BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/BM/GN/2022-23/24646]

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

In respect of

Noticee No.	**Name of the Noticee**	**PAN**
1	S.B. Securities Private Limited	AAECS6189B

In the matter of

S.B. Securities Private Limited.

Background

1. Securities and Exchange Board of India (hereinafter referred to as **'SEBI'**) conducted a comprehensive joint inspection with the exchanges, of S.B. Securities Private Limited (hereinafter referred to as **Noticee**) from December 17, 2021 to December 24, 2021. The period covered in the inspection was from April, 2020 to November, 2021 (hereinafter referred to as **'Inspection Period'**).

2. The scope of the inspection was to, inter alia, verify whether the Noticee had complied with the Regulations and Circulars issued in respect of the Stock Broking activities.

3. The Noticee is a SEBI-registered Stock Broker having SEBI registration number as INZ000221834 as Stock Broker. The Noticee is a trading member of Bombay Stock Exchange Ltd. (hereinafter referred to as **'BSE'**).

4. Based on the findings of joint Inspection conducted by SEBI and exchanges, and the response of the Noticee dated May 02, 2022 submitted to SEBI, certain alleged non-compliances were observed of Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as **'SCRA'**), SEBI (Stock Brokers) Regulations, 1992, SEBI (Certification of

Associated Persons in the Securities Markets) Regulations, 2007, circulars issued by SEBI and notice issued by BSE. The extracts of the violation alleged to have been committed by the Noticees and corresponding provision of the securities law are given in the tabulation below:-

S. No.	Alleged violations	Regulatory provisions
1	Misutilization of clients' funds	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
2.	Settlement of client funds and securities	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
3	Clients Funding	Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017
4	Non- Issuance of Contract Notes	Clause B(2) in Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.
5	Requirement related to Brokerage	Clause 18 of Annexure 4 of SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011
6	Client Registration Process (KYC and KRA Process)	SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 read with SEBI Circular CIR/MIRSD/66/2016 dated July 21, 2016
7	Analysis of Enhanced Supervision Data	Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
8	Analysis of Enhanced Supervision Data (Monthly)	Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
9	Client's Order Recording	Clause III and IV of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.
10	Exchange level Internal Alerts generated	BSE Exchange notice no. 20130307-21 dated March 07,2013 and 20170118-11 dated January 18, 2017 read with Clause A(1), A(2) & A(5) of the code of conduct, read with Regulation 9(f) of the SEBI (Stock Brokers) Regulations, 1992
11	Control System over AP/ Branch	Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007

APPOINTMENT OF ADJUDICATING OFFICER

5. SEBI, vide communiqué dated October 27, 2022, appointed the undersigned as the Adjudicating Officer under section 19 of the Securities and Exchange Board India Act, 1992 (hereinafter referred to as **SEBI Act**) read with sub-section (1) of Section 15I of the SEBI Act and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**SEBI Adjudication Rules'**) and under section 23 I (1) of the Securities Contract Regulation Act, 1956 (hereinafter referred to as **SCR Act**) read with rule 3 of the Securities Contract (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter referred to as **SC(R) Rules**) to inquire into and adjudge under the provisions of Section 23D of SCRA, 1956 and Section 15HB, 15B and 15F(c) of the SEBI Act for the violations alleged to have been committed by the Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

6. Show Cause Notice (hereinafter being referred to as the **"SCN"**) dated November 18, 2022 was issued to Noticee in terms Rule 4(1) of Adjudication Rules to show cause as to why an inquiry should not be initiated against Noticee and why penalty, if any, should not be imposed upon Noticee under the provisions of Section 23D of SCRA, 1956 and Section 15HB, 15B and 15F(c) of the SEBI Act for the aforesaid violations alleged to have been committed by Noticees.

7. The SCN was sent to Noticee through Speed Post AD and via digitally signed Email on November 23, 2022 and was duly served upon Noticee. Vide email dated December 09, 2022 reminder was sent to the Noticee for the submission of reply, however, no reply was submitted by the Noticee. In the interest of natural justice, vide hearing notice and email dated December 12, 2022 opportunity of hearing was provided to the Noticee on December 21, 2022. The said hearing notice was sent to Noticee through SPAD and through digitally signed email dated December 12, 2022 and was duly served upon Noticee which is on record. Vide email and letter dated December 20, 2022 Noticee sought extension for submission of reply. Vide email dated December 20, 2022, extension was given to the Noticee for submitting the reply by December 30, 2022 and the hearing date was given as January 05, 2023. Subsequently, vide email dated January 03, 2023, Noticee further

sought extension or submission of reply and adjournment of hearing till the end of January 2023, hence, extension was given to the Noticee for submission of reply till January 12, 2023 and the hearing date was given as January 16, 2023. However, further extension for submission of reply and adjournment of hearing was sought by noticee till 2nd week of February, 2023 on the ground that the person who is looking after the compliance is hospitalised. In view of the same, extension was given to the Noticee to file the reply by February 10, 2023 and fourth and final opportunity of hearing was given to the Noticee on February 13th, 2023. Vide email dated February 13, 2023, Noticee sought adjournment of hearing which was scheduled on February 13, 2023 on the medical ground and on telephonic conversation Mr. Ankush Choudhary sought adjournment for further 15 days. The request for extension for submission of reply and adjournment of fourth hearing scheduled on February 13th, 2023 was acceded to and the time was given for submission of reply till February 20th, 2023 and the fifth opportunity of hearing was given on February 27th, 2023. However, vide email dated February 23, 2023, Noticee further sought adjournment of the hearing scheduled on February 27, 2023 on the ground that their compliance officer Mr. Ankush Chaudhary is discharged from hospital on February 10, 2023 but he is advised by the doctor for a complete bed rest for 3 months. Vide email dated February 23, 2023, Noticee was informed that this is final opportunity and no further opportunity of hearing would be granted to the Noticee and Noticee was advised to appoint any other authorised representative to attend the fifth and final hearing scheduled on February 27, 2023 and Noticee was further advised to submit the reply to the SCN by February 24, 2023. However, no reply has been submitted by the Noticee nor the hearing was attended by the Noticee.

8. I note that sufficient opportunities have been given to Noticee to represent their case and the principles of natural justice have been complied with. It is observed that, despite providing adjournment five times and extension for submission of reply at the instance of the Noticee, Noticee did not submitted the reply and avail the opportunity of personal appearance. The Hon'ble Securities Appellate Tribunal (SAT) in the matter of Sanjay Kumar Tayal & Ors. v. SEBI(in appeal No. 68/2013) decided on February 11, 2014, held that "...*appellants have neither filed reply to show cause notices issued to them nor availed opportunity of personal hearing offered to them in the adjudication proceeding and, therefore, appellants are presumed to have admitted charges levelled against them in the show cause notices*". Since no replies to the SCN was filed by Noticee, it can be reasonably presumed that the allegations have been admitted to by Noticee in this case.

9. In view of the above, I am compelled to proceed ex-parte in the matter against Noticee. I am of the view that Noticee has nothing to submit and in terms of Rule 4(7) of SEBI Adjudication Rules, the matter is proceeded ex-parte on the basis of material available on record.

10. I note that Inspection findings are based on analysis of samples and test checking of various books and other records maintained by the Noticee, as well as written/oral submissions of the Noticee & its officials to the inspection team. Consequently, the instances of irregularities/observations pointed out in inspection report are illustrative in nature and are not all-inclusive. The allegations levelled against Noticee and findings in respect of the same are dealt with in the subsequent paragraphs of this order.

ISSUES FOR CONSIDERATION, EVIDENCE AND FINDINGS

11. I have taken into consideration the facts and circumstances of the case and the material available on record. The issues that arise for consideration in the present case are:

ISSUE I: (a)-Whether Noticee has violated provisions of securities law by:-

i. **Misutilization of clients' funds**
ii. **Settlement of client funds and securities**
iii. **Clients Funding**
iv. **Non- Issuance of Contract Notes**
v. **Requirement related to Brokerage**
vi. **Client Registration Process (KYC and KRA Process)**
vii. **Analysis of Enhanced Supervision Data**
viii. **Analysis of Enhanced Supervision Data (Monthly)**
ix. **Client's Order Recording**
x. **Exchange level Internal Alerts generated**
xi. **Control System over AP/ Branch**

ISSUE II- Does the violation, if any, attract monetary penalty under the provisions of Section 23D of SCRA, 1956 and Section 15HB, 15B and 15F(c) of the SEBI Act?

ISSUE III- If so, how much penalty should be imposed taking into consideration the factors mentioned in Section 15J of the SEBI Act and 23J of SC(R) Act for Noticee?

12. Before proceeding further, it will be appropriate to refer the provisions of Section 23D of SC(R) Act, 1956 read with Clause 1 of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, 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, Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, Clause B(2) in Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992, Clause 18 of Annexure 4 of SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011, SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 read with SEBI Circular CIR/MIRSD/66/2016 dated July 21, 2016, Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Clause III and IV of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017, BSE Exchange notice no. 20130307-21 dated March 07,2013 and 20170118-11 dated January 18, 2017 read with Clause A(1), A(2) & A(5) of the code of conduct, read with Regulation 9(f) of the SEBI (Stock Brokers) Regulations, 1992 and Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 alleged to have been violated by the Noticee. The texts of the alleged provisions are as under-

Section 23 D of SCRA:

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

Regulation of transactions between clients and brokers

Annexure

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

A] Member Broker to keep Accounts: Every member broker shall keep such books of accounts, as will be necessary, to show and distinguish in connection with his business as a member –

i. Moneys received from or on account of each of his clients and,

ii. the moneys received and the moneys paid on Member's own account.

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

C] What moneys to be paid into "clients account". No money shall be paid into clients account other than -

i. money held or received on account of clients;

ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;

iii. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para D given below;

iv. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.

D] What moneys to be withdrawn from "clients account". No money shall be drawn from clients account other than –

i. money properly required for payment to or on behalf of clients or for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;

ii. such money belonging to the Member as may have been paid into the client account under para 1 C [ii] or 1 C [iv] given above;

iii. money which may by mistake or accident have been paid into such account in contravention of para C above.

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

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

Annexure

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

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

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

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

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

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

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

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

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

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

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

P-Aggregate value of Proprietary Margin Obligation across Stock Exchanges

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

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

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

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

Principle:

The total available funds i.e. cash and cash equivalents with the stock broker and with the clearing corporation/clearing member (A + B) should always be equal to or greater than Clients' funds as per ledger balance (C)

Stock Exchanges shall calculate the difference i.e. G as follows –

G = (A+B)-C

If difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of Gmay 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. The negative value of G acts as an alert to the Stock Exchanges.

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

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

$H = |G| - |D|$

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

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

Principle:

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

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

The sum of the proprietary funds (positive value of G), the value of proprietary securities (E) and the non-funded portion of bank guarantee (F) available in the Stock Exchanges is compared with the Proprietary margin obligations (P).

If P > (G+E+F), then Stock Exchange shall calculate the difference I, which is the amount of proprietary margin obligation funded from clients assets.

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

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

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

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

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

Principle:

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

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

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

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

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

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

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

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

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

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

6.1.1.Monitoring criteria for Stock Brokers

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

Clause 8. Running Account Settlement

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

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

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

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

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

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

Clause 12 of Annexure - Running Account Authorization

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

A .The authorization shall be renewed at least once a year and shall be dated.

b. The authorization shall be signed by the client only and not by any authorised person on his behalf or any holder of the Power of Attorney.

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

d. For the clients having outstanding obligations on the settlement date, the stock broker may retain the requisite securities/funds towards such obligations and may also retain the funds expected to be required to meet margin obligations for next 5 trading days, calculated in the manner specified by the exchanges.

e. The actual settlement of funds and securities shall be done by the broker, at least once in a calendar quarter or month, depending on the preference of the client. While settling the account, the broker shall send to the client a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

f. The client shall bring any dispute arising from the statement of account or settlement so made to the notice of the broker preferably within 7 working days from the date of receipt of funds/securities or statement, as the case may be.

g. Such periodic settlement of running account may not be necessary:

I. for clients availing margin trading facility as per SEBI circular

ii. for funds received from the clients towards collaterals/margin in the form of bank guarantee (BG)/Fixed Deposit receipts (FDR).

h. The stock broker shall transfer the funds / securities lying in the credit of the client within one working day of the request if the same are lying with him and within three working days from the request if the same are lying with the Clearing Member/Clearing Corporation.

i. There shall be no inter-client adjustments for the purpose of settlement of the 'running account'.

j. These conditions shall not apply to institutional clients settling trades through custodians. The existing practice may continue for them.

SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017

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

(d) Clause2.6 stands modified as,"Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017 or as may be issued from time to time."This clause would be effective from August 1, 2017.

SEBI (Stock Brokers) Regulations, 1992

Clause B (2) in Schedule II of Regulation 9

(2) 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 transactionsin the form specified by the stock exchange.

SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011

Annexure 4 - RIGHTS AND OBLIGATIONS OF STOCK BROKERS, SUB-BROKERS AND CLIENTS

18. The Client shall pay to the stock broker brokerage and statutory levies as are prevailing from time to time and as they apply to the Client's account, transactions and to the services that stock broker renders to the Client. The stock broker shall not charge brokerage more than the maximum brokerage permissible as per the rules, regulations and bye-laws of the relevant stock exchanges and/or rules and regulations of SEBI.

SEBI circular CIR/MIRSD/120/2016 dated November 10, 2016

This has reference to SEBI circular no. CIR/MIRSD/66/2016dated July21, 2016 on operationalization of Central KYC Records Registry (CKYCR) wherein the registered intermediaries were directed to upload the KYC data with CKYCR, in respect of all individual accounts opened on or after August 01, 2016.

2.Government of India, vide its letter dated October 04, 2016,has directed as follows with regard to KYC details of existing and new individual clients:

a. Registered intermediaries have to update their IT systems as well as register all new accounts of individuals in accordance with the CKYCR template, mandatorily by October 31, 2016.

b. Mutual funds and Intermediaries other than mutual funds may follow the following time lines in respect of uploading KYC data of the existing individual clients with CKYCR.

i. Mutual funds may ensure 30% completion of uploading of existing KYC data by November 30, 2016, another 30% of KYC data by January 31, 2017 and the rest 40% data by March 31, 2017.

ii. Intermediaries other than mutual funds may ensure 50% completion of uploading of existing KYC data by November 30, 2016 and the remaining 50% of KYC data by December 31, 2016.

3. The Stock Exchanges and Depositories are directed to:

a. bring the provisions of this circular to the notice of the Stock Brokers and DPs, as the case may be, and also disseminate the same on their websites;

b. make amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision in co-ordination with one another, as considered necessary;

c. monitor the compliance of this circular through half-yearly internal audits and inspections; and

d. communicate to SEBI, the status of the implementation of the provisions of this circular.

4.In case of mutual funds, compliance of this circular shall be monitored by the Boards of Asset Management Companies and the Trustees and in caseof other intermediaries by their Board of Directors.

5. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of and to regulate the securities market.

SEBI circular CIR/MIRSD/66/2016 dated July 21, 2016

1. Please refer to SEBI circulars no. CIR/MIRSD/16/2011 dated August 22, 2011,MIRSD/SE/Cir-21/2011 dated October 5, 2011 and CIR/MIRSD/13/2013 dated December 26, 2013 on uniform Know Your Client („KYC") norms, prescribing a standard account opening form (AOF). AOF has been divided in 2 parts - Part I contains the basic KYC details of the investor used by all SEBI registered intermediaries.

2.Government of India has authorized the Central Registry of Securitization and Asset Reconstruction and Security interest of India (CERSAI), set up under sub-section (1) of Section 20 of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, to act as, and to perform the functions of, the Central KYC Records Registry under the PML Rules 2005,including receiving, storing, safeguarding and retrieving the KYC records in digital form of a "client", as defined in clause (ha) sub-section (1) of Section 2 of the Prevention of Money Laundering Act, 2002 (Copy of the Gazette notification No. S.O. 3183(E) dated November 26, 2015 is attached as Annexure 1).

3.As per the 2015 amendment to PML (Maintenance of Records) Rules, 2005 (the rules), every reporting entity shall capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the Rules, as per the KYC template for „individuals" finalised by CERSAI.

4. Accordingly, the KYC template finalised by CERSAI shall be used by the registered intermediaries as Part I of AOF for individuals. The KYC template for "individuals" and the "Central KYC Registry Operating Guidelines 2016" for uploading KYC records on CKYCR finalised by CERSAI are enclosed herewith as Annexure 2and Annexure 3 for your reference and necessary action. In this regard, it is clarified that the requirement for Permanent Account Number (PAN) would continue to be mandatory for completing the KYC process.

5. The „live run" of the CKYCR has started with effect from July 15, 2016 in a phased manner beginning with new „individual accounts". Further, „Test Environment" has also been made available by CERSAI for the use of the reporting entities.

6. In the first phase, the registered intermediaries shall upload the KYC data with CKYCR, in respect of all individual accounts opened on or after August 1, 2016, wherever KYC is required to be carried out as per the circulars issued by SEBI from time to time and accordingly, shall take steps to prepare their systems for uploading the KYC data.

7. For addressing any difficulty in uploading KYC records to CKYCR, CERSAI has operationalized a help desk. Contact details of the CKYCR Helpdesk:

Phone: 022-61102592 (10 lines)

Email: helpdesk@ckycindia.in

The helpdesk support will be available Monday to Saturday from 8.00 am to 8.00 pm.

8. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of and to regulate the securities market.

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

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

a. Physical record written & signed by client,

b. Telephone recording,

c. Email from authorized email id,

d. Log for internet transactions,

e. Record of SMS messages,

f. Any other legally verifiable record.

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

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.

BSE Exchange notice no. 20130307-21 dated March 07, 2013

To

All Trading Members of the Exchange

Sub: Surveillance Obligations for Trading Members

This is in continuation to Exchange notice no. 20130220-23 dated February 20, 2013 informing trading members regarding release of Beta Version of e-BOSS (Member Surveillance System) for downloading the following Transactional Alerts to the trading members of the Exchange.

Sr. No.	Transactional Alerts	Segment
	Significant increase in client activity	Cash
	Sudden trading activity in dormant account	Cash
	Clients/Group of Client(s), dealing in common scrips	Cash
	Client(s)/Group of Client(s) concentrated in a few illiquid scrips	Cash
	Client(s)/Group of Client(s) dealing in scrip in minimum lot size	Cash
	Client / Group of Client(s) Concentration in a scrip	Cash
	Circular Trading	Cash
	Pump and Dump	Cash
	Wash Sales	Cash & Derivatives
	Reversal of Trades	Cash & Derivatives
	Front Running	Cash
	Concentrated position in the Open Interest / High Turnover concentration	Derivatives
	Order book spoofing i.e. large orders away from market	Cash

The trading members are hereby further informed that the aforementioned transactional alerts are indicative in nature and the trading members can derive their own alerts in addition to the said transactional alerts as per their surveillance policy.

• *With respect to the transactional alerts being downloaded by the Exchange, the following activities are also required to be carried out by the Trading Members based on UCC parameters:*

§ Client(s) Information:

Trading Members are required to carry out the Due Diligence of its client(s) on a continuous basis. Further, Trading Members shall ensure that key KYC parameters are updated on a continuous basis as prescribed by SEBI and latest information of the client is updated in UCC database of the Exchange. Based on this information the Trading Member shall establish groups / association amongst clients to identify multiple accounts / common account / group of clients.

§ Analysis:

In order to analyze the trading activity of the Client(s) / Group of Client(s) or scrips identified based on above alerts, the Trading Members are required to:

a. Seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions.

b. Seek documentary evidence such as bank statement / demat transaction statement or any other documents to satisfy itself.

i. In case of funds, Bank statements of the Client(s) / Group of Client(s) from which funds pay-in have been met, to be sought. In case of securities, demat account statements of the Client(s)/Group of Client(s) from which securities pay-in has been met, to be sought. ii. The period for such statements may be at least +/- 15 days from the date of transactions to verify whether the funds / securities for the settlement of such trades actually belongs to the client for whom the trades were transacted.

c. After analyzing the documentary evidences, the Trading Member shall record its observations for such identified transactions or Client(s)/Group of Client(s). In case adverse observations are recorded, the Trading Member shall report all such instances to the Exchange within 45 days of the alert generation. The Trading Member may seek extension of the time period from the Exchange, wherever required.

§ Monitoring and reporting:

1. For effective monitoring, Trading Member shall:

a. Frame a surveillance policy covering:

i. Receipt of Alerts from Exchanges / generated at member's end.

ii. Time frame for disposition of alerts and if there is any delay in disposition, reason for the same shall be documented.

iii. Suspicious / Manipulative activity identification and reporting process

iv. Record Maintenance

b. The surveillance policy of the Trading Member shall be approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be.

c. A quarterly MIS shall be put up to the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) on the number of alerts pending at the beginning of the quarter, generated during the quarter, disposed off during the quarter and pending at the end of the quarter. Reasons for pendency shall be discussed and appropriate action taken. Also, the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) shall be apprised of any exception noticed during the disposition of alerts.

d. The surveillance process shall be conducted under overall supervision of its Compliance Officer.

e. Designated directors / partners / proprietor / Compliance Officer would be responsible for all surveillance activities carried out by the Trading Member and for the record maintenance and reporting of such activities.

2. Internal auditor of Trading Member shall review the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditor shall record the observations with respect to the same in their report.

The above guidelines are illustrative and not exhaustive. Based on facts and circumstances, the trading members are required to exercise their independent judgement and take adequate precaution. The proposed flow of action in case of aforementioned alerts is attached as Annexure I.

The aforesaid process will be applicable for the above alerts, downloaded to the Trading Members through e-BOSS (Member Surveillance System) from April 02, 2013 onwards.

Trading Members are required to take note of the above and put in place the required procedures, policies and processes duly approved by their relevant authority latest by May 15, 2013.

BSE Exchange notice no. 20170118-11 dated January 18, 2017

Attention of trading members is drawn to Exchange Notice no. 20130307-21, dated March 07, 2013 whereby trading members were informed about the regulatory alerts and processing of the same as part of Surveillance Obligations for Trading Members.

In continuation to the aforesaid notice, the trading members are once again advised to ensure that;

- *they monitor regulatory alerts being downloaded to them through e-BOSS system as part of Surveillance obligation framework*

- *they follow the process for analysis of regulatory alerts and action thereof as laid down in the aforementioned notice.*

It is further reiterated that Trading Members should advise their clients not to blindly follow tips / rumours circulated via various mediums such as social networks, SMS, WhatsApp, Blogs etc. and invest after conducting appropriate analysis of respective companies.

Securities and Exchange Board of India (Stock Brokers) Regulations, 1992

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; and

SCHEDULE II

CODE OF CONDUCT FOR STOCK BROKERS

A. General.

(1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

(2) Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business.

(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.

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

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.

FINDINGS

13. On perusal of the material available on record and giving regard to the facts and submission of the noticee and circumstances of the case I record my findings hereunder:

ISSUE I: (a)-Whether Noticee has violated provisions of securities law by:-

(i) Misuse of the clients' funds

14. During inspection to check whether there was any instance of misusing client funds, following data was sought from the Noticee for the month of September 2020 and March 2021 (total 43 trading days):

- A- Total fund balance available in all Client and Settlement Bank Accounts maintained by the broker

- 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 (hereinafter referred to as **FD**), Bank Guarantee (hereinafter referred to as **BG**), etc.). Only funded portion of 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)

- D- Aggregate value of Debit Balances of all clients as obtained from trial balance across stock exchanges (after adjusting for open bills of clients, un-cleared cheques deposited by clients, un-cleared cheques issued to clients)

15. I note that as per SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 clause 2.5.5 of annexure Stock Brokers shall send a statement reflecting the pledge and funding to the clients as and when their securities are pledged/unpledged as given below:

A	B	C	D					E	F	G	H
Date	Client Code	Ledger debit at the end of trade day	Collateral of client available with Broker					Pledged Quantity	Pledged Value	Borrowing	Details of Pledgee
			ISIN/ Security Name	Previous day's closing price	Total quantity	Total Value(Total Quantity * Previous day closing price)	Total value (Adjusted for applicable haircut)				

16. As per clause 3.3.1 of annexure of SEBI Circular SEBI /HO /MIRSD/ MIRSD2/ CIR/P/2016 /95 dated September 26, 2016 the total available funds i.e. cash and cash equivalents with the stock broker and with the clearing corporation/clearing member (A + B) should always be equal to or greater than Clients' funds as per ledger balance (C). Stock Exchanges shall calculate the difference i.e. G as follows –

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

17. If difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of G may indicate 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. The negative value of G acts as an alert to the Stock Exchanges.

18. Value of Bank guarantee (BG) extended to a broker is usually twice of the value of funds deposited for availing such facility. During inspection, since leveraged portion of BG was over and above money held for clients, it was not be taken into account while calculating

B. Also, during inspection adjusted C has been calculated by adjusting entire value of un-cleared cheques received, paid and open bill.

19. Analysis of data submitted by the Noticee according to the principles laid down above for ascertaining misuse of clients' funds is given below:

Sr. No.	Date	Total Fund balance in all client bank accounts	Collateral deposited with clearing corporation	Total Credit balances of all clients	Total Debits balances of all clients	Value of proprietary non-cash collaterals	Non-funded portion of Bank Guarantee across all the stock exchanges	Proprietary Margin obligation across exchanges	Margin utilized positions of credit balance clients across all Stock exchanges	Unutilized collateral lying with the clearing corporations /or Clearing member	A+B-C	If G is – ve : B – (MC + MF) If G is +ve : (C-A)-(MC+MF)
		A	B	C	D	E	F	P	MC	MF	G	J
1	01/09/2020	4500000	7000000	10928167	778489	0	0	0	2544500	-54729	571833	3938396
2	02/09/2020	1231071	7000000	8959294	2093452	0	0	0	1125747	4323416	-728222	1550837
3	03/09/2020	1946515	7000000	8435563	855084	0	0	0	374735	5657858	510952	456455
4	04/09/2020	1552630	7000000	7123301	668174	0	0	0	300893	6488812	1429329	-1219035
5	07/09/2020	1500000	7000000	6622376	394330	0	0	0	269031	6368563	1877624	-1515218
6	08/09/2020	3400180	7000000	6542934	417667	0	0	0	429684	3815875	3857246	-1102805
7	09/09/2020	3558770	7000000	6663050	359518	0	0	0	1096468	248491	3895720	1759321
8	10/09/2020	2500000	7000000	8797469	347467	0	0	0	2036164	1025891	702531	3235415
9	11/09/2020	118787	7000000	8367325	300409	0	0	0	2588888	2593163	-1248538	1817949
10	14/09/2020	1974051	7000000	9166943	257937	0	0	0	963323	2892850	-192892	3143827
11	15/09/2020	1448788	7000000	8761224	386013	0	0	0	613438	4144876	-312436	2241686
12	16/09/2020	1168455	7000000	7789382	816879	0	0	0	333618	4228222	379073	2059087
13	17/09/2020	1812201	7000000	7923077	296333	0	0	0	374492	4344981	889124	1391404
14	18/09/2020	1850000	7000000	9409307	275505	0	0	0	420252	4549849	-559307	2029899
15	21/09/2020	1500000	7000000	9663698	148837	0	0	0	455130	4566021	-1163698	1978849
16	22/09/2020	1017656	7000000	9191324	158601	0	0	0	644080	4344018	-1173668	2011902
17	23/09/2020	852795	7000000	9058277	192075	0	0	0	712948	4226373	-1205482	2060679
18	24/09/2020	237627	7000000	8336140	135602	0	0	0	334225	4603991	-1098513	2061784

19	25/09/2020	1513878	7000000	10394745	122076	0	0	0	1287211	3703187	-1880866	2009602
20	28/09/2020	1208638	7000000	10086405	122042	0	0	0	1786094	3049667	-1877767	2164239
21	29/09/2020	340051	7000000	9111798	26785	0	0	0	746141	4198648	-1771747	2055212
22	30/09/2020	222992	7000000	7420289	26288	0	0	0	103519	4924623	-197297	1971858
23	01/03/2021	199545	7000000	7255978	39490	0	0	0	607569	6456153	-56433	-63722
24	02/03/2021	1890600	7000000	8540564	48064	0	0	0	542541	6703820	350036	-596398
25	03/03/2021	1546680	7000000	9972935	89042	0	0	0	421790	6457534	-1426255	120676
26	04/03/2021	1663872	7000000	11438371	76115	0	0	0	1049465	6183279	-2774499	-232744
27	05/03/2021	685071	7000000	9726058	235865	0	0	0	692041	6361845	-2040987	-53886
28	08/03/2021	822626	7000000	8753367	28009	0	0	0	396723	6606500	-930741	-3223
29	09/03/2021	928160	7000000	8855190	34596	0	0	0	823201	6097601	-927030	79198
30	10/03/2021	859623	7000000	8629465	154060	0	0	0	1022970	5607910	-769842	369120
31	12/03/2021	274266	7000000	7946967	106605	0	0	0	655614	6124559	-672701	219827
32	15/03/2021	1546118	7000000	9136113	52672	0	0	0	397671	6568135	-589995	34194
33	16/03/2021	2003840	7000000	12738828	143232	0	0	0	360111	6691263	-3734988	-51374
34	17/03/2021	1717079	7000000	12417405	122054	0	0	0	125733	6917223	-3700326	-42956
35	18/03/2021	3180481	7000000	13395856	138662	0	0	0	351899	6916993	-3215375	-268892
36	19/03/2021	1560000	7000000	9382932	136617	0	0	0	294886	7103421	-822932	-398307
37	22/03/2021	980127	7000000	8833701	176302	0	0	0	537726	6824032	-853574	-361758
38	23/03/2021	539255	7000000	8397679	186055	0	0	0	375365	6937283	-858424	-312648
39	24/03/2021	1552369	7000000	7580005	219143	0	0	0	192804	6946902	972364	-1112070
40	25/03/2021	1596620	7000000	9168666	168004	0	0	0	292595	6909807	-572046	-202402
41	26/03/2021	1536233	7000000	9052020	149225	0	0	0	159641	6964300	-515786	-123941
42	30/03/2021	1500922	7000000	9412322	117026	0	0	0	487495	6720384	-911400	-207879
43	31/03/2021	1629151	7000000	11331413	126806	0	0	0	446493	6731142	-2702261	-177635

20. From the above table, it was observed during inspection that the value of G is negative on 32 out of the 43 sample dates, therefore, it was observed that the funds of credit balance clients have been misused by the Noticee for settlement obligations of debit balance

clients. The extent of mis-utilization of clients funds by Noticee ranges from Rs.56,433/- on March 01, 2021 to Rs.37,34,988/- on March 16, 2021.

G Value

No. of instances: 32 / 43 (sample instances)

Range : Rs. 0.56 Lakh to Rs. 37.34 lakh

Average : Rs. 12.96 Lakh

21. Further, it was observed during inspection that the value of J is positive on 24 sample dates, indicating that the clients fund were utilized towards margin obligation of debit balance clients. The extent of alleged mis-utilization of clients funds ranges from Rs.34,194/- on March 15, 2021 to Rs.39,38,396/- on September 01, 2020.

No. of instances : 24 / 43 (sample trades)

Range : Rs 0.34 Lakh to Rs. 39.38 Lakh

Average : Rs. 16.98 Lakh

22. Noticee vide reply dated May 02, 2022 to inspection findings submitted that in the above table, the credit balance mostly belong to Directors & Directors relative, and they were unable to pay to their clients due to lock down and non-availability of back office connectivity.

23. Noticee has not submitted any reply to the SCN. I note that, in reply to the findings of the inspection, Noticee submitted the credit balance mostly belonged to Directors & Directors relative, and they were unable to pay to their clients due to lock down and non-availability of back office connectivity. In this regard I observe that Noticee has accepted that they were unable to pay their clients. I further note that as per Clause 3.3.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, if difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of G may indicate 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. The negative value of G acts as an alert to the Stock Exchanges.

24. Noticee in its explanation has mentioned that credit balance belongs mostly to the directors and directors' relatives. I observe that the directors and directors' relatives are also the clients of the Noticee, which has not been denied by the Noticee. Thus, while calculating value of G, all clients' credit balance are to be considered as per the regulation. Hence, I observe that the contention of the Noticee in reply to the findings of the inspection, that the credit balance mostly belong to directors and directors relative, is not tenable.

25. Further, I also note that the value of J is positive on 24 sample dates, which indicates that the clients' funds have been utilized towards margin obligations of debit balance clients. I find that the Noticee has not made any submission in reply to the SCN with regard to the above observation.

26. In view of the foregoing, I find that the allegation that Noticee has violated Section 23D of SC(R) Act, 1956 read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI /HO /MIRSD /MIRSD2 /CIR/P/2016/95 dated September 26, 2016 stands established.

(ii) Settlement of client funds and securities

27. Inspection was conducted for Settlement of Running accounts of client's Funds and Securities on Quarterly/monthly basis and statements of accounts for funds & securities sent to the clients by the Noticee. Fifty percent sample was taken of the clients with highest margin liability in Cash Market (CM), Futures and Options (F&O), Currency Derivative (CD) & Commodity market clients and fifty percent sample was of the Clients with highest credit balance at the end of the inspection period.

28. Considering the ledger balances of clients across Exchanges/Segments and collaterals, cash maintained as margins with stockbrokers against retention of client's obligation, cash market turnover & margin requirement; SEBI verified whether the clients' accounts were settled on monthly/quarterly basis as per preference obtained by the client. Statements of Accounts for funds and Securities sent to clients on quarterly basis were verified through Logs/ Pod for the sample clients. The format of aforementioned statements was also verified by SEBI in accordance with relevant provisions for sample cases.

29. During inspection, it was observed that settlement of funds and securities were not done by the Noticee for active and inactive clients. The details of settlement of active clients are follows-

Client Code	Quarter	Amount
A135	Jun-20	107584.62
C025	Jun-20	26147.18
H135	Jun-20	3856.5
PD555	Jun-20	11302.27
PJ509	Jun-20	2951.76
PK012	Jun-20	33972.45
PK522	Jun-20	1519.26
PK530	Jun-20	44568.95
PR035	Jun-20	145785.75
PR147	Jun-20	5720.56
PR149	Jun-20	33651.8
PS143	Jun-20	2331.96
PS228	Jun-20	29416.73
A060	Sep-20	2957.94
A135	Sep-20	32372.64
C025	Sep-20	123714.64
C097	Sep-20	592.15
D075	Sep-20	927536.68
D096	Sep-20	476338.35
D111	Sep-20	2162349.04
H135	Sep-20	29713.73
PD545	Sep-20	4434.56
PD555	Sep-20	58231.23
PG020	Sep-20	5224.93
PK012	Sep-20	7200.45
PR147	Sep-20	1287761.31
PR149	Sep-20	776868.47
PR207	Sep-20	78463.48

Client Code	Quarter	Amount
PD555	Jun-21	121444
PF533	Jun-21	2182.05
PG020	Jun-21	48531.22
PH104	Jun-21	12430.06
PJ503	Jun-21	188242.7
PK010	Jun-21	299037.11
PK012	Jun-21	97977.16
PK057	Jun-21	39620.94
PK111	Jun-21	100000
PK155	Jun-21	18272.64
PK214	Jun-21	12916.05
PL011	Jun-21	349704.97
PM133	Jun-21	16240.62
PM533	Jun-21	2456.67
PN005	Jun-21	76421.96
PR207	Jun-21	13884.86
PR507	Jun-21	25002.61
PS143	Jun-21	514482.71
PS228	Jun-21	73979.57
PU100	Jun-21	56812.05
PV052	Jun-21	9800.38
PV114	Jun-21	2347.8
PV502	Jun-21	15872.68
R095	Jun-21	22371.6
S210	Jun-21	111896.07
SJ001	Jun-21	828265.67
A060	Sep-21	42712.25
A135	Sep-21	52294.31

PR507	Sep-20	5658.69
PS143	Sep-20	212090.15
PS228	Sep-20	6028.32
PS514	Sep-20	33356.21
PS518	Sep-20	50902.06
R095	Sep-20	8862.23
V060	Sep-20	112876.64
A060	Dec-20	77769.31
A135	Dec-20	60251.64
C025	Dec-20	1595.04
C097	Dec-20	2021.14
D075	Dec-20	73105.62
D096	Dec-20	165975.58
D111	Dec-20	2000000
H135	Dec-20	122668.51
J086	Dec-20	15861.25
PA555	Dec-20	1075.95
PB133	Dec-20	12244.12
PB552	Dec-20	16506.31
PD545	Dec-20	59089.19
PD555	Dec-20	73024.07
PF533	Dec-20	182039.15
PG020	Dec-20	31840.39
PJ509	Dec-20	2920.69
PJ513	Dec-20	2774.27
PK012	Dec-20	116026.68
PK155	Dec-20	107839.76
PK214	Dec-20	9600.91
PK530	Dec-20	74250.85
PK555	Dec-20	49929.52
PM133	Dec-20	3512.96
PM533	Dec-20	210263.63

C025	Sep-21	73703.24
C097	Sep-21	14645.34
D075	Sep-21	1619649.08
D096	Sep-21	224551.38
D111	Sep-21	1024583.76
H072	Sep-21	3143194.97
H135	Sep-21	4648.76
J086	Sep-21	64621.68
M077	Sep-21	1157510.73
PA112	Sep-21	108354.15
PA135	Sep-21	102.86
PA502	Sep-21	7991.29
PA512	Sep-21	4991.27
PA555	Sep-21	11991.93
PB062	Sep-21	55254.2
PB108	Sep-21	10010.38
PB552	Sep-21	7084.61
PC524	Sep-21	2523.08
PF533	Sep-21	53737.72
PG020	Sep-21	6085.43
PH104	Sep-21	16138.48
PJ503	Sep-21	102674.24
PK010	Sep-21	99037.11
PK012	Sep-21	21255.34
PK111	Sep-21	61834.04
PK155	Sep-21	16972.94
PK214	Sep-21	6355.52
PL011	Sep-21	149704.97
PM133	Sep-21	69707.77
PM533	Sep-21	54646.9
PN005	Sep-21	20269.12
PR207	Sep-21	62141.71

PR207	Dec-20	13401.11
PS143	Dec-20	425767.8
PS228	Dec-20	60665.67
PS514	Dec-20	60867.99
PS518	Dec-20	58920.35
PV522	Dec-20	3546.41
R095	Dec-20	7216.87
S210	Dec-20	7051.32
SJ001	Dec-20	1523.36
V060	Dec-20	276125.92
A060	Mar-21	100000
D096	Mar-21	1000000
K135	Mar-21	2091473.97
PL011	Mar-21	484876.84
A060	Jun-21	9127.35
A135	Jun-21	52294.31
C097	Jun-21	40131.23
D075	Jun-21	746422.68
D096	Jun-21	775098.31
D111	Jun-21	8944759
H072	Jun-21	1612981.06
H135	Jun-21	2396.31
K135	Jun-21	77389.05
M077	Jun-21	800760.99
PA112	Jun-21	258354.15
PA502	Jun-21	10144.69
PB062	Jun-21	55254.2
PB108	Jun-21	16571.04
PB151	Jun-21	7575.17
PB151	Jun-21	7575.17
PB552	Jun-21	12169.57
PD545	Jun-21	132451.88

PR507	Sep-21	2633.78
PS228	Sep-21	260275.32
PS514	Sep-21	43940.72
PS650	Sep-21	220511.84
PT009	Sep-21	7101.91
PU100	Sep-21	393754.52
PV052	Sep-21	75643.04
PV502	Sep-21	206881.83
PV522	Sep-21	15114.38
R095	Sep-21	23660.06
S089	Sep-21	1693213.98
S210	Sep-21	54556.84
SJ001	Sep-21	2425897.04
	Total	45331784

Quarterly details of active Client are as follows:

Quarter	Unsettled Funds	No of clients
Jun-20	448809.79	13
Sep-20	6403533.9	22
Dec-20	4387273.34	35
Mar-21	3676350.81	4
Jun-21	16621650.31	44
Sep-21	13794165.82	47

No of Instances : 165/600 clients (across six quarters)

Range : Rs. 4.48 Lakh to Rs. 1.66 Crore

Average : Rs. 75.55 Lakh

The details of non-settlement of inactive clients are as follows:-

PERIOD	CLIENT CODE	BALANCE AS ON END OF PERIOD
2020-10-01 TO 2020-12-31	PC509	4,443.29
2020-10-01 TO 2020-12-31	PD505	65,228.07
2020-10-01 TO 2020-12-31	PJ519	44,434.74
2021-01-01 TO 2021-03-31	PD505	65,228.07
2021-01-01 TO 2021-03-31	PD507	4,041.51
2021-01-01 TO 2021-03-31	PJ519	44,434.74
2021-01-01 TO 2021-03-31	PS513	3,045.49
2021-01-01 TO 2021-03-31	PV522	3,457.08
2021-04-01 TO 2021-06-30	D096	7,75,098.31
2021-04-01 TO 2021-06-30	V060	10,00,000.00
2021-07-01 TO 2021-09-30	A135	52,294.31
2021-07-01 TO 2021-09-30	PA112	1,08,354.15
2021-07-01 TO 2021-09-30	PB062	55,254.20
2021-07-01 TO 2021-09-30	PD500	6,559.32
2021-07-01 TO 2021-09-30	PK010	99,037.11
2021-07-01 TO 2021-09-30	PK057	620.94
2021-07-01 TO 2021-09-30	PL011	1,49,704.97
2021-07-01 TO 2021-09-30	PM526	1,967.38

