, the Noticee had no *mala fide* intention behind not capturing authorisations and there was no loss of any kind or any damage to investors' interests on account of such inadvertent errors of the Noticee in capturing authorisation of details of such clients. Further, there were no investor complaints against the Noticee.
35. I note that the Noticee has admitted the allegations. However, it has tried to justify the same by terming them as minimal and citing the reason of clerical and inadvertent errors. I note that Client Registration Process is crucial for financial intermediaries like stock brokers as it facilitates proper KYC (Know Your Client) compliance, ensuring accurate and secure client data management, and enables compliance with regulatory requirements. It is mandatory for every intermediary to ensure that the client registration process

is fool proof and intermediary is required to exercised due skill, care and diligence in capturing correct details in the client registration forms, while taking running account authorizations from all the clients and taking signatures of various clients on blank pages. Thus, the violation of provisions of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 and Clause A(2) and A(5) of the code of conduct read with Regulation 9(f) of the SEBI (Stock Brokers) Regulations, 1992 is established against the Noticee.

36. With regard to the other non-compliance(s) noted in the inspection relating to Stock reconciliation and verification of Email ID & Mobile numbers / Unique Client Code (UCC), the DA after careful examination of the replies filed by the Noticee had observed that the violation related to Stock reconciliation and verification of Email ID & Mobile numbers were not established against the Noticee. I have perused the observations of the DA in the Enquiry report along with the material available on record and agree with the DA's findings in that regard. The material available on record also does not warrant any interference at this stage.
37. Thus, to conclude, the violation of the following provisions is established against the Noticee.
- a) Clause 2.4.2 of Annexure to the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR /P/2016/95 dated September 26, 2016 on Enhanced supervision of Stock Brokers/DPs
 - b) Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P /2016/95 dated September 26, 2016, clause 12 of Annexure of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated 16th June 2021
 - c) Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 read with Clause A(2) & A(5) of the code of conduct, read with Regulation 9(f) of the SEBI (Stock Brokers) Regulations, 1992 and Clause 4 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019
 - d) SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019
 - e) SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019

38. The Noticee has also placed reliance on Order of Hon'ble SAT in the matter of *M/s Consortium Services Pvt. Ltd.*, wherein, Hon'ble SAT has disposed of the regulatory censure issued by SEBI upon the Appellant, stock broker, therein in view of the fact that the violations committed by the Appellant therein were not serious in nature. In this regard, on a perusal of the order passed by Hon'ble SAT, I find that the said matter is factually distinguishable from the present case. In the Consortium Services matter, Hon'ble SAT had observed that the alleged violations i.e., non-segregation of own money from that of its clients and non-collection of margin from clients despite having a separate account, were not serious in the peculiar facts and circumstances of the case owing, inter alia to the fact that Enquiry Officer had also noted in his report that the violation was not serious in nature. To distinguish, in the present case, lapses in client registration process and failure to complete monthly / quarterly settlement of funds and securities were observed, which also have a bearing on the trading ecosystem. These violations are not so venial that they can be completely ignored. Further, even if corrective actions have been taken by the Noticee subsequently, the fact that such violations were noticed for a reasonable period, cannot be overlooked. I, therefore find that the present case is not covered under the findings of Hon'ble SAT in the matter of *M/s Consortium Services Pvt. Ltd.*

39. Having observed as above, the issue that needs determination is what should be the appropriate enforcement action against the Noticee. It has been submitted by the Noticee that the purpose of inspection of intermediaries is not to take punitive action but to ensure that the intermediary complies with the procedural requirements. It has also been submitted that none of the violations established by the DA have resulted in losses to the Noticee's clients. With regard to these submissions, I find that the DA, in her report, has recommended issuance of regulatory censure to the Noticee. Such a recommendation aligns with the broader objective of inspection, which is to ensure that all intermediaries comply with the applicable laws. Further, the fact that none of the violations have resulted in a loss to the clients, is also the basis for why the measures available under the Intermediaries Regulations, which are stricter in comparison to a censure, are not being considered against the

Noticee. The submissions of the Noticee in this regard are accordingly disposed of.

40. I note that SEBI has already passed an Adjudication Order against the Noticee and has imposed a penalty of ₹ 9,00,000 against the Noticee. The DA has also acknowledged that the Noticee has taken corrective steps to ensure that in future, such lapses do not reoccur. On a consideration of the above factors, I agree with the recommendation of the DA that issuance of a regulatory censure to the Noticee would be apt and proportionate.

Order

41. In view of the above, I, in exercise of the powers conferred upon me under Section 19 of the SEBI Act, 1992 read with Regulation 27(5) of the Intermediaries Regulations, issue a regulatory censure to the Noticee.
42. A copy of the Order shall be served on the Noticee and the concerned Market Infrastructure Institutions for their information and record.

Sd/-

DATE: JUNE 24, 2025
PLACE: MUMBAI

AMARJEET SINGH
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA