

SECURITIES AND EXCHANGE BOARD OF INDIA

FINAL ORDER

UNDER SECTION 12 (3) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH REGULATION 27 OF SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008.

IN RESPECT OF:

NOTICEE	SEBI Registration No.	PAN
Raghunandan Capital Private Limited	INZ000307234	AADCR7430F

In the matter of Raghunandan Capital Private Limited

A. **BACKGROUND**

1. The present matter emanates from post enquiry show cause notice dated December 04, 2024 (hereinafter referred to as the “**SCN**”) issued to **Raghunandan Capital Private Limited** (hereinafter referred to as “**Noticee**”) under regulation 27 (1) of SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as “**Intermediaries Regulations**”). The Noticee is registered with Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) as a Stock Broker with SEBI registration no. INZ000307234.
2. SEBI conducted thematic inspection of the Noticee jointly with the Stock Exchanges, viz. National Stock Exchange (**NSE**), Bombay Stock Exchange (**BSE**), Multi Commodity Exchange (**MCX**) and National Commodity and Derivatives Exchange (NCDEX) from November 07, 2023 to November 08, 2023 concerning various compliance requirements that need to be ensured by the Noticee with respect to the provisions of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as “**Stock Brokers Regulations**”), applicable SEBI Circulars and circulars of the Stock

Exchanges. The inspection was conducted for the period beginning April 01, 2022 to September 30, 2023 (hereinafter referred to as “**inspection period**”).

3. SEBI’s inspection, *inter alia*, observed that the Noticee had violated various provisions of Stock Brokers Regulations and applicable SEBI and Stock Exchange Circulars. These findings/ observations of the inspection were communicated to the Noticee by SEBI vide letter dated January 03, 2024 and the Noticee submitted its response to the observations vide email dated April 29, 2024.

B. PROCEEDINGS BEFORE DESIGNATED AUTHORITY

4. Pursuant to findings/observations made in the course of inspection, SEBI initiated Enquiry proceedings under Chapter V of the Intermediaries Regulations against the Noticee by appointing a Designated Authority (hereinafter referred to as “**DA**”) in the matter on July 29, 2024 to enquire into the alleged violations by the Noticee and make recommendations in compliance with the Intermediaries Regulations.
5. The DA issued a show cause notice dated August 19, 2024 (hereinafter referred to as “**pre-Enquiry SCN**”) to the Noticee under regulation 25 (1) of the Intermediaries Regulations to show cause as to why appropriate recommendation should not be made against it in terms of Regulations 26 of the Intermediaries Regulations for the alleged violations.
6. In response to the pre-enquiry SCN issued by the DA, the Noticee filed its reply vide letter dated October 24, 2024. On receipt of said reply, an opportunity of personal hearing was granted to the Noticee on November 06, 2024, which was availed by the Noticee through its authorized representatives. Further, the Noticee filed additional submissions vide letter dated November 16, 2024. Thereafter, based on the allegations levelled against the Noticee in the pre-Enquiry SCN, replies filed by the Noticee, submission made during the personal hearing and the material available on record, the DA concluded the Enquiry Proceedings and submitted the Enquiry

Report (“**Enquiry Report**”) dated November 27, 2024 in terms of regulation 26 of the Intermediaries Regulations.

7. The following was observed against the Noticee in the DA report:

7.1. With respect to the allegation that on 254 instances the Noticee had not settled running accounts of clients within the prescribed timelines, the DA accepted the explanation of the Noticee on 101 instances and concluded that the Noticee did not settle the running account of clients within the prescribed timeline on 151 instances.

7.2. With respect to the allegation that on 560 instances the Noticee had retained funds of clients in excess of permissible obligations, the DA concluded that client accounts were duly settled in 2 instances and the Noticee retained excess client funds in 558 instances.

7.3. The Noticee had failed to dispatch physical retention statement on 457 instances in a timely manner and did not produce its dispatch register to substantiate proof of dispatch of retention statement to the client.

7.4. The Noticee had not sent any SMS to its clients at the time of settlement and it failed to cooperate with the inspection team, as it did not provide the SMS logs despite repeated reminders.

8. Based on the aforesaid findings, the DA concluded that the violations pertaining to non-settlement of client funds and non-provision of documents stood established against the Noticee. Accordingly, the DA recommended the following:

“... Given the above, it is recommended that in terms of Regulation 26 of the SEBI (Intermediaries) Regulations, 2008, regulatory censure may be issued to the Noticee (Raghunandan Capital Private Limited – SEBI Registration No. INZ000307234).”

C. SHOW CAUSE NOTICE, REPLY AND HEARING

9. Pursuant to the submission of the Enquiry Report, SCN dated December 04, 2024 in the matter was issued to the Noticee. Vide the above-mentioned SCN, Noticee was called upon to show cause as to why action as recommended by the DA or any other directions as deemed fit should not be issued/imposed on it in terms of Intermediaries' Regulations. The issued SCN enclosed therewith the Enquiry Report of the DA dated December 04, 2024 made with respect to the Noticee. Therefore, any reference in this Order to the allegations made in the SCN must also be read to include the conclusions arrived at in the Enquiry Report.
10. In response to the SCN, the Noticee submitted its reply, vide letter dated February 04, 2025. Subsequently, a personal hearing in the matter was held on March 19, 2025. On the said date, the Authorized Representatives (ARs) of the Noticee made further submissions and the ARs were requested to clarify certain points emanating from its earlier reply dated February 04, 2025. Pursuant thereto, post hearing submissions vide letter dated March 25, 2025 were made by the Noticee.
11. The summary of submissions made by the Noticee (through its ARs) during the personal hearing and vide its replies dated February 04, 2025 and March 25, 2025 are summarised below:

Submission pertaining to non-settlement of running accounts of clients where no transaction was carried out for more than 30 days.

11.1. The Noticee provided instance wise response for the alleged 254 instances along with some sample ledger statements and submitted the following:

- i. On 78 instances, client accounts were duly settled on due date, however, due to incorrect Bank Indian Financial System Code (**IFSC**) the amount was returned. Thereafter, as per policy it shifted the funds to a separate bank account for future pay-out to the clients.

- ii. On 137 instances, 30 days had not elapsed from the date of last transaction and the accounts were not required to be settled. The DA has already accepted the said submission on 91 instances out of 137 instances.
- iii. On 37 instances, client accounts were duly settled as per applicable provisions. The DA has already accepted the said submission on 9 instances out of 37 instances.
- iv. On 1 instance, the amount was returned because the cheque issued to the client was not presented within the prescribed time limit. Thereafter, the amount has been transferred to the client in the correct bank account.
- v. On 1 instance, there was nil balance in the account and the DA has already accepted the said submission.

11.2. The Noticee submitted that the number of instances (i.e. 153 out of total 10,563 instances inspected) and the amount involved in such instances where it is alleged that it had not settled the running account of clients is minimal as compared to its overall operations and the number of clients dealt by it on regular basis.

Submissions pertaining to retention of client funds in excess of permissible obligations.

11.3. The Noticee provided instance wise response for the alleged 560 instances to submit the following:

- i. On 105 instances, the client accounts were settled before the due date (i.e. before the first Friday of the quarter) and cannot be considered as a violation of clause 5.4 of SEBI Circular dated June 16, 2021.
- ii. On 281 instances, the client accounts were already settled on the due date.
- iii. On 172 instances, the clients had open position in their trading account for which margin was utilized and therefore such accounts were not required to be settled.
- iv. On 2 instances, fresh funds were received on the date of settlement, therefore such accounts did not require settlement.

11.4. The Noticee has stated that SEBI Circular dated July 27, 2022 was a recent update at that point in time. Therefore, its back-office system was not updated and the settlement was done as per the earlier circular, which had prescribed 90 days for settlement of accounts.