2021-07-01 TO 2021-09-30	PM531	6,324.44
2021-07-01 TO 2021-09-30	PN001	856.21
2021-07-01 TO 2021-09-30	PN510	2,287.74
2021-07-01 TO 2021-09-30	PR533	5,738.92
2021-10-01 TO 2021-11-03	D096	2,24,551.38
2021-10-01 TO 2021-11-03	H108	1,014.22
2021-10-01 TO 2021-11-03	J086	64,621.68
2021-10-01 TO 2021-11-03	PB108	10,010.38
2021-10-01 TO 2021-11-03	PB553	540.44
2021-10-01 TO 2021-11-03	PC141	974.86
2021-10-01 TO 2021-11-03	PD003	3,722.11
2021-10-01 TO 2021-11-03	PD521	2,252.65
2021-10-01 TO 2021-11-03	PH016	1,778.89
2021-10-01 TO 2021-11-03	PJ096	6,105.88
2021-10-01 TO 2021-11-03	PJ124	35,464.82
2021-10-01 TO 2021-11-03	PK212	891.27
2021-10-01 TO 2021-11-03	PM176	633.50
2021-10-01 TO 2021-11-03	PM177	633.50
2021-10-01 TO 2021-11-03	PM526	1,967.38
2021-10-01 TO 2021-11-03	PM532	8,023.18
2021-10-01 TO 2021-11-03	PN119	84,244.54
2021-10-01 TO 2021-11-03	PN144	1,030.80
2021-10-01 TO 2021-11-03	PN153	11,271.33
2021-10-01 TO 2021-11-03	PN510	2,287.74
2021-10-01 TO 2021-11-03	PR154	2,501.82
2021-10-01 TO 2021-11-03	PR168	34,973.25
2021-10-01 TO 2021-11-03	PR512	16,056.12
2021-10-01 TO 2021-11-03	PR516	1,926.20
2021-10-01 TO 2021-11-03	PS250	9,123.11
2021-10-01 TO 2021-11-03	PS251	958.73
2021-10-01 TO 2021-11-03	PT506	8,440.31
2021-10-01 TO 2021-11-03	PV502	2,06,881.83
2021-10-01 TO 2021-11-03	S210	54,556.84
2021-10-27 TO 2021-11-30	C097	15,007.45
2021-10-27 TO 2021-11-30	J086	64,621.68
2021-10-27 TO 2021-11-30	PJ096	6,105.88
2021-10-27 TO 2021-11-30	PS514	30,703.63
2021-10-27 TO 2021-11-30	PS650	1,04,656.46

2021-10-27 TO 2021-11-30	PT506	8,440.31
2021-10-27 TO 2021-11-30	S210	54,556.84

Quarterly details of Inactive clients are as follows-

Quarter	Unsettled Funds	No of clients
Dec-20	1,14,106.10	3
Mar-21	1,20,206.89	5
June-21	17,75,098.31	2
Sept-21	4,88,999.69	12
Oct-21	7,97,438.76	29
Nov-21	2,84,092.25	7

No of Instances : 58 clients(across six quarters)

Range : Rs. 1.14 Lakh to Rs. 17.75 Lakh

Average : Rs. 5.96 Lakh

30. As per clause 12 of Annexure of SEBI circular SEBI/MIRSD/SE/cir-19/2009 dated December 03, 2009 the settlement of funds/securities shall be done within 24 hours of the payout. Noticee vide reply dated May 02, 2022 to the inspection findings submitted that due to lock down the settlement of client Accounts were not done. I observe that periodic settlement of accounts is regulatory requirement and Noticee has not given any plausible reason for non-settlement of funds as required under the regulation. I note that, in reply to the findings of the inspection the explanation given by the Noticee is very general in nature. Noticee in its reply accepted lapses on its part. In view of the same, I observe that Noticee has violated 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.

(iii) Clients Funding

31. During inspection ledgers of 25 clients for the inspection period April 2020 to November 2021 were selected based on the sample criteria. The basis of the sample was:

- Top aggregate debit balance clients - 50% of the sample.
- Top clients with highest net buy position in CM segment - 25% of the sample.
- Clients with highest Delayed Payment charges - 25% of the sample

32. For the instances selected above, it was verified whether further exposure was given to client after 5 days (from the 6th working day) from pay in date of securities i.e. T+2+5, in spite of non-recovery of debit balances (after considering free collaterals). It was observed that the Notice has funded its client beyond T+2+5.

33. Client wise summary of the clients funded beyond T+2+5 days are as follows:

Sr. No.	Client Code	Total Client Funding Amount (Rs.)	Number of Instances
1	A060	3,79,218	1
2	D075	12,28,487	3
3	PB552	2,78,406	2
4	PC524	33,049	3
5	PD551	16,200	7
6	PK035	13,941	1
7	PK515	8,90,576	28
8	PK555	1,33,779	3
9	PP511	11,44,171	35
10	PR207	2,652,915	6
11	PR507	7,61,932	37
12	PT504	70,174	4
Total		**76,02,848.00**	**130**

34. As per Clause 2.6 of Annexure SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 as well as Clause 2(d) of SEBI circular CIR / HO/ MIRSD/ MIRSD2/ CIR/P/2017/64 dated June 22, 2017, Stock Brokers are not allowed to give further exposure to their clients, if debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in. Noticee vide reply dated May 02, 2022 to the inspection findings replied that due to lock down the funds remained to be collected from clients. Notice has given very general explanation without giving any proper explanation why funds remained to be collected from the clients. I note that, Noticee in its reply to the inspection has admitted that it had granted further exposure to the clients. In

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

(iv)Issuance of Contract Notes:

35. During inspection sample contract notes were taken of the following clients and dates-

CLIENT CODE	Date	DELIVERED SUCCESSFULLY	ECN PROVIDED AT THE CORRECT MAIL ID
6021	25-06-2021	ECN/POD not provided	
9920	21-08-2020	ECN/POD not provided	
M122	24-09-2021	ECN/POD not provided	
M133	11-10-2021	ECN/POD not provided	
M169	01-12-2020	ECN/POD not provided	
M240	15-03-2021	ECN/POD not provided	
M13321	09-10-2020	ECN/POD not provided	
M21721	10-02-2022	ECN/POD not provided	
O133	11-10-2021	ECN/POD not provided	
O169	03-12-2021	ECN/POD not provided	
O240	15-03-2021	ECN/POD not provided	
O12221	24-09-2021	ECN/POD not provided	
O27121	10-02-2022	ECN/POD not provided	

36. In accordance with SEBI (Stock Brokers) Regulations, 1992 and BSE Exchange notices regarding the issuance of contract notes, it was verified-

- Whether the contract notes were in format prescribed by the Exchange.
- Whether the contract notes were delivered successfully

- Whether Electronic Contracts Notes were delivered at the email Id's provided by the clients & not to the email Ids created by stockbroker.

- Whether the trail of bounced mails was maintained, and physical delivery was ensured in case of bounce mails for ECNs.

37. It was observed that the Noticee has not provided the ECN logs, not maintained trail of bounced mail, and also not ensured physical delivery of contract notes for the abovementioned sample clients.

38. Vide reply dated May 02, 2022 to the inspection findings Noticee submitted that they are handing over Physical contract notes to their clients on daily basis. However, I note that Noticee did not submit any documents in support of this claim and also Noticee did not make any submission in reply to the SCN despite providing multiple opportunities for making submissions. In view of the same, I observe that Noticee has violated Clause B(2) in Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.

V. Requirement related to Brokerage

39. Brokerage charged to clients & other charges levied in Contract Notes by the Noticee was inspected. For this purpose, following were verified from the brokerage ledger for the month of August 2020 & November 2021, -

- Whether brokerage charged within the permissible limit.

- Whether brokerage schemes provided to the clients do not violate norms of SEBI/BSE with respect to brokerage.

- Whether statutory levies are collected in accordance with law.

40. During inspection, contract notes of following sample clients were verified and it was observed during inspection that the Noticee has charged the brokerage above the 2.5 % of the contract price per share/debenture. The details are as follows-

Date	SetlNo	PtyCod	TotalQty	AvgRate	Brokrerage Amt	Turnover Amt	Brokerage as a percent of turnover
Aug-20	M2122150	PP551	500	3.13	45	1565	2.875%

Aug-20	M2122153	PA135	20000	1.7	2400	34000	7.059%
Aug-20	M2122155	PB552	5000	0.75	450	3750	12.000%
Aug-20	M2122166	PS519	4500	2.3722	405	10675	3.794%
Aug-20	O2122156	PB507	1142	0.5711	102.78	652.17	15.760%
Aug-20	O2122159	PM513	2190	0.3898	197.1	853.59	23.091%
Aug-20	O2122159	PS590	2857	0.3608	342.84	1030.89	33.257%
Aug-20	O2122164	PS143	3000	2.7733	270	8320	3.245%
Aug-20	O2122165	PP511	1000	2.52	90	2520	3.571%
Nov-21	M2021087	PK127	8000	3.0562	960	24450	3.9264%
Nov-21	M2021092	PH131	1300	3.49	117	4537	2.5788%
Nov-21	M2021092	PS519	1000	0.79	90	790	11.3924%
Nov-21	O2021087	PK127	5000	1.94	600	9700.01	6.1856%
Nov-21	O2021092	SP012	900	1.87	81	1683	4.8128%
Nov-21	O2021097	PH523	500	2.83	45	1415	3.1802%
Nov-21	O2021097	PS519	1000	2.83	90	2830	3.1802%

41. I note that as per Clause 18 of Annexure 4 of SEBI circular number CIR/MIRSD/16/2011 dated August 22, 2011 stock broker shall not charge brokerage more than the maximum brokerage permissible as per the rules, regulations and bye-laws of the relevant stock exchanges and/or rules and regulations of SEBI. Further, I note that as per Annexure B of BSE Exchange notice no.- 20150515-27 dated 15 May 2015, maximum rate of brokerage that can be charged by a member-broker shall not exceed Rs. 0.25 per share/debenture or 2.5 % of the contract price per share/debenture, whichever is higher.