11.5. The Noticee has submitted that the objective of the SEBI Circular dated July 27, 2022 was to prevent the Stock Broker from retaining or utilizing the funds of the client on or after the due date. Therefore, the Noticee has argued that in 105 instances where the funds were settled before the due date because of operational compulsion, the same shall not be deemed a violation but a mere technical error.

11.6. The Noticee has provided a sample wise response of 15 instances along with supporting retention statement to explain its calculation of margin obligation and has also submitted that presently settlement is being done as per SEBI Circular dated July 27, 2022 and all the client accounts mentioned in the inspection report have been settled and there are no complaints from its clients regarding non-settlement of funds.

Submissions pertaining to non-provision of documents

11.7. The Noticee has provided a copy of its dispatch register and some POD receipts as proof to submit that it has physically sent the retention statement to its clients in 455 out of 457 instances wherein its email had bounced. Further, in the remaining 2 instances, the Noticee has submitted that the retention statement was again sent digitally after non-receipt of earlier digital and physical statements.

11.8. The Noticee has submitted that the DA has wrongly concluded that it had failed to substantiate proof of dispatch of retention statement to the clients on the ground that the dispatch register was not provided. The Noticee has stated that it had provided 11 POD receipts as dispatch proof and the dispatch register was not produced because the DA never sought for it.

11.9. With respect to the allegation that the Noticee has failed to provide the SMS logs, it has submitted that the concerned staff were new and were following up with back office for extraction of logs. The Noticee has taken remedial action and is sending SMS to clients at the time of settlement of funds, on a timely basis.

Other Submissions

11.10. The Noticee has submitted that the alleged procedural lapses, if any, were unintentional, are technical in nature and very minuscule in the context of its operations. It has not made any gains or derived any unfair advantage from the said violations and has already taken remedial and corrective steps post the inspection.

11.11. The Noticee has submitted that there is no misutilization of client funds and it has not received any complaints from its clients with respect to non-settlement of client funds or securities. No loss has been caused to any person/ its clients due to its act or omissions.

11.12. The Noticee has relied on the orders passed by Hon'ble Securities Appellate Tribunal ('SAT') in *Religare Securities Limited vs. SEBI (Appeal No. 23 of 2011 decided on June 16, 2011)*, *UPSE Securities Limited vs. SEBI (Appeal No. 109 of 2011 decided on July 25, 2011)* and *M/s DSE Financial Services Limited vs. SEBI (Appeal No. 153 of 2012 decided on September 11, 2012)* to submit that purpose of inspection is not punitive in nature and therefore minor lapses or technical violation, if any, should not be proceeded against.

11.13. The Noticee has further stated that Adjudication Proceedings were initiated against it for similar violations and vide order dated November 27, 2024, a penalty of Rs. 8 Lakh was imposed which it has subsequently paid. Therefore, the Noticee by relying on SEBI orders namely Eureka Stock & Share Broking Services Limited and IIFL Securities Limited has submitted that the DA recommendations may not be confirmed as it has already undergone monetary penalty for the same violations.

D. CONSIDERATION OF ISSUES AND FINDINGS

12. I have perused the Enquiry Report, SCN, replies of the Noticee and other material available on record. In the extant proceedings, it is required to ascertain whether the Noticee, has violated the provisions of securities law as mentioned in the Enquiry report.
13. Before proceeding, I find it appropriate to reproduce below the relevant provisions of the regulations and circulars alleged to have been violated by the Noticee:

Annexure-A to SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009. (SEBI Circular dated December 03, 2009)

Running Account Authorization

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

...

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.

SEBI (Stock Brokers) Regulations, 1992

Conditions of registration

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

...

(b) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;

...

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

...

Obligations of stock-broker on inspection by the Board.

21. (1) It shall be the duty of every director, proprietor, partner, officer and employee of the stock-broker, who is being inspected, to produce to the inspecting authority such books, accounts and other documents in his custody or control and furnish him with the statements and information relating to the transactions in securities market within such time as the said officer may require.

(2) The stock-broker shall allow the inspecting authority to have reasonable access to the premises occupied by such stock-broker or by any other person on his behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the stock-broker or any other person and also provide copies of documents or other materials which, in the opinion of the inspecting authority are relevant.

(3) The inspecting authority, in the course of inspection, shall be entitled to examine or record statements of any member, director, partner, proprietor and employee of the stock-broker.

SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 - Enhanced Supervision of Stock Brokers/Depository Participants (SEBI Circular dated September 26, 2016)

Annexure

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.

8.1.4. 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 No.: SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021
Settlement of Running Account of Client's Funds lying with Trading Member (TM) (SEBI Circular dated June 16, 2021)**

5. In partial modification of the aforementioned circulars dated December 03, 2009 and September 26, 2016 on settlement of running account, following has been decided:

5.1. The settlement of running account of funds of the client shall be done by the TM after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges, at least once within a gap of 30 / 90 days between two settlements of running account as per the preference of the client.

5.2. In case of client having any outstanding trade position on the day on which settlement of running account of funds is scheduled, a TM may retain funds calculated in the manner specified below:

5.2.1. Entire pay-in obligation of funds outstanding at the end of the day on settlement of running account, of T day & T-1 day.

5.2.2. Margin liability as on the date of settlement of running account, in all segments and additional margins (maximum up to 125% of total margin liability on the day of settlement). The margin liability shall include the end of the day margin requirement excluding the MTM and pay-in obligation; therefore, TM may retain 225% of the total margin liability in all the segments across exchanges. Computation for arriving at retention of excess client funds based on above points would be as under:

Scenario	Fund pay in obligation of T day & T-1 day	EOD/peak margin requirement	225% of the margin	Securities pledged/ repledged	Client fund balance	Excess client funds retained

	A	B	$C=225\%*B$	D	E	$F=E-[(C-D)+A]$
1	110000	100000	225000	200000	300000	165000
2	50000	20000	45000	15000	50000	0
3	150000	100000	225000	280000 [^]	180000	30000

[^] Excess securities of Rs. 55,000 (i.e. 280000-225000) is not required to be unpledged.

5.2.3. TM will first adjust the value of securities (after applying appropriate haircut) accepted as collateral from the clients by way of 'margin pledge' created in the Depository system for the purpose of margin and value of commodities (after applying appropriate haircut) respectively and thereafter TM shall adjust the client funds.

5.2.4. It is clarified that the excess securities (in the form of margin pledge) or any cash equivalent collateral identifiable with the client and deposited with CC, after adjustment of the 225% of margin liability need not be unpledged.

5.3. Client's running account shall be considered settled only by making actual payment into client's bank account and not by making any journal entries. Journal entries in client account shall be permitted only for levy / reversal of charges in client's account.

5.4. For the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days irrespective of the date when the running account was previously settled.

5.5. In cases where physical payment instrument (cheque or demand draft) is issued by the TM towards the settlement of running account due to failure of electronic payment instructions, the date of realization of physical instrument into client's bank account shall be considered as settlement date and not the date of issue of physical instrument.

...

5.8. Once the TM settles the running account of funds of a client, an intimation shall be sent to the client by SMS on mobile number and also by email. The intimation should also include details about the transfer of funds (in case of electronic transfer – transaction number and date; in case of physical payment instruments – instrument number and date). TM shall send the retention statement along with the statement of running accounts to the clients as per the existing provisions within 5 working days.