42. I further note from the above table that for the sample clients maximum allowed brokerage was calculated on the basis of the 2.5% of the contract price per share/debenture and Rs. 0.25 per share/debenture was not taken into account while calculating the maximum allowed brokerage by the Noticee. In this regard, I note from the average rate of shares during inspection of sample clients, that Rs. 0.25 is the higher amount and the maximum allowed brokerage shall be calculated on the basis of the Rs. 0.25 per share/debenture and not on the basis of 2.5 % contract price of per share/debenture,. The recalculated maximum brokerage that the Noticee may charge for the sample clients as per Rs 0.25 per share is as follows-

Date	SetlNo	PtyCod	TotalQty	AvgRate	Brokrerage Amt	Turnover Amt	Brokerage as a percent of turnover	Maximum allowed as per the By laws	New calculation (Rs. 0.25 per share)
Aug-20	M2122150	PP551	500	3.13	45	1565	2.875%	0.25	125
Aug-20	M2122153	PA135	20000	1.7	2400	34000	7.059%	0.25	5000
Aug-20	M2122155	PB552	5000	0.75	450	3750	12.000%	0.25	1250
Aug-20	M2122166	PS519	4500	2.3722	405	10675	3.794%	0.25	1125
Aug-20	O2122156	PB507	1142	0.5711	102.78	652.17	15.760%	0.25	285.5
Aug-20	O2122159	PM513	2190	0.3898	197.1	853.59	23.091%	0.25	547.5
Aug-20	O2122159	PS590	2857	0.3608	342.84	1030.89	33.257%	0.25	714.25
Aug-20	O2122164	PS143	3000	2.7733	270	8320	3.245%	0.25	750
Aug-20	O2122165	PP511	1000	2.52	90	2520	3.571%	0.25	250
Nov-21	M2021087	PK127	8000	3.0562	960	24450	3.9264%	0.25	2000
Nov-21	M2021092	PH131	1300	3.49	117	4537	2.5788%	0.25	325
Nov-21	M2021092	PS519	1000	0.79	90	790	11.3924%	0.25	250
Nov-21	O2021087	PK127	5000	1.94	600	9700.01	6.1856%	0.25	1250
Nov-21	O2021092	SP012	900	1.87	81	1683	4.8128%	0.25	225
Nov-21	O2021097	PH523	500	2.83	45	1415	3.1802%	0.25	125
Nov-21	O2021097	PS519	1000	2.83	90	2830	3.1802%	0.25	250

43. In view of the above table I observe that Noticee has charged the brokerage within the maximum permissible limit (i.e. within Rs. 0.25 per share/debenture). In view of the same I observe that the allegation that the Noticee has charged the excess brokerage above the permissible limit and therefore, has violated Clause 18 of Annexure 4 of SEBI circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011 does not stand established.

VI. Client Registration Process (KYC Process)

44. Account opening process, KYC requirements, KRA process, Central KYC (CKYC), Beneficiary Ownership requirement, Power of Attorney, Client master analysis for multiple Bank accounts, UCC, PAN, contact details, etc. of the Noticee were inspected. For this purpose, sample of following clients were taken-

Client code	Client Code
PP550	PS650
PJ503	PH200
B098	PM531
C025	PK530
V060	PJ124
K135	PD521
PM551	PA145
PS528	PH523
PU031	A060
S006	D075
PM535	K153
PN650	H072
H137	

45. For the abovementioned clients, following documents were inspected-

- Account Opening Form Format, details filled in KYC verified, KRA done or not in accordance with provisions of KYC.
- Client registration documents for the sample clients, ECN facility availed, compliance pertaining to POA, pro disclosure given or not verified
- Documents segregated as voluntary and mandatory, issuing index document along with CRD, Issuance of RDD, issue of tariff sheet,
- Intimating contact details member and exchange officials
- Whether preference given to the clients for settlement on Monthly or Quarterly basis of funds and securities.

46. On analysis of the above, it was observed that the Noticee has not provided the details of CKYC of the 18 clients out of the 25 sample clients selected above. The details of the 18 clients are as follows-

Client code	Client name	CKYC
PP550	PRAFUL UPADHYAY	not provided
PJ503	JYOTI PRAFUL UPADHYAY	not provided
B098	BEC CHEMICAL PVT LTD	not provided
C025	CHANDULAL VELJI PATEL	not provided
K135	KALAVATHI KANNAYA NAIDU	not provided
PM551	MAHESH RADHAKRISHNA BAJPAI	not provided
PS528	SUNNEY BHUPENDRA JOSHI	not provided
PU031	URMI RITESH PATEL	not provided
PM535	MANSI RAHUL SHAH	not provided
PN650	NASER NADAR PEERBHAI	not provided
PS650	SHAMINA NASIR PEERBHAI	not provided
PH200	HITESH V RANGANI	not provided
PM531	MINAL ATUL PANDYA	not provided
PK530	KALPESH PANKAJ CHAUHAN	not provided
PJ124	JAYANTILAL GOVIND PATEL	not provided
PD521	DHARMISHTA NILESH MEHTA	not provided
PA145	ANKIT NITIN BHUPATANI	not provided
PH523	HARSHA VIJAY MODI	not provided

47. As per SEBI circular dated July 21, 2016 it is mandatory for all the registered intermediaries to upload the KYC data with CKYCR, in respect of all individual accounts opened on or after August 1, 2016, wherever KYC is required to be carried out and shall take steps to prepare their systems for uploading the KYC data. SEBI circular CIR/MIRSD/120/2016 dated November 10, 2016 has further made it mandatory for the registered intermediaries to update their IT systems as well as register all new accounts of individuals in accordance with the CKYCR template, mandatorily by October 31, 2016.

48. Vide reply dated May 02, 2022 to the inspection findings, Noticee submitted that the KYC remained to be uploaded by mistake due to lock down. I observe that, Noticee in its submission to the inspection findings has not given any plausible explanation and has admitted its deficiency. In view of the same, I observe that the 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.

VII. Analysis of Enhanced Supervision Data

49. Reporting of Bank and Demat accounts, statement reflecting the pledge and funding to the clients, submission of Details of Clients assets, submission of Clients Funds and Securities and PAN details of Directors, Key Management Personnel and Dealers of the Noticee was verified.

50. For bank and Demat accounts, samples as on date of November 30, 2021 were taken and for submission of details of clients assets, samples of 17-07-2020, 24-04-2020, 25-09-2020, 28-08-2020 were taken. Samples of PAN details of Directors, Key Management Personnel and Dealers were as on the date of inspection.

51. Following was verified-

- Whether Bank/Demat accounts maintained by Noticee were assigned the appropriate nomenclature
- Whether Noticee reported new bank/Demat accounts opened/closed to exchange within the time specified
- Whether Noticee has sent statement reflecting the pledge and funding to the clients as and when their securities are pledged/unpledged.
- To check correctness of data submitted by the Noticee for Details of client's assets.
- To check whether any alerts generated on the basis of the data submitted and Noticee have provided any corrective/preventive action or not.
- To check whether has implementation of the corrective/preventive action.
- To check correctness of data submitted by the Noticee for clients Funds and securities balances.
- To check whether Noticee has provided details of all clients as per SEBI circular.
- Whether Noticee has uploaded PAN details of Directors, Key Management Personnel and Dealers to Stock Exchanges.

52. It was observed that the Noticee has reported the value of client assets under enhance supervision i.e., the value of "G" was found negative which indicates that total funds available with the member is less than the ledger credit balance of clients and it also indicates that the funds of credit balance clients were being utilized for settlement obligations of debit balance clients. Also, the Noticee has reported incorrect balances towards enhance supervision. The details are as follows-

AS ON DATE	Total Balance (A)	Collateral Deposit Co-Operation (B1)	Collateral Deposit member (B2)	Total Credit Balance (C)	G negative	Total Debit Balance (D)	Securities Deposit Co-Operation (E1)	Securities Deposit Member (E2)	Bank Guarantee (F)	Proprietary margin Obligation (P)	Margin utilized (MC)	Free/unblocked Collateral deposited with Clearing corporation (MF1)	Free/unblocked Collateral deposited with Clearing Member (MF2)
24/04/2020	260905.76	5000000	0	42195470.88	-36934565.12	21360773.18	0	0	0	0	436186	2472576	0
BSE calculation	260905.76	3625000	0	21902449.21	-18016543.45	1440759.15	0	0	0	0	4,36,186.00	2472576	0
Diff (if any)	0	1375000	0	20293021.67	-18918021.67	19920014.03	0	0	0	0	0	0	0
17/07/2020	1517122	5000000	0	34945678.29	-28428556.29	3584698.52	0	0	0	0	312152.63	980642	0
BSE calculation	1500000	4625000	0	3,49,45,678.29	-28820678.29	79,99,164.16	0	0	0	0	3,12,152.63	980642	0
Diff (if any)	17122	375000	0	0	392122	-4414465.64	0	0	0	0	0	0	0
28/08/2020	332382.24	5000000	0	34769514.85	-29437132.61	816499.65	0	0	0	0	1296053.98	4893606	0
BSE calculation	3,15,260	8625000	0	34757304.17	-26132304.17	1807551.3	0	0	0	0	1296053.98	4893606	0
Diff (if any)	332382.24	-3625000	0	12210.68	-3304828.44	-991051.65	0	0	0	0	0	0	0
25/09/2020	2340389	7000000	0	103799002.4	-94458613.34	43151781.93	0	0	0	0	1287479.87	3703187	0
BSE calculation	1513878.4	5625000	0	1,03,12,252.37	-3173373.97	1,22,427.55	0	0	0	0	12,87,210.87	3703187	0
Diff (if any)	826510.62	1375000	0	93486749.99	-91285239.37	43029354.38	0	0	0	0	269	0	0

53. As per Clause 6.1.1(j) of Annexure of SEBI Circular SEBI /HO/MIRSD /MIRSD2/CIR /P/2016/95 dated September 26, 2016, stock broker shall not share incomplete/wrong data and submit the data on time to the stock exchange.