**SEBI Circular No.: SEBI/HO/MIRSD/DoP/P/CIR/2022/101 dated July 27, 2022
Settlement of Running Account of Client's Funds lying with Trading Member (TM) (SEBI Circular dated July 27, 2022)**

4. Pursuant to extensive consultation with Stock Exchanges, in partial modification to the aforementioned circular dated June 16, 2021 and to ensure uniformity in settlement of running account, following has been decided:

4.1. The settlement of running account of funds of the client shall be done by the TM after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan-Mar) for all the clients i.e., the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on for all the clients. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

BSE Notice No. 20200210-47 dated February 10, 2020 - Treatment of Inactive Trading Account (BSE Notice dated February 10, 2020)

<https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20200210-47>

BSE Notice No. 20220331-53 dated March 31, 2022 - Settlement of Running Account of Client's Funds lying with Trading Member (TM) (BSE Notice dated March 31, 2022)

14. I shall now proceed to deal with the violations alleged, basis the conclusions in the Enquiry report:

I. NON- SETTLEMENT OF RUNNING ACCOUNT OF CLIENTS WHERE NO TRANSACTION WAS CARRIED OUT FOR MORE THAN 30 DAYS

15. With respect to settlement of running account of clients, I note that the inspection report had observed that on 254 instances the Noticee had failed to settle the running account of clients wherein more than 30 days had elapsed since the date of last transaction. The Noticee had submitted instance wise response before the DA to further its arguments. The DA, based on her examination, accepted the explanation for 101 instances and on 151 instances concluded that the Noticee had failed to settle the running accounts of clients. Further, the DA did not make any conclusions with respect to 2 instances.

16. Accordingly, the SCN alleged that the Noticee had violated BSE Notices dated February 10, 2020 and March 31, 2022 read with SEBI Circular dated June 16, 2021 on 151 instances (77+28+46) and elaborated as follows:

- i. On 77 instances, the Noticee had submitted that it failed to settle the client accounts due to incorrect Bank IFSC. However, the Noticee failed to report the said client accounts as untraceable in its Exchange Reporting and therefore, on such instances the Noticee failed to follow the applicable directions as mandated in SEBI and Exchange Circulars.
- ii. On 28 instances, the Noticee had incorrectly submitted that the accounts were settled on due date but had actually failed to settle the said accounts as per applicable provisions; and
- iii. On 46 instances, the Noticee had incorrectly submitted that the accounts did not require settlement. However, more than 30 days had elapsed since

the date of last transaction and the Noticee failed to settle such accounts within the next three working days.

17. Regulation 9 (b) and 9 (f) read with Schedule II (Code of Conduct) of the Stock Brokers Regulations, requires the Stock Brokers to ensure compliance with the provisions of the SEBI Act, Rules, Regulations, as well as the circulars and directives issued by SEBI and the stock exchanges. SEBI Circular dated June 16, 2021, through its Clause 5.1, mandates that stock brokers must settle the running accounts of their clients at least once every 30 or 90 days, as per the client's preference, after considering the end-of-day (EOD) fund obligations across all exchanges on the settlement date. Clause 5.4 of the same circular further stipulates that if a client maintains a credit balance but has not executed any transactions for 30 calendar days following the last transaction, the Stock Broker is required to settle such client's account within three working days, irrespective of the date when the running account was previously settled (i.e. 33 days from the last transaction). Additionally, as clarified by BSE Notices dated February 10, 2020, and March 31, 2022, in situations where the broker is unable to settle a client's account due to the non-availability of requisite bank details or similar reasons, the Stock Broker has to *inter-alia* open separate bank account, immediately set aside the funds and submit the details of such accounts to the exchange on quarterly basis for regulatory oversight.
18. The Noticee vide letter dated February 04, 2025 has restated its submissions made before the DA and submitted before me an instance wise response in respect of the 254 instances. The submissions of the Noticee have been summarized at paragraphs 11.1-11.2 above. From the said submission/response of the Noticee, I note that on 101 out of 254 instances, more than 30 days had not elapsed from the date of last transaction and therefore there was no violation of aforesaid provisions as alleged in the SCN.
19. The findings pertaining to the remaining 153 instances (254-101) has been sub-divided as follows:

- i. 77 instances where running accounts of clients were not settled due to incorrect Bank IFSC and the Noticee failed to report the said account as untraceable to the Exchange.
- ii. 28 instances where running accounts of clients were not settled contrary to Noticee's submission that the accounts were settled on due date
- iii. 46 instances where running accounts of clients were not settled despite the accounts being due for settlement
- iv. 2 instances where the DA has not made any conclusions

77 instances where running accounts of clients were not settled due to incorrect Bank IFSC and the Noticee failed to report the said account as untraceable to the Exchange

20. With respect to 77 instances, the SCN alleged that the Noticee had failed to settle the client accounts due to incorrect bank IFSC and failed to report the said account as untraceable to the exchange. The Noticee had contended before the DA that the accounts were duly settled but the amounts were returned due to incorrect Bank IFSC. The DA rejected the said submission of the Noticee and concluded that the client accounts cannot be considered as settled because the said client accounts were not reported as untraceable to the Stock Exchange as per applicable SEBI and Exchange Circulars.

21. As per clause 5.3 of SEBI Circular dated June 16, 2021, client's running account shall be considered settled only by making actual payment into client's bank account. Clause 5.4 of the said circular also mandates that a Stock Broker shall settle the client accounts within the next 3 working days, if a client does no transaction for more than 30 days. Further, as per BSE Notices dated February 10, 2020 and March 31, 2022, if a Stock Broker fails to settle any client account due to reasons such as incorrect Bank IFSC, they are required to set-aside the client funds in a separate bank account and report such client accounts as untraceable to the Stock Exchange.

22. The Noticee has not refuted the allegation made in the SCN but has restated the submissions made before the DA that the accounts were settled but the amounts were returned due to incorrect Bank IFSC. I note that on 77 instances pertaining to 16 client accounts, the Noticee had failed to settle the running account of client within the prescribed 33 days (30+3) from the date of last transaction. In terms of clause 5.3 of SEBI Circular dated June 16, 2021 such accounts cannot be considered as settled because the actual payment was not made into the client accounts. Further, although the Noticee had transferred the client funds into a different bank account but it had failed to report such accounts as untraceable to the exchange as required under BSE Notices dated February 10, 2020 and March 31, 2022. The Noticee has also failed to explain the rationale behind not reporting such accounts as “untraceable” to the Stock Exchange despite specific query during the personal hearing. Therefore, the submissions of the Noticee in this regard are not tenable.
23. In view of the above, I find that the Noticee had failed to settle the running client accounts on 77 instances pertaining to 16 client accounts as per the applicable provisions and violated BSE Notices dated February 10, 2020 and March 31, 2022 read with SEBI Circular dated June 16, 2021.

28 instances where running accounts of clients were not settled contrary to Noticee's submission that the accounts were settled on due date

24. With respect to 28 instances, the SCN alleged that the Noticee had failed to settle the said client accounts within 33 days of the last transaction as per the applicable provisions. The Noticee has submitted before me that all such accounts were duly settled within the prescribed timelines and there was no violation by the Noticee.
25. I note that the analysis of these 28 instances can be further sub-divided into the following 17,6,2,1,1 and 1 instances based on difference in circumstances.
26. From the ledger of client accounts submitted by the Noticee, it is noted that on 17 instances pertaining to **17** client accounts, the intervening gap between the date of

last trade of the client and the date of settlement of account was more than 33 days. As per Clause 5.4 of the SEBI Circular dated June 16, 2021, running accounts of clients have to be settled within a period of 33 days from the date of last transaction. Therefore, there was delay in settlement of said client accounts in violation of SEBI Circular dated June 16, 2021. A summary of the said 17 instances are provided below:

Table 1

Sl. No.	Client Code	Relevant Period	Date of trade	Required date of settlement	Actual date of Settlement	Delay (in days)
1	A94	June 2023	24-05-2023	26-06-2023	04-07-2023	8
2	AHM165	March 2023	03-02-2023	08-03-2023	03-04-2023	26
3	DBS8348	March 2023	04-01-2023	06-02-2023	03-04-2023	56
4	DBS9036	June 2023	04-05-2023	06-06-2023	04-07-2023	28
5	I11299	February 2023	05-01-2023	07-02-2023	03-03-2023	24
6	I12344	June 2023	05-05-2023	07-06-2023	04-07-2023	27
7	I12375	February 2023	06-01-2023	08-02-2023	03-03-2023	23
8	I12613	February 2023	06-01-2023	08-02-2023	03-03-2023	23
9	I12651	March 2023	23-02-2023	28-03-2023	03-04-2023	6
10	I12655	March 2023	13-02-2023	18-03-2023	03-04-2023	16
11	I12693	February 2023	09-01-2023	11-02-2023	03-03-2023	20
12	I12711	May 2023	13-04-2023	16-05-2023	05-06-2023	20
13	I1363	March 2023	09-02-2023	14-03-2023	03-04-2023	20
14	I1805	March 2023	20-02-2023	25-03-2023	03-04-2023	9
15	I4447	March 2023	23-02-2023	28-03-2023	03-04-2023	6
16	I9263	June 2023	25-05-2023	27-06-2023	04-07-2023	7
17	RE04	March 2023	06-02-2023	11-03-2023	03-04-2023	23

27. On **6** instances pertaining to 6 clients, it is noted that the clients had credited monies into their respective accounts but no transactions were carried out for more than 30 days since date of such credit. As per Clause 5.4 of the SEBI Circular dated June 16, 2021, the client accounts should be settled within the next 3 working days, if no transaction is carried out for more than 30 days (i.e. 33 days from the date of last transaction). In the said 6 instances, it is observed that although no transaction/trade was carried out by the clients for more than 30 days, the Noticee failed to settle the accounts within the next 3 working days and there was a delay in settlement. A summary of the said 6 instances are provided below:

Table 2

Sl. No.	Client Code	Period	Date of receipt of fund	Required date of settlement	Actual date of settlement	Delay (in days)
1	DCS548	April 2023	16-03-2023	18-04-2023	04-05-2023	16
2	DCS874	August 2023	27-07-2023	29-08-2023	05-09-2023	7
3	I12814	August 2023	18-07-2023	20-08-2023	05-09-2023	16
4	I4020	June 2023	07-04-2023	10-05-2023	05-06-2023	26
5	I4026	June 2023	07-04-2023	10-05-2023	05-06-2023	26
6	VIJ296	March 2023	14-01-2023	16-02-2023	03-04-2023	46

28. On **2** instances pertaining to the client account with code *AHM472* (for the periods April-May 2025), the Noticee has contended that the said account was settled on due date. From the financial statements of the said client account, it is noted that the client had not carried out any trade in the months of April – May 2025. The Noticee had issued a cheque to settle the client account but the same was not cleared and reversed on June 14, 2022 due to lapse of more than 3 months. Clause 5.5. of SEBI Circular dated June 16, 2021 stipulates that when physical payment instruments (viz. cheque or demand draft) are issued by the Stock Brokers towards the settlement of running account, the date of realization of physical instrument into client's bank account shall be considered as settlement date and not the date of issue of physical instrument. In the present case, more than 33 days had lapsed without any transaction being carried out by the Client and the cheque issued by the Noticee was not realised within the prescribed time of 33 days. Further, the Noticee has not provided any explanation regarding the delay in settlement. Therefore, I find that that the Noticee has violated SEBI Circular dated June 16, 2021 in settlement of the said client account.

29. On **1** instance pertaining to client account with code *APP86* (for the period February 2023), from the ledger it is noted that the Noticee has only made journal entries of the payment/settlement in the client account but the actual balance in the client account was not zero. Further, the Noticee has not provided proof of said payment to the client. As per clause 5.3 of the SEBI Circular dated June 16, 2021 client's running account shall be considered settled only by making actual payment into

client's bank account and not by making any journal entries. Therefore, I find that the said client account was not settled as per SEBI Circular dated June 16, 2021.

30. On 1 instance pertaining to client account with code *I11929* (for the period of March 2023), the Noticee has submitted that the account was duly settled. From the financial statements, it is noted that the Noticee settled the said account on April 24, 2023 even though the client had not carried out any transaction in the month of February- March 2023 i.e. for more than 30 days. As per Clause 5.4 of the SEBI Circular dated June 16, 2021, a running account should be settled within next 3 working days, if no transaction is carried out for more than 30 days. In the present case, it is evident that more than 33 days had elapsed between the date of transaction and settlement. Therefore, I find that the Noticee failed to settle the account as per SEBI Circular dated June 16, 2021.

31. Further, on 1 instance pertaining to client account with code *DBS1326* (for the period September 2023), the Noticee submitted that the account was duly settled. However, from the financial statement of the client account, I note that the account was not settled and the amount had returned due to incorrect Bank IFSC. The Noticee despite failing to settle the account due to incorrect Bank IFSC had not reported the account as untraceable in the exchange reporting as per BSE Notices dated February 10, 2020 and March 31, 2022. Therefore, I find that the said account was not settled as per SEBI Circular dated June 16, 2021.

32. In view of the above, I find that the Noticee had failed to settle the running client accounts on 28 instances pertaining to 28 client accounts within the prescribed timelines and violated SEBI Circular dated June 16, 2021.

46 instances where running accounts of clients were not settled despite the accounts being due for settlement

33. With respect to 46 instances, the SCN has alleged that the Noticee had incorrectly stated the client accounts did not require settlement because more than 30 days had not elapsed from the date of last transaction.

34. I note that the analysis of these 46 instances can be further sub-divided into the following 38, 2 and 6 instances based on difference in circumstances.

35. On **38** instances pertaining to 38 client accounts, I note that more than 30 days had elapsed between the date of last trade and the date of settlement. As per Clause 5.4 of the SEBI Circular dated June 16, 2021 a running account should be settled within next 3 working days, if no transaction is carried out for more than 30 days (i.e. 33 days from the date of last transaction). The Noticee failed to settle such accounts within 33 days and there were delays in settlement. A summary of the said 38 instances are provided below:

Table 3

Sl. No.	Client Code	Relevant Period	Date of last trade	Required date of settlement	Actual date of settlement	Delay (in days)
1	DBS04	February 2023	06-01-2023	08-02-2023	03-03-2023	23
2	DBS1117	March 2023	02-02-2023	07-03-2023	03-04-2023	27
3	DBS1800	March 2023	21-02-2023	26-03-2023	03-04-2023	8
4	DBS2363	March 2023	09-02-2023	14-03-2023	03-04-2023	20
5	DBS2644	August 2023	14-07-2023	16-08-2023	05-09-2023	20
6	DBS3523	March 2023	02-02-2023	07-03-2023	03-04-2023	27
7	DBS4235	March 2023	07-02-2023	12-03-2023	03-04-2023	22
8	DBS4247	August 2023	26-07-2023	28-08-2023	05-09-2023	8
9	DBS5127	March 2023	13-02-2023	18-03-2023	03-04-2023	16
10	DBS7066	March 2023	21-02-2023	26-03-2023	03-04-2023	8
11	DBS712	March 2023	07-02-2023	12-03-2023	03-04-2023	22
12	DBS7319	March 2023	13-02-2023	18-03-2023	03-04-2023	16
13	DBS7956	February 2023	09-01-2023	11-02-2023	06-04-2023	54
14	DBS8019	March 2023	13-02-2023	18-03-2023	03-04-2023	16
15	DBS8069	January 2023	22-12-2022	24-01-2023	03-02-2023	10
16	DBS8085	March 2023	03-02-2023	08-03-2023	03-04-2023	26
17	DBS8162	February 2023	10-01-2023	12-02-2023	03-03-2023	19
18	DBS8229	March 2023	06-02-2023	11-03-2023	03-04-2023	23
19	DBS8254	February 2023	05-01-2023	07-02-2023	03-03-2023	24
20	DBS8277	February 2023	05-01-2023	07-02-2023	03-03-2023	24
21	DBS8287	February 2023	11-01-2023	13-02-2023	03-03-2023	18
22	DBS8358	February 2023	25-01-2023	27-02-2023	03-03-2023	4
23	DBS8412	March 2023	16-02-2023	21-03-2023	03-04-2023	13
24	DBS8475	April 2023	24-03-2023	26-04-2023	04-05-2023	8
25	DBS8603	April 2023	02-03-2023	04-04-2023	04-05-2023	30
26	DCS463	March 2023	22-02-2023	27-03-2023	03-04-2023	7
27	GUL53	March 2023	22-02-2023	27-03-2023	03-04-2023	7
28	l11765	December 2022	21-11-2022	24-12-2022	06-01-2023	13