54. Vide reply dated May 02, 2022 to the inspection findings Noticee submitted that, due to lock down they were unable to verify their enhanced supervision data with their back office connectivity. I note that Notice has all along given a very general explanation citing the reason of lock down. It may be mentioned that during the lock down period brokers were given exemption by the Government and were allowed to work from office. In view of the same Noticee had all the opportunity to check and verify its data. I note that the Noticee has admitted to the default and I observe from the above tables that the Noticee has reported incorrect balances towards enhance supervision and thereby violated Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

VIII. Analysis of Enhanced Supervision Data (Monthly)

55. To analyse enhanced Monthly Supervision and to check correctness of data submitted by the Noticee for clients' funds and securities balances for September 30, 2020 and March 31, 2021, cash & cash equivalents for September 30, 2020 (Monthly) & March 31, 2021 (Weekly) submitted by the Noticee was verified and it was observed that the Noticee had uploaded incorrect balances for clients' funds. The details are follows-

March 31, 2021

WEEK DAY	CLIENT CODE	Data reported to BSE	Data from Member during Inspection	Difference
2021-03-31	SN005	193.11	0	193.11
2021-03-31	PV114	41105.94	0	41105.94
2021-03-31	PV052	18969.45	0	18969.45
2021-03-31	PU521	18565.22	0	18565.22
2021-03-31	PT504	310.17	0	310.17
2021-03-31	PS590	65.54	0	65.54
2021-03-31	PS551	115.35	0	115.35
2021-03-31	PS519	13688.86	0	13688.86
2021-03-31	PS518	53454.03	0	53454.03
2021-03-31	PS514	780	0	780
2021-03-31	PS513	3045.49	0	3045.49
2021-03-31	PS507	7127.62	0	7127.62
2021-03-31	PV522	3457.08	0	3457.08
2021-03-31	PV512	70.74	0	70.74
2021-03-31	PV505	-41	0	-41
2021-03-31	PV502	55422.34	0	55422.34
2021-03-31	S104	26652.43	0	26652.43

2021-03-31	S090	319563.97	0	319563.97
2021-03-31	S006	2961.62	0	2961.62
2021-03-31	R095	5384.02	0	5384.02
2021-03-31	PY551	294.45	0	294.45
2021-03-31	PV551	930.53	0	930.53
2021-03-31	K131	9215.17	0	9215.17
2021-03-31	J132	838.1	0	838.1
2021-03-31	H135	31476.67	0	31476.67
2021-03-31	A135	101558.41	0	101558.41
2021-03-31	A060	207643.98	100000	107643.98
2021-03-31	A057	7800.04	0	7800.04
2021-03-31	D096	1039057.4	1000000	39057.44
2021-03-31	D075	-36934.01	0	-36934.01
2021-03-31	C025	5670.83	0	5670.83
2021-03-31	PC519	29	0	29
2021-03-31	PC516	175.42	0	175.42
2021-03-31	PB552	10004.54	10000	4.54
2021-03-31	PB550	554.15	0	554.15
2021-03-31	PB108	8013.62	0	8013.62
2021-03-31	PB029	10811.66	0	10811.66
2021-03-31	N006	39749.9	0	39749.9
2021-03-31	M101	91.86	0	91.86
2021-03-31	M090	684871.61	0	684871.61
2021-03-31	M088	-294.81	0	-294.81
2021-03-31	PA555	2743.81	0	2743.81
2021-03-31	PA521	2953.33	0	2953.33
2021-03-31	PA502	24513.82	0	24513.82
2021-03-31	PA112	156751.86	0	156751.86
2021-03-31	PP511	-9392	0	-9392
2021-03-31	PP503	14132.82	0	14132.82
2021-03-31	PM513	-1393	0	-1393
2021-03-31	PN523	6457.92	18000	-11542.08
2021-03-31	PN521	1550.61	0	1550.61
2021-03-31	PN510	8988.95	0	8988.95
2021-03-31	PN150	14860.72	0	14860.72
2021-03-31	PN117	603.94	0	603.94
2021-03-31	PN006	37413.38	0	37413.38
2021-03-31	PN005	45714.54	0	45714.54
2021-03-31	PM551	170.89	0	170.89
2021-03-31	PM533	21179.48	0	21179.48
2021-03-31	PM532	13011.09	0	13011.09
2021-03-31	PM531	10372.82	0	10372.82

2021-03-31	PS250	11707.58	0	11707.58
2021-03-31	PS143	898.2	0	898.2
2021-03-31	PR545	13123.58	0	13123.58
2021-03-31	PR533	353.34	0	353.34
2021-03-31	PR532	-349	0	-349
2021-03-31	PR512	32322.3	0	32322.3
2021-03-31	PS251	1450.54	0	1450.54
2021-03-31	PR504	4138.27	0	4138.27
2021-03-31	PR207	9799.03	0	9799.03
2021-03-31	PR168	12379.06	0	12379.06
2021-03-31	PR144	52380.51	30000	22380.51
2021-03-31	PR135	44945.57	40000	4945.57
2021-03-31	PR126	1544.03	0	1544.03
2021-03-31	PP555	-18804.46	0	-18804.46
2021-03-31	PP550	-9940.47	0	-9940.47
2021-03-31	PP519	-359	0	-359
2021-03-31	PH132	3894.67	0	3894.67
2021-03-31	PH131	4497.92	0	4497.92
2021-03-31	PH104	28113.72	0	28113.72
2021-03-31	PG501	344.94	0	344.94
2021-03-31	PG020	58141.09	30000	28141.09
2021-03-31	PF533	17843.83	0	17843.83
2021-03-31	PD999	5004.63	0	5004.63
2021-03-31	PD555	107442.76	0	107442.76
2021-03-31	PD545	11860.55	0	11860.55
2021-03-31	PD524	-9570	0	-9570
2021-03-31	PD521	4991.72	0	4991.72
2021-03-31	PD507	4041.51	0	4041.51
2021-03-31	PD505	65228.07	0	65228.07
2021-03-31	PC550	44.03	0	44.03
2021-03-31	PC524	-4318	0	-4318
2021-03-31	PK530	56769.97	0	56769.97
2021-03-31	PK155	23970.96	0	23970.96
2021-03-31	PK111	69598.7	0	69598.7
2021-03-31	PK012	43394.47	45000	-1605.53
2021-03-31	PK010	51900.98	0	51900.98
2021-03-31	PJ519	44434.74	0	44434.74
2021-03-31	PM502	55932.85	0	55932.85
2021-03-31	PM133	1777.64	0	1777.64
2021-03-31	PM068	15485.07	0	15485.07
2021-03-31	PK555	122381.86	0	122381.86
2021-03-31	PJ124	8008.87	0	8008.87

2021-03-31	PJ096	18841.95	0	18841.95
2021-03-31	PI099	1882.33	0	1882.33
2021-03-31	PH523	1389.47	0	1389.47
2021-03-31	PH151	103.43	0	103.43

September 30, 2020

ECSFB LAST DAY	ECSFB UCC	Data reported to BSE	Data from Member during inspection	Difference
2020-09-30	PP555	5,205.66	5190.66	15.00
2020-09-30	P225	-88.85	0	-88.85
2020-09-30	PK555	247.33	246.33	1.00
2020-09-30	D075	9,64,475.69	927536.68	36,939.01
2020-09-30	A060	3,024.94	2957.94	67.00
2020-09-30	PC524	10,247.37	0	10,247.37
2020-09-30	PR507	5,713.69	5658.69	55.00
2020-09-30	PJ123	-4.00	0	-4.00
2020-09-30	C018	-4.00	0	-4.00
2020-09-30	PV505	465.32	474.32	-9.00
2020-09-30	R028	-109.28	0	-109.28
2020-09-30	SN016	0.00	5240.95	-5,240.95
2020-09-30	PG501	-27.00	0	-27.00
2020-09-30	PP550	-9,940.47	0	-9,940.47
2020-09-30	PB552	23,139.72	23134.72	5.00
2020-09-30	PA502	291.17	290.17	1.00
2020-09-30	PS143	2,12,092.15	212090.15	2.00
2020-09-30	PC519	0.00	29	-29.00
2020-09-30	PR207	78,717.48	78463.48	254.00
2020-09-30	PD551	172.53	0	172.53
2020-09-30	PP511	2,694.62	2494.62	200.00

56. As per Clause 6.1.1(j) of Annexure of SEBI Circular SEBI /HO/MIRSD /MIRSD2/CIR /P/2016/95 dated September 26, 2016, stock broker shall not share incomplete/wrong data and submit the data on time to the stock exchange.

57. Vide reply dated May 02, 2022, Noticee submitted that due to lock down they were unable to verify their enhanced supervision data with their back office connectivity. Noticee has again given an explanation which is too general in nature. I note that the Noticee has accepted its deficiency while replying to the inspection findings. In view of the above I observe that the Noticee has violated Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

IX. Client's Order Recording

58. SEBI inspected the call recording / client confirmation by the Noticee. For this purpose, sample of top 10 traded clients across all segments were taken, subsequently, sample call records were analysed for confirmation of the client trades.

59. As per Clause III and IV of SEBI Circular CIR/ HO/MIRSD/ MIRSD2/CIR/P /2017/108 dated September 26, 2017 all brokers are mandatorily required to execute trades of clients only after keeping evidence of the client placing such order and if 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 and when dispute arises, the burden of proof will be on the broker to produce the records for the disputed trades.

60. It was observed during inspection that the Noticee has not maintained evidence for client order placement for all samples. The Noticee has further informed vide its letter dated 21.1.2022 during inspection that they have not installed voice recording system yet. Further vide reply dated May 02, 2022, to the inspection findings, Noticee submitted that they do not have client recording system, as the client are mostly in house client.

61. I find that the plea taken by Noticee is not acceptable, since as per Clause III and IV of SEBI Circular CIR/ HO/MIRSD/ MIRSD2/CIR/P /2017/108 dated September 26, 2017 all brokers are mandatorily required to execute trades of clients only after keeping evidence of the client placing such order and if 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. Therefore, Noticee is duty bound to have evidence for all the order placements by all the clients.

62. I further note that, Noticee in its submission to the inspection findings has accepted the lapses on its part. In view of the above I observe that the Noticee has violated Clause III and IV of SEBI Circular CIR /HO /MIRSD /MIRSD2/CIR /P/2017/108 dated September 26, 2017.