29	I11801	September 2023	25-08-2023	27-09-2023	06-10-2023	9
30	I12158	March 2023	23-02-2023	28-03-2023	03-04-2023	6
31	I12661	January 2023	26-12-2022	28-01-2023	03-02-2023	6
32	I4889	February 2023	16-01-2023	18-02-2023	03-03-2023	13
33	I9893	September 2023	07-08-2023	09-09-2023	06-10-2023	27
34	SAL98	May 2023	03-04-2023	06-05-2023	05-06-2023	30
35	I12715	April 2023	13-03-2023	15-04-2023	07-07-2023	83
36	DBS8348	February 2023	04-01-2023	06-02-2023	03-04-2023	33
37	I11776	March 2023	21-02-2023	26-03-2023	*	#
38	SWM39	February 2023	05-01-2023	07-02-2023	*	#

*Date not available

More than 33 days (30 +3) had elapsed since the date of last trade and the account was not settled. Therefore, as per SEBI Circular dated June 16, 2021 there was a delay in settlement of accounts.

36. On **2** instances pertaining to 2 client accounts i.e. *I11929* (for the period February 2023) and *I9746* (for the period March 2023), the Noticee had submitted that the accounts were not due for settlement. However, it is noted from the financial statement of client accounts submitted by the Noticee that no trading activity had taken place in the said accounts for a period of more than 30 days. As per clause 5.4 of SEBI Circular dated June 16, 2021, client accounts in which there are no transactions for more than 30 days, have to be settled within the next three working days. The Noticee failed to settle the said client accounts within the maximum permissible timeline of 33 days as per the SEBI Circular dated June 16, 2021.

37. On **6** instances pertaining to 6 clients, it is noted that money was credited to respective client accounts and no transaction was carried out for more than 30 days. As per clause 5.4 of SEBI Circular dated June 16, 2021, client accounts in which there are no transactions for more than 30 days, have to be settled within the next three working days. The Noticee failed to settle the said client accounts within the maximum permissible time i.e. 33 days and there was delay in settlement in violation of SEBI Circular dated June 16, 2021. A summary of the said 6 instances are provided below:

Table 4

Sl. No.	Client Code	Period	Date of credit of fund	Required date of settlement	Date of settlement	Delay (in days)
1	AHM352	February 2023	09-01-2023	11-02-2023	10-03-2023	27
2	DBS2839	February 2023	09-01-2023	11-02-2023	03-03-2023	20
3	I12168	May 2023	06-04-2023	09-05-2023	05-06-2023	27
4	I4985	August 2023	26-07-2023	28-08-2023	05-09-2023	8
5	I4991	August 2023	26-07-2023	28-08-2023	05-09-2023	8
6	VIJ296	February 2023	14-01-2023	16-02-2023	03-04-2023	46

2 instances where DA has not made any conclusions

38. I note that DA has not made any conclusions regarding 2 instances pertaining to 2 client accounts.
39. With respect to 1 instance pertaining to client account with code /11432, the Noticee vide letter dated February 04, 2024 had initially submitted that there was no balance available in the client account. Subsequently, vide letter dated March 25, 2025 the Noticee has submitted that it had initially issued a cheque for Rs. 765.27 towards settlement of said client account but the same was reversed due to non-presentation of cheque by the client. Thereafter, the said amount was transferred through NEFT, which returned due to wrong IFSC. The account was finally settled after the client updated the correct IFSC. As per clause 8.1.3 of SEBI Circular dated September 26, 2016, settlement of running client account shall be made through electronic fund transfer. Further, clause 5.5 of SEBI Circular dated June 16, 2021 states that upon failure of electronic payment instructions, settlement can be made through physical modes like cheque and the date of realization of such cheque shall be considered as the settlement date. From the statement of account provided by the Noticee, I note that the Noticee has not explained why cheque was issued without first attempting an electronic fund transfer. The Noticee has also not explained why the account was not reported as untraceable to the Stock Exchange when such account was not settled for around 9 months. Further, since the cheque issued by the Noticee was never realized, the date of settlement of account has to be considered as 06-01-2023 i.e. the day on which actual payment was done. Therefore, there was

delay in settlement of said account and the Noticee failed to settle such account in terms of SEBI Circulars dated June 16, 2021 read with BSE Notices dated February 10, 2020 and March 31, 2022.

40. On 1 instance pertaining to client account with code /1991, the Noticee had initially submitted vide letter dated February 02, 2025 that the account was newly opened and did not require settlement because more than 30 days had not elapsed from the date of opening of account. Subsequently, the Noticee vide letter dated March 25, 2025 has admitted that the account could not be settled due to wrong IFSC. I note that the Noticee has failed to settle the said account and has not reported the said account as being 'untraceable' to the Stock Exchange. Further, the Noticee has not provided any explanation before me as to why such account was not reported as untraceable to the Stock Exchange. Therefore, I find that the Noticee failed to settle such account in terms of SEBI Circular dated June 16, 2021 read with BSE Notices dated February 10, 2020 and March 31, 2022.

41. In view of the findings made at paragraphs 20 – 40 above, I find that the Noticee had failed to settle the running account of 85 clients on 153 instances in terms of SEBI Circular dated June 16, 2021 read with BSE Notices dated February 10, 2020 and March 31, 2022.

II. RETENTION OF CLIENT FUNDS IN EXCESS OF APPLICABLE MARGIN OBLIGATIONS

42. With respect to retention of client funds in excess of applicable margin obligations, I note that the inspection report had observed that the Noticee on 560 instances had failed to settle client accounts on the first Friday of the quarter as mandated by Clause 4.1 of SEBI Circular dated July 27, 2022. The Noticee had provided supporting documents and ledgers to further its arguments. The DA based on her examination accepted the explanation for 2 instances and concluded that the Noticee had violated applicable provisions on 558 instances.

43. Accordingly, the SCN alleged that the Noticee had violated provisions of Clause 12(e) of SEBI Circular dated December 03, 2009, Clause 8.1.1 & 8.1.4 of Annexure to SEBI Circular dated September 26, 2016, Clause 5.1 of SEBI Circular dated June 16, 2021, Clause 4.1 of SEBI Circular dated July 27, 2022 on 558 instances (281+172+105) and elaborated as follows:

- i. On 281 instances, margin was incorrectly calculated by the Noticee due to which the Noticee retained excess funds of the client.
- ii. On 172 instances, it was observed that the Noticee did not settle the excess funds, because it did not take into account the EOD obligations across all Exchanges while settling the client accounts.
- iii. On 105 instances, client accounts were not settled on the first Friday of the quarter, in terms of Clause 4.1 of SEBI Circular dated July 27, 2022 resulting in retention of excess client funds.

44. As per Clause 12(e) of SEBI Circular dated December 03, 2009, Stock Brokers are required to settle running accounts at least once in every calendar quarter or calendar month, depending on the client's preference. Clauses 8.1.1 and 8.1.4 of the Annexure to SEBI Circular dated September 26, 2016, mandated that the maximum period between two running account settlements shall not exceed 90 (ninety) days or 30 (thirty) days, respectively, as per the client's preference. Clause 5.1 of SEBI Circular dated June 16, 2021, further states that the quarterly or monthly settlement, as the case may be, shall be carried out after considering the end-of-day (**EOD**) obligation of funds as on the date of settlement across all Exchanges. Clause 4.1 of SEBI Circular dated July 27, 2022, has now partially modified the above requirements by mandating that the running accounts shall be settled on the first Friday of each quarter for all clients after considering the EOD obligation across all Exchanges on the date of settlement.