X. Exchange level Internal Alerts generated

63. To check the steps taken by the Noticee to close the alerts generated at exchange level in appropriate manner, samples of alerts generated at exchange level during the Inspection

Period were taken and it was observed that Noticee received a total of 7 alerts from BSE. It was observed during inspection that the Noticee has not closed the following surveillance alerts which was generated by the exchange**.** The details of the alerts generated are as follows-

Date	**Alert Id**	**Frequency**	**Status**	**Scrip Code**	**Scrip Name**	**Client**	**Message**	**Last Remark**
06/10/2020	44357633	T+1	Open	532150	INDRAMEDCO	SV012	SUDDEN TRADING ACTIVITY IN DORMANT ACCOUNTS WITH CLIENT CONC. 50.68% IN CLIENT SV012	not closed by member
09/10/2020	44398909	T+1	Open	519105	AVTNPL	B098	SUDDEN TRADING ACTIVITY IN DORMANT ACCOUNTS WITH CLIENT CONC. 36.09% IN CLIENT B098	not closed by member
09/10/2020	44398984	T+1	Open	532345	GATI	XB099	SUDDEN TRADING ACTIVITY IN DORMANT ACCOUNTS WITH CLIENT CONC. 12.48% IN CLIENT XB099	not closed by member
18/11/2020	44762994	T+1	Open	532642	JSWHL	P142	SUDDEN TRADING ACTIVITY IN DORMANT ACCOUNTS WITH CLIENT CONC. 22.73% IN CLIENT P142	not closed by member
28/02/2021	45907772	Monthly	Open	0		PI099	SIGNIFICANT INCREASE (873.55 %) IN CLIENT PI099 ACTIVITY COMPARED TO PREV. 3 MONTH. AVG TO [PREV. MONTH AVG. TURNOVER =5804250.03 & CURR. MONTH TURNOVER = 50703311.95]	not closed by member
30/04/2021	46710406	Monthly	Open	0		PJ503	SIGNIFICANT INCREASE (182677.18 %) IN CLIENT PJ503 ACTIVITY COMPARED TO PREV. 3 MONTH. AVG TO [PREV. MONTH AVG. TURNOVER =30184.58 & CURR. MONTH TURNOVER = 55140339.00]	not closed by member
16/07/2021	47573158	T+1	Open	519152	VADILENT	PH517	SUDDEN TRADING ACTIVITY IN DORMANT ACCOUNTS WITH CLIENT CONC. 12.50% IN CLIENT PH517	not closed by member

64. As per BSE Exchange notice no. 20130307-21 dated March 07, 2013 and 20170118-11 dated January 18, 2017 trading members are required to analyze the trading activity of the Client(s) / Group of Client(s) or scrips identified based on the alerts generated by the exchange and after analyzing the documentary evidences, the Trading Member shall record its observations for such identified transactions or Client(s)/Group of Client(s). In

case adverse observations are recorded, the Trading Member shall report all such instances to the Exchange within 45 days of the alert generation. The Trading Member may seek extension of the time period from the Exchange, wherever required. For effective monitoring, trading member shall frame a surveillance policy covering Receipt of Alerts from Exchanges / generated at member's end and time frame for disposition of alerts and if there is any delay in disposition, reason for the same shall be documented. Further, as per Clause A(5) of the code of conduct of the SEBI (Stock Brokers) Regulations, 1992, 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.

65. From the above table, I note that the last alert was generated on July 16, 2021 and the inspection was conducted on December 17, 2021 to December 24, 2021, therefore, I observe that more than 45 days had been passed since the generation of alert and the Noticee had still not acted on the abovementioned alerts of the exchange. I further note that vide reply dated May 02, 2022 Noticee submitted that they were unable to view dormant account status due to lock down. However, I note that due to lock down the trading was not stopped and the Noticee generated its revenue. Also Noticee was allowed to work from office during lock down hnce had all the opportunities to view its system and work on it. Hence, I observe that the Noticee has violated BSE Exchange notice no. 20130307-21 dated March 07,2013 and 20170118-11 dated January 18, 2017 read with Clause A(1), A(2) & A(5) of the code of conduct, read with Regulation 9(f) of the SEBI (Stock Brokers) Regulations, 1992.

XI. Control System over AP/ Branch

66. Branch of Noticee at Chandu V Patel C-9 , Kailash Esplanade, Near Shreyas Cinema, L B S Marg, Ghatkopar, West, Mumbai -400086 was inspected, to check the following-

- Proper installation of terminals and authorized persons for the terminals.
- Certificates of the terminals.
- Investor Grievances is verified from investor register.
- KYC registration process

- Notice board & SEBI Registration Certificate is displayed

67. During inspection, it was observed that the Noticee does not have valid NCFM / NISM certificate available for following terminals:

    - 4000860007007099
    - 4000860008008099
    - 4000860009009099

68. Noticee vide reply dated May 02, 2022 to the inspection findings, submitted that due to lock down NCFM/NISM/Exam was not allowed and NISM certificate of the Noticee were valid till 1st Jan 2022. However, the Noticee has not submitted any documents in support of its claim that the certificate were valid till January 01, 2022. Further I note that the facility to give NISM certification exams were available through online mode from September 2020 till January 1st, 2023, which the Noticee could have availed of. Hence, the submission of the Noticee is not acceptable. In view of the same I observe that the Noticee has violated Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007.

ISSUE II- Does the violation, if any, attract monetary penalty under Section 23D of the SCRA, Section 15HB and 15B of SEBI Act?

69. As has been established above that the Noticee is in violation of the following provisions-

    a) 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) 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,

    c) Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017,

d) Clause B(2) in Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992,

e) SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 read with SEBI Circular CIR/MIRSD/66/2016 dated July 21, 2016,

f) Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016,

g) Clause III and IV of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017,

h) BSE Exchange notice no. 20130307-21 dated March 07,2013 and 20170118-11 dated January 18, 2017 read with Clause A(1), A(2) & A(5) of the code of conduct, read with Regulation 9(f) of the SEBI (Stock Brokers) Regulations, 1992, and

i) Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007

70. In context of the above, I refer to the observations of Hon'ble Supreme Court in the matter of *Chairman, SEBI vs. Shriram Mutual Fund {[2006] 5 SCC 361}* wherein the Hon'ble Court had observed: "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. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must made by the defaulter with guilty intention or not.''

71. Therefore, the aforesaid violations committed attract monetary penalty under Section 23D of the SCRA, Section 15HB and 15B of SEBI Act. The text of provision is reproduced hereunder:

Section 23 D of SCRA-

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

Section 15HB of SEBI Act: -

Penalty for contravention where no separate penalty has been provided: *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

15B of SEBI Act-

Penalty for failure by any person to enter into agreement with clients*: If any person, who is registered as an intermediary and is required under this Act or any rules or regulations made thereunder to enter into an agreement with his client, fails to enter into such agreement, he shall be liable to [a penalty [which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees]].*

ISSUE III- If so, how much penalty should be imposed on the Noticee taking into consideration the factors mentioned in Section 15J of the SEBI Act and 23J of the SC(R) Act?

72. While determining the quantum of penalty under SEBI Act and SCR Act, it is important to consider the factors stipulated in Section 15J of the SEBI Act, and 23 J of SCR Act, 1956 respectively reads as under:

Factors to be taken into account by the adjudicating officer under SEBI Act
15J. While adjudging quantum of penalty under Section 15-I, the adjudicating officer shall have due regard to the following factors, namely:-
(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;
(b) the amount of loss caused to an investor or group of investors as a result of the default;
(c) the repetitive nature of the default

Factors to be taken into account by the adjudicating officer under SCR Act.

23J. While adjudging the quantum of penalty under section 23-I, 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.

73. The material available on record has not quantified the amount of disproportionate gain or unfair advantage, if any, made by the Noticee and the loss, if any, and suffered by the investors as a result of the Noticee's failure. As regard to the repetitive nature of the default, I find that the regulatory action has also been taken by the SEBI in the past against Noticee for misutilization of client's funds, clients funding, Uploading/Reporting of Enhanced supervision data, Non settlement of Clients funds and securities, Non-segregation of client funds, Proof of Order Acceptance Verification, Discrepancies in KYC and KRA Process. Hence the violation of the Noticee is repetitive in nature.

74. The evidence/observations on record against Noticee, ostensibly suggest the misuse of the accounts of its clients' funds, client funding beyond stipulated time, issuance of contract notes in my assessment cannot be taken leniently and such violations deserve to be adequately penalized. In my view, the failure on the part of the Noticee as discussed in the pre-paragraphs, would compromise the regulatory framework and would defeat the purpose of measures provided in the various aforementioned SEBI Circulars/Regulations / Act on protection of clients' funds and other process(violations mentioned in Para 69 above). I cannot ignore the fact that the Noticee was under a statutory obligation to abide by the provisions of the SCRA, SEBI Act, Rules and Regulations and Circulars / directions issued thereunder, which they failed to do. In this regard, it is pertinent to mention the following judgement of Hon'ble Securities and Appellate Tribunal (Hon'ble 'SAT'):

75. "*In Bezel Stock Brokers Pvt.Ltd. vs National Stock Exchange of India (Appeal No. 294 of 2018 decided on January 30, 2019) the Hon'ble SAT held as under: The appellant had failed to act in a diligent manner and had failed to protect the interest of his clients. It was found that the appellant had failed to ensure availability of clients' assets and misappropriated clients' funds to meet the proprietary obligation and, therefore, the appellant failed to perform its fiduciary duty. Using clients' funds is a misuse of clients' funds and securities and thus, the appellant was liable for imposition of penalty. We are further of the opinion, that considering the admission of the appellant that they had misused*

the client funds and securities the imposition of penalty of ` 15 lakhs over and above the amount indicated in Annexure 1 was justified in the given circumstances."

76. The Noticee being a registered intermediary is expected to adhere to fair practices and maintain a high degree of professionalism in the conduct of their business, however, it is crystal clear from the preceding paragraph 69 that Noticee has acted in deliberate disregard of its obligations towards its clients and has put the interests of lakhs of investors in jeopardy. The violations as established above certainly deserve imposition of penalty on the Noticee.

ORDER

77. Having considered the facts and circumstances of the case, the material available on record, the factors mentioned in 15J of SEBI Act and Section 23J of the SCR Act, the purpose of SEBI Act and SCR Act, 1956 taking note of Section 15HB and 15B of the SEBI Act and 23D of SCR Act, and also taking into account judgment of the Hon'ble Supreme Court in SEBI vs. Bhavesh Pabari (2019) 5 SCC 90 and in exercise of power conferred upon me under section 15I of the SEBI Act read with Rule 5 of the SEBI Rules, 1995 and Section 23 I of the SCR Act, 1956 read with rule 5 of the SC(R) Rules, I hereby impose following penalty under Section 23D of the SCRA, Section 15HB and 15B of SEBI Act on the Noticee:

Name of the Entity	Penalty Provisions	Penalty (Rs.)
S.B. Securities Private Limited	Section 23D of SCRA, 1956	Rs. 15,00,000/- (Rupees Fifteen Lakh only
	Section 15HB of SEBI Act, 1992	Rs. 3,00,000/- (Rupees Three Lakh Only)
	Section 15B of SEBI Act, 1992	Rs. 1,00,000/- (Rupees One Lakh Only)

I am of the view that the said penalty is commensurate with the lapse/omission on the part of the Noticee.

78. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment

link: ENFORCEMENT → Orders → Orders of AO → PAY NOW. In case of any difficulties in payment of penalties, Noticee may contact the support at portalhelp@sebi.gov.in.

79. The aforesaid Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to "The Division Chief (Enforcement Department 1 DRA-3), Securities and Exchange Board of India, SEBI Bhavan II, Plot No. C/7, "G" Block BKC, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051." The Noticee shall also provide the following details while forwarding DD / payment information:

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)	

80. In terms of the provisions of rule 6 of the SC(R) Rules, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

Place: Mumbai
Date: March 16, 2023

BARNALI MUKHERJEE
ADJUDICATING OFFICER