45. The Noticee has submitted before me an instance wise response pertaining to 560 instances to refute the allegation made in the SCN. The submission of the Noticee have been summarized at paragraphs 11.3-11.6 above. From the said

submission/response of the Noticee, I note that the Noticee had failed to settle the running accounts of clients as per applicable provisions on 560 instances.

46. The findings pertaining to 560 instances (281+172+105+2) has been sub-divided as follows:

- i. 281 instances where margin was incorrectly calculated by the Noticee
- ii. 172 instances where the Noticee did not calculate the margin obligations across all Exchanges while settling the client accounts
- iii. 105 instances where SCN alleged that client accounts were not settled on the first Friday of the quarter
- iv. 2 instances where the DA had accepted the submissions of the Noticee

281 instances where margin was incorrectly calculated by the Noticee

47. With respect to 281 instances pertaining to 250 client accounts, the SCN alleged that the margin was incorrectly calculated resulting in retention of excess client funds. The Noticee has produced before me the ledger of the said client accounts and submitted that the accounts were duly settled on the first Friday of the quarter as prescribed under Clause 4.1 of SEBI Circular dated July 27, 2022.

48. As per Clause 5.2 of SEBI Circular dated June 16, 2021, the Stock Broker is permitted to retain client funds only towards: (i) the pay-in obligations of funds for T day and T-1 day; and (ii) up to 225% of the margin liability across all segments, after first adjusting for the value of securities or collateral pledged by the client. Any client funds lying with the Trading Member in excess of such permissible retention are required to be returned to the client.

49. I note from the financial statement of client accounts submitted by the Noticee that although the client accounts were settled on the prescribed dated but the margins were calculated incorrectly on such 281 instances. After considering the fund pay in obligation of the clients and calculating 225% of the EOD margins, it was observed

that the Noticee had retained excess funds of the clients in the said instances. A summary of the top 10 accounts on the basis of excess amount retained by the Noticee is reproduced below:

Table 5

Sl. No	Date	Client Code	EOD margin* (In Rs.)	Fund Pay in Obligation for T day & T-1 day (In Rs.)	Maximum Funds that can be retained# (In Rs.)	Funds retained by Noticee (In Rs.)	Excess Fund retained (In Rs.)
1	06-10-2023	CI11404	-	56,24,774	56,24,774	83,65,580	27,40,806
2	06-10-2023	C20H1	1,89,75,419	-	4,26,94,693	4,53,84,984	26,90,292
3	07-07-2023	CDBS7914	1,06,087	-	2,38,695	10,44,256	8,05,560
4	07-07-2023	CDBS4127	3,63,974	-	8,18,941	15,89,915	7,70,975
5	06-10-2023	CDBS9224	-	-	-	7,03,561	7,03,561
6	07-07-2023	CDBS8310	430	-	968	5,77,885	5,76,918
7	07-10-2022	CAS02	-	1,681	1,681	5,69,841	5,68,161
8	07-07-2023	CASA247	-	-	-	4,78,263	4,78,263
9	07-07-2023	CI11209	2,96,535	-	2,48,175	7,09,194	4,61,019
10	06-04-2023	CRAG45	-	-	-	4,27,016	4,27,016

*Requirement as provided by the Clearing Corporation to the Exchange.

#225% of EOD margin after adjustment of securities /commodities and funds pay in obligation.

172 instances where the Noticee did not calculate the margin obligations across all Exchanges while settling the client accounts

50. With respect to 172 instances pertaining to 169 client accounts, the SCN alleged that the Noticee did not calculate margin obligations across all exchanges while settling the client accounts. The Noticee has produced before me the financial ledgers in respect of the said accounts and submitted that such clients had open position in their trading accounts across different exchanges for which margin was utilized and therefore such accounts were not required to be settled.

51. Clause 5.1 of SEBI Circular dated June 16, 2021 mandates that while settling the running accounts; the Stock Brokers have to consider EOD obligations across all the Exchanges on the date of settlement. The EOD obligations of the said 169 client accounts provided by the Clearing Corporation, when compared with the financial

statement of client accounts submitted by the Noticee, reveals that the Noticee had not considered EOD obligations across all the exchanges while settling the said accounts, which resulted in retention of excess funds of the client. Therefore, I find that the Noticee failed to settle the client accounts as per applicable provisions. A summary of the top 10 accounts on the basis of excess amounts retained by the Noticee is reproduced below:

Table 6

Sl. No.	Date	Client Code	EOD Margin* (In Rs.)	Maximum Funds that can be retained# (In Rs.)	Funds retained by Noticee (In Rs.)	Excess Fund retained (In Rs.)
1	06-04-2023	CRAG39	-	-	1,28,44,488	1,28,44,488
2	06-04-2023	CASG02	39,66,406	89,24,413	1,06,90,930	17,66,517
3	06-04-2023	CDBS1547	-	-	11,00,291	11,00,291
4	06-04-2023	CRAG38	-	-	6,68,980	6,68,980
5	07-10-2022	CDBS7319	2,87,512	6,46,902	12,07,163	5,60,261
6	07-07-2023	CDBS7913	2,55,420	5,74,695	10,43,834	4,69,139
7	06-04-2023	CDBS8016	-	-	4,63,485	4,63,485
8	07-07-2023	CI11742	-	-	4,04,233	4,04,233
9	07-07-2023	CDBS536	-	-	3,38,924	3,38,924
10	07-07-2023	CGUL56	17,505	39,385	3,43,542	3,04,157

**Requirement as provided by the Clearing Corporation to the Exchange.*

#225% of EOD margin after adjustment of securities /commodities and funds pay in obligation).

105 instances where SCN alleged that client accounts were not settled on the first Friday of the quarter

52. With respect to 105 instances pertaining to 105 client accounts, the SCN alleged that the Noticee did not settle the client accounts on the first Friday of the quarter, which resulted in retention of excess client funds. The Noticee has admitted to the said violation and has submitted that in all such 105 instances; the accounts were settled early as per the erstwhile SEBI circular, which mandated settlement of accounts in 90 days. The Noticee has also submitted that the directions to settle on first Friday of quarter being a recent clarification was not updated in the back office

software and contended that such early settlement may not be treated as breach of any provision but a technical issue attributable to back office software.

53. SEBI Circular dated July 27, 2022 mandates that settlement of running account shall be done after considering the EOD obligation of funds as on the date of settlement across all the Exchanges on first Friday of the quarter. It was introduced with an objective to ensure uniformity in settlement of running account. The fixed day of settlement avoided inconsistency and brought in predictability, simplified tracking for clients and held the Stock Brokers accountable through a standardized process. The obligation to settle the account on the first Friday of the quarter is a binding legal requirement and not a mere technicality that could have been disregarded by the Noticee. The fact that the Noticee did not settle the accounts on the prescribed date makes it a clear violation of SEBI Circular dated July 27, 2022.
54. I also note that all the 105 instances where the Noticee has failed to settle the accounts on the 1st Friday of the quarter, pertains to the year 2023 which is around 9-12 months post the introduction of SEBI Circular dated July 27, 2022 (effective from October 2022). Therefore, the submission of the Noticee that the directions to settle on the first Friday of quarter was a recent update and its back office software was not updated appropriately is not tenable.
55. Further, it is also noted that non-adherence to the prescribed timelines and early settlement of client accounts in the said 105 instances has resulted in the Noticee not considering the EOD obligation on the settlement date which has resulted in retention of excess client funds to tune of Rs. 1.19 crores. Therefore, contrary to the Noticee's submission, such instances of early settlement are not mere technical violation. A summary of the top 10 accounts on the basis of excess fund retained is provided below:

Table 7

Sl. No.	Client Code	Settlement date as per Circular	Actual Settlement date	EOD obligation on settlement date (In Rs.)	Excess Fund retained (In Rs.)
1	DBS2644	07-07-2023	03-07-2023	-	33,68,903
2	20H1	06-04-2023	05-04-2023	1,82,06,532	14,51,772
3	I4159	07-07-2023	04-07-2023	-	5,64,015
4	I12639	07-07-2023	03-07-2023	1,04,203	5,37,981
5	I12677	07-07-2023	03-07-2023	7,16,131	4,38,784
6	DBS7394	07-07-2023	03-07-2023	-	4,29,918
7	I11151	07-07-2023	03-07-2023	10,35,133	3,84,231
8	DBS2261	07-07-2023	03-07-2023	1,17,280	3,16,579
9	DBS8232	06-04-2023	05-04-2023	-	3,06,321
10	DBS1233	07-07-2023	03-07-2023	63,057	3,02,753

2 instances where the DA had accepted the submissions of the Noticee

56. With respect to remaining 2 instances pertaining to 2 client accounts i.e. *DBS6900* and *I11758*, the Noticee has restated its submission made before the DA and submitted before me that fresh funds were received in the said accounts on the first Friday of the quarter and therefore such accounts did not require settlement. The DA had accepted the said submissions of Noticee.
57. As per clause 4.1 of SEBI Circular dated July 27, 2022 settlement of running account of the client shall be done after considering the EOD obligation of funds as on the date of settlement across all the Exchanges on first Friday of the quarter. I note that fresh funds were received in the said accounts on December 31, 2022 and October 06, 2022 respectively and not on the first Friday of the quarter. As per clause 4.1 of SEBI Circular dated July 27, 2022, the said accounts should have been settled on the first Friday of the quarter i.e. January 06, 2023 and October 07, 2022 respectively. However, the Noticee had failed to settle the said accounts on the prescribed date. Therefore, I find that the accounts in such 2 instances were not settled in accordance with SEBI Circular dated July 27, 2022.

Incorrect Margin Calculation by Noticee

58. Since the SCN alleged that the Noticee had calculated margin wrongly on 453 instances (281+172), the Noticee was advised to explain the margin calculation at least on a sample basis. The Noticee submitted a sample of 15 instances of margin calculation along with supporting retention statements, which has been reproduced in Table 8 below. In respect of 10 instances (Sl. Nos. 1-10 of Table 8) the Noticee submitted that settlement was made by calculating the margin based on peak margin obligation of MCX Exchange. Further, in respect of 5 instances (Sl. Nos. 11 – 15) the Noticee submitted that settlement was done as per the prescribed norms.
59. As per clause 4.1 of SEBI Circular dated July 27, 2022, settlement of account shall be done after considering the EOD obligation across all exchanges. Therefore, while calculating the margin obligations of client accounts, the EOD obligation of clients' accounts across all the exchanges has to be taken into account.
60. I note that in 10 instances (Sl. Nos. 1-10 of Table 8) the Noticee has not settled the account on the SEBI prescribed date and the Noticee has admitted that it has considered the peak margin obligation of MCX only. It has resulted in incorrect calculation of margin obligations in such 10 client accounts. Further, in respect of the remaining 5 instances (Sl. Nos. 11-15 of Table 8), I note that as per the retention statement of client accounts, the EOD margin requirement of the clients as calculated by the Noticee is different from the margin requirement as provided by the clearing corporation. This has resulted in incorrect margin obligation (225%) calculations, which does not reconcile with the margin calculation data maintained with the Stock Exchange. Further, although the Noticee was provided with the margin calculation maintained with the exchange, it has not refuted the said calculation or provided any explanation w.r.t the difference in calculation. A summary of the said 15 instances along with my observations is provided below.

Table 8

Sl. No.	Client Code	Actual Settlement Date	Prescribed Settlement Date	Client Fund Balance	Maximum Fund to be retained as per Noticee* (In Rs.)	Maximum Fund to be retained as per Exchange* (In Rs.)	Observation
1	I11820	03-08-2023	07-07-2023	42,12,825	75,75,141	40,24,927	As per SEBI Circular dated July 27, 2022, the client accounts should have been settled on the first Friday of the quarter i.e. on 07-07-2023 / 06-04-2023 and EOD obligations on 07-07-2023 / 06-04-2023 across all the exchanges should have been considered while settling the said accounts. The Noticee has admitted that it has relied on MCX peak margin and not considered the EOD obligations across all the exchanges. Further, the said accounts have not been settled on the SEBI prescribed date. It is observed that the Noticee has calculated the margin obligation calculations (225%) of clients based on incorrect EOD obligations and the same does not reconcile with the margin calculation data available with the Stock Exchange.
2	DBS7913	03-08-2023	07-07-2023	10,43,834	6,16,363	5,74,695	
3	CI3859	03-08-2023	07-07-2023	9,39,621	3,60,879	7,62,727	
4	DBS4037	03-08-2023	07-07-2023	6,84,613	12,08,127	5,70,013	
5	CVIJ374	03-08-2023	07-07-2023	6,45,041	10,79,483.20	3,65,013	
6	CASG02	07-07-2023	06-04-2023	1,06,90,930	2,49,20,822	89,24,413	
7	DBS1547	05-06-2023	06-04-2023	11,00,291	26,75,556	-	
8	CWP01	04-07-2023	06-04-2023	2,35,145	4,96,176	2,27,926	
9	DBS6995	30-06-2023	06-04-2023	2,34,444	2,29,688	-	
10	CI1004	30-06-2023	06-04-2023	2,20,798	2,65,971	87,955	
11	DBS7319	07-10-2022	07-10-2022	12,07,163	16,67,254	6,46,902	As per retention statement of client account, EOD margin requirement of the client has been calculated by Noticee as Rs. 7,41,002/- . However, the EOD margin requirement across <u>all</u> exchanges as provided by the clearing corporation is Rs. 2,87,512/- .Therefore, the margin obligations (225%) calculations does not reconcile with the margin calculation data maintained with the Stock Exchange.
12	I11801	07-10-2022	07-10-2022	2,71,377	2,50,429	2,69,545	As per retention statement of client account, EOD margin requirement of the client has been calculated by Noticee as Rs. 1,20,612/-

							. However, the EOD margin requirement across <u>all</u> exchanges as provided by the clearing corporation is Rs. 1,19,798/- .Therefore, the margin obligations (225%) calculations does not reconcile with the margin calculation data maintained with the Stock Exchange.
13	RAG18	07-10-2022	07-10-2022	2,50,429	2,50,429	1,28,211	As per retention statement of client account, EOD margin requirement of the client has been calculated by Noticee as Rs. 1,11,302/- . However, the EOD margin requirement across <u>all</u> exchanges as provided by the clearing corporation is Rs. 56,983/- .Therefore, the margin obligations (225%) calculations does not reconcile with the margin calculation data maintained with the Stock Exchange.
14	I9684	07-10-2022	07-10-2022	1,67,676	94,518	-	As per retention statement of client account, EOD margin requirement of the client has been calculated by Noticee as Rs.94,518 /-. However, there is no EOD margin requirement across <u>all</u> exchanges as per the clearing corporation. Therefore, the margin obligations (225%) calculations does not reconcile with the margin calculation data maintained with the Stock Exchange.
15	AQM08	07-10-2022	07-10-2022	83,575	99,083.01	72,543	As per retention statement of client account, EOD margin requirement of the client has been calculated by Noticee as Rs. 27,294 /-. However, the EOD margin requirement across <u>all</u> exchanges as provided by the clearing corporation is Rs. 15,498 /- .Therefore, the margin obligations (225%) calculations does not reconcile with the margin calculation data maintained with the Stock Exchange.

*The maximum funds of the client that could be retained after considering the pay-in obligations of funds for T day and T-1 day; up to 225% of the margin liability across all segments and after first adjusting for the value of securities or collateral pledged by the client.

61. To summarize the findings made at paragraphs 47 – 60 above, I find that the Noticee has failed to settle the client accounts on 560 instances pertaining to 526 client accounts in violation of Clause 12(e) of SEBI Circular dated December 03, 2009, Clause 8.1.1 of Annexure to SEBI Circular dated September 26, 2016, Clause 5.1 of SEBI Circular dated June 16, 2021 and Clause 4.1 of SEBI Circular dated July 27, 2022.

III. FAILURE TO SEND RETENTION STATEMENTS /SMS TO THE CLIENTS AT THE TIME OF SETTLEMENT AND NON-SUBMISSION OF DOCUMENTS TO THE INSPECTING AUTHORITY

62. The SCN alleged that the Noticee failed to produce the dispatch proof of retention statements in 457 instances where the email sent to clients had bounced and did not provide the logs of SMS sent to clients at the time of settlement despite repeated requests. In view of the same, it has been alleged that the Noticee has violated Regulation 21 of Stock Brokers Regulation, SEBI Circular dated September 26, 2016 and Annexure A to SEBI Circular dated December 2009.

63. As per the provisions of Regulation 21(1), (2) and (3) of the Stock Brokers Regulations, 1992, the stockbrokers are obligated to produce documents / records / information in their custody or control to the inspecting authority, and allow them reasonable access to their premises. SEBI Circular dated December 03, 2009 mandates the Stock Broker to send the statement of accounts containing *inter-alia* extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities ("retention statement") to the clients during the settlement of accounts. Clause 8.1.4 states that the retention statement shall be sent within five days from the date when the account is considered to be settled. Further, clause 5.8 of SEBI Circular dated June 16, 2021 states that the Stock Broker shall send intimation of running account settlement to the clients by SMS on mobile number and by email.

64. The Noticee had submitted before the DA that on 455 out of 457 instances, the retention statements were dispatched physically; and on 2 instances the retention statement was again sent after non-receipt of earlier digital and physical statement. The DA rejected the said submission of the Noticee by observing that the Noticee had provided only 11 copies of proof of delivery (**POD**) receipts out of total 457 instances and it had not provided the dispatch register to substantiate its claim that retention statements were sent physically. Therefore, the DA concluded that the Noticee had failed to send retention statements on 457 instances.
65. The Noticee has submitted before me a copy of the dispatch register w.r.t 457 instances along with 19 copies of POD receipts to substantiate its claims. The Noticee has further argued that the dispatch register was not submitted before the DA because the same was never sought from it. On perusal of the dispatch register submitted before me, it is observed that 11 POD receipts submitted before the DA do not find mention in the dispatch register. The Noticee has also not explained why the dispatch register was not produced before the inspecting authorities. The above facts raise question about the authenticity of the dispatch register/POD receipts submitted by the Noticee. Even if the said dispatch register/POD receipts are considered as a valid proof of dispatch to the clients, the Noticee has still failed in its duty by not producing the relevant documents before the inspecting authority in accordance with the Stock Brokers Regulation. Moreover, the argument of the Noticee that the dispatch register was never asked by the DA is also not tenable as the pre-enquiry SCN had clearly alleged the failure of Noticee to provide dispatch proof in 457 instances and the burden to produce the same was on the Noticee and not on the DA.
66. With respect to providing the logs of SMS sent to the clients at the time of settlement of funds, the Noticee submitted that the logs could not be submitted earlier, as the concerned staff was new and were following up with back office vendor for extraction of the said logs. I note that the Noticee had failed to produce

the said logs before the inspecting authority despite specific requests and repeated reminders. Although, considerable time has elapsed since the inspection, but the Noticee is yet to produce the SMS logs and has not provided any explanation before me for such failure.

67. In view of all the above, I am in agreement with the DAs conclusion in this regard and find that the Noticee has violated Regulation 21 of Stock Brokers Regulation, clause 5.8 of SEBI Circular dated June 16, 2021 and Annexure A to SEBI Circular dated December 2009.

E. CONCLUSION

68. Stock Brokers are expected to strictly comply with the provisions of the relevant laws, both in letter and in spirit as they play an important role in the securities market. For the reasons mentioned in the preceding paragraphs, I find that that the Noticee has violated the following provisions:

- i. Non- settlement of running account of clients where no transaction was carried out for more than 30 days: SEBI Circular dated June 16, 2021 read with BSE Notices dated February 10, 2020 and March 31, 2022.
- ii. Retention of client funds in excess of applicable margin obligations: Clause 12(e) of SEBI Circular dated December 03, 2009, Clause 8.1.1 of Annexure to SEBI Circular dated September 26, 2016, Clause 5.1 of SEBI Circular dated June 16, 2021 and Clause 4.1 of SEBI Circular dated July 27, 2022.
- iii. Failure to send retention statements /SMS to the clients at the time of settlement and non-submission of documents to the inspecting authority: Regulation 21 of Stock Brokers Regulation, clause 5.8 of SEBI Circular dated June 16, 2021 and Annexure A to SEBI Circular dated December 2009.

69. The Noticee has placed reliance on certain SEBI orders to submit that no further action is warranted against it as it has already paid the imposed penalty in the adjudication proceedings for the same set of allegations. The Noticee has further submitted that the violations observed by the DA has not resulted in any losses to its clients and it has already taken corrective steps to rectify the alleged defaults. The Noticee has also referred to various SAT decisions to argue that the purpose of inspection is not to take punitive action but to ensure compliance with procedural requirements and has requested that the present proceedings be disposed without issuance of any adverse directions.
70. I note that an Adjudication Order dated November 27, 2024 has been passed against the Noticee which *inter-alia* included identical allegations arising out of the same inspection. A penalty of Rs. 8 Lakh was imposed on the Noticee, which has been paid. In this regard, I note that Enquiry and Adjudication proceedings are separate and independent of each other. Even if penalty is imposed, directions under section (3) of section 12 of the SEBI Act can also be passed. The violation established in the present case *viz.* non-settlement of clients funds, retention of client funds in excess of permissible limits and non-provision of documents to the inspection team cannot be considered as venial, and there is a need for non-monetary enforcement action under the law.
71. The Noticee's reliance on previous SEBI order to argue that no further action is warranted against it because it has paid the penalty is misplaced. Each decision is based on its own facts and circumstances and cannot be applied in a mechanical or uniform manner especially when the factual matrix and context is different. The Noticee has also relied on certain decisions of Hon'ble SAT, but, the said cases pertain to imposition of monetary penalty by SEBI Adjudicating Officer on Stock Brokers and are not relevant for the purposes of the present Enquiry proceedings.
72. The DA in her report has taken into account the aforesaid facts and recommended issuance of regulatory censure to the Noticee. I find that such a recommendation is

commensurate to the violations committed by the Noticee and aligns with the broader objective of inspection, which is to ensure that all intermediaries comply with the applicable laws.

73. Having regard to the facts and circumstances discussed in aforesaid paragraphs, I am inclined to agree with the recommendation made by the DA that issuance of a regulatory censure to the Noticee would be apt and proportionate.

F. ORDER

74. In view of the foregoing, I, in the exercise of powers conferred upon me under sub section (3) of section 12 and section 19 of the SEBI Act, 1992 read with the sub-regulation (5) of regulation 27 of the Intermediaries Regulations, hereby issue regulatory censure against the Noticee i.e. Raghunandan Capital Private Limited (SEBI Registration No. INZ000307234).

75. The Order shall come into force with immediate effect.

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

Date: September 03, 2025

Place: Mumbai

Sd/-

ANANTH NARAYAN G.

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA