



SECURITIES AND EXCHANGE BOARD OF INDIA

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

In respect of:

Name of the <i>Noticee</i>	PAN/Registration details
Rikhav Securities Limited	PAN: AADCR3067Q Stock Broker (SEBI Registration No.: INZ000157737)

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A. BACKGROUND

1. The present proceedings have emanated from an Enquiry Report dated November 29, 2024 (hereinafter referred to as the “**Enquiry Report**”), submitted in terms of regulation 26 of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (hereinafter referred to as “**Intermediaries Regulations**”) with respect to Rikhav Securities Ltd (hereinafter referred to as “**Noticee**”) who is a stock broker registered with Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) since March 14, 2007 having Registration no. **INZ000157737**.
2. SEBI and Stock Exchanges had carried out a comprehensive joint inspection of the *Noticee* from October 12, 2022 to October 21, 2022. The period of inspection was from April 01, 2021 to September 30, 2022 (hereinafter referred to as “**Inspection Period**” or “**IP**”).

B. PROCEEDINGS BEFORE THE DESIGNATED AUTHORITY

3. Pursuant to the examination of submissions made by the *Noticee*, 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 *vide* appointment order dated March 14, 2024.
4. Show Cause Notice bearing reference no. SEBI/EAD-1/BS/14850/1/2024 dated April 19, 2024 (hereinafter referred to as “**SCN**”) was issued to the *Noticee* under the provisions of sub-regulation (1) of regulation 25 of the Intermediaries Regulations, requiring the *Noticee* to show cause as to why appropriate recommendations should not be made against it as specified under Regulation 23 of the Intermediaries Regulations read with sub-section (3) of section 12 of the SEBI Act, 1992, for the following alleged violations:



Sr. No.	Alleged violations pertaining to	Regulatory provisions violated
(i)	Stock reconciliation	Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.
(ii)	Stock mismatch alerts	Sub-clause (j) of clause 6.1.1 and clause 7.1.2 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
(iii)	Monthly/Quarterly settlement of funds	Sub-clause (e) of clause 12 of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 read with Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and Clause no. 5.4. of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021.
(iv)	Reporting and short collection of Margin	SEBI Circular No. CIR/DNPD/7/2011 dated August 10, 2011 read with Clause (iii) of Annexure to SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020.
(v)	Client registration process	SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 and SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019; Sub-clauses (b) and (c) of Clause 13 of Annexure 6 of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 read with SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019; BSE Circular Notice No. 20210727-6 dated July 27, 2021 read with Sub-clause (5) of Clause A in Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992.



Sr. No.	Alleged violations pertaining to	Regulatory provisions violated
(vi)	Net worth verification	Sub-clause (j) of clause 6.1.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
(vii)	Verification of weekly holding statement	Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
(viii)	Verification of Unique Client Code (“UCC”)	Sub-clause (B) of clause 2 of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011.
(ix)	Member engaged as a principal or employee in a business other than that of securities involving personal financial liability	Clause (f) of sub-rule (3) of rule 8 of Securities Contract (Regulation) Rules, 1957 (“SCR Rules”), NSE circular No. NSE/COMP/50957 dated January 07, 2022.
(x)	Trading in minor’s accounts	SEBI FAQ on demat/trading account for minors dated September 25, 2018 read with sub-clause (2) of clause A of Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992.
(xi)	Dealing with unregistered constituents	Regulation 3.1.4 read with Regulation 3.1.8 of Part A of Capital market Regulation of NSE and Regulation 3.1.19 of Regulations (F&O segment) of NSE read with sub-clause (5) of clause A of Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992.
(xii)	Cyber security and cyber resilience	SEBI circulars no. SEBI/HO/MIRSD/CIR/PB/2018/147 and SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated



Sr. No.	Alleged violations pertaining to	Regulatory provisions violated
		December 03, 2018 and June 07, 2022, respectively.
(xiii)	Non co-operation with inspection team	Regulation 21 of the SEBI (Stock Brokers) Regulations, 1992.

5. The SCN was duly served upon the *Noticee* and the *Noticee* was also granted inspection of the documents on August 23, 2024. Vide e-mail dated August 29, 2024, the *Noticee* was advised to furnish reply to the SCN by September 13, 2024. However, the *Noticee*, vide letter dated September 06, 2024, requested for extension of time for filing its reply to the SCN, which was granted. Thereafter, vide letter dated October 03, 2024, the *Noticee* submitted its reply to the SCN. Thereafter, a personal hearing was also granted to the *Noticee* by the DA on October 07, 2024 which was attended by the Authorized Representatives (“**ARs**”) of the *Noticee* attended the hearing in person at SEBI and reiterated the submissions made by the *Noticee* vide letter dated October 03, 2024. Further, ARs of the *Noticee* made additional submissions vide letter dated October 14, 2024.
6. After conducting the enquiry proceedings in terms of the Intermediaries Regulations, the DA submitted an Enquiry Report dated November 29, 2024. In the Enquiry Report, the DA found that most of the violations alleged against the *Noticee* referred at paragraph 4 above had been established. However, considering the corrective and remedial actions been taken by the *Noticee* after inspection and the payment of full penalty levied by SEBI under adjudication proceedings for same violations, the DA recommended issuance of regulatory censure to the *Noticee*.



C. PROCEEDINGS BEFORE THE WHOLE TIME MEMBER

7. Vide letter dated December 16, 2024, the Enquiry Report was forwarded to the registered addresses of the *Noticee* in terms of sub-regulation (1) of regulation 27 of the Intermediaries Regulations wherein the *Noticee* was called upon to make written submissions within 21 days as to why measures recommended by the DA or any other action in terms of the Intermediaries Regulations, be not taken against it. The *Noticee* did not make any written submission within 21 days' period. However, vide letter dated January 10, 2025, the *Noticee* submitted its written reply and further sought an opportunity of personal hearing. Personal hearing in the matter was granted. However, the *Noticee* sought adjournment of hearing on several occasions and finally the ARs of the *Noticee* appeared before me for personal hearing on March 26, 2025.
8. During the hearing, the ARs of the *Noticee* reiterated the written submissions made vide reply dated January 10, 2025 and made few additional submissions. The *Noticee* further sought permission to file written submissions pursuant to the personal hearing which was acceded to. The written submissions of the *Noticee* were received vide e-mail dated April 04, 2025. Accordingly, the requirement of reasonable opportunity of being heard has been duly complied with. In view of the above, I now proceed for consideration of the matter based on the Enquiry Report and submissions made by the *Noticee*.

D. RELEVANT LEGAL PROVISIONS

9. Before proceeding further, it is pertinent to refer to the relevant provisions of the securities laws and the same are reproduced hereunder for ease of reference:

“SEBI Act, 1992

Registration of stock brokers, sub-brokers, share transfer agents, etc.

12(1)

(2)



(3) The Board may, by order, suspend or cancel a certificate of registration in such manner as may be determined by regulations:

Provided that no order under this sub-section shall be made unless the person concerned has been given a reasonable opportunity of being heard.

Delegation.

19. The Board may, by general or special order in writing delegate to any member, officer of the Board or any other person subject to such conditions, if any, as may be specified in the order, such of its powers and functions under this Act (except the powers under section 29) as it may deem necessary.

SEBI (Intermediaries) Regulations, 2008

Cancellation or suspension of registration and other actions.

23. Where any person who has been granted a certificate of registration under the Act or regulations made thereunder,

(a) fails to comply with any conditions subject to which a certificate of registration has been granted to him;

(b) contravenes any of the provisions of the securities laws or directions, instructions or circulars issued thereunder;

the Board may, without prejudice to any action under the securities laws or directions, instructions or circulars issued thereunder, by order take such action in the manner provided under these regulations

Recommendation of action

26. (1) After considering the material available on record and the reply, if any, the designated authority may by way of a report, recommend the following measures-

(i) disposing of the proceedings without any adverse action;

(ii) cancellation of the certificate of registration;

(iii) suspension of the certificate of registration for a specified period;

(iv) prohibition of the noticee from taking up any new assignment or contract or launching a new scheme for such the period as may be specified;



(v) debarment of an officer of the noticee from being employed or associated with any registered intermediary or other person associated with the securities market for such period as may be specified;

(vi) debarment of a branch or an office of the noticee from carrying out activities for such period as may be specified;

(vii) issuance of a regulatory censure to the noticee:

Order 27. (1)

(5) After considering the facts and circumstances of the case, material on record and the written submission, if any, the competent authority shall endeavor to pass an appropriate order within one hundred and twenty days from the date of receipt of submissions under subregulation (2) or the date of personal hearing, whichever is later.

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, -

(a)

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

Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992:

SCHEDULE II

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

CODE OF CONDUCT FOR STOCK BROKERS

A. General.

(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.

Power to specify procedures, etc. and issue clarifications

30. For the purposes of implementation of these regulations and matters incidental thereto, the Board may specify norms, procedures, processes, manners or guidelines as specified



in these regulations, by way of circulars to recognised stock exchange(s) and recognised clearing corporation(s).

Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008:

In continuation of earlier circulars and in order to reiterate the need for brokers to maintain proper records of client collateral and to prevent misuse of client collateral, it is advised that: - The records should be periodically reconciled with the actual collateral deposited with the broker.

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

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

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

- A- Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across stock exchanges
- B- Aggregate value of collateral deposited with clearing corporations and/or clearing member (in cases where the trades are settled through clearing member) in form of Cash and Cash Equivalents (Fixed deposit (FD), Bank guarantee (BG), etc.) (across Stock Exchanges). Only funded portion of the BG, i. e. the amount deposited by stock broker with the bank to obtain the BG, shall be considered as part of B.
- C- Aggregate value of Credit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations)
- D- Aggregate value of Debit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients, uncleared cheques issued to clients and the margin obligations)
- E- Aggregate value of proprietary non-cash collaterals i.e. securities which have been deposited with the clearing corporations and/or clearing member (across Stock Exchanges)
- F- Aggregate value of Non-funded part of the BG across Stock Exchanges
- P- Aggregate value of Proprietary Margin Obligation across Stock Exchanges
- MC- Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges



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

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

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

Principle:

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

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

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

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

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

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

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

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

Principle:

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



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

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

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

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

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

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

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

Principle:

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

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

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

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

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



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

- 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.*

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

- 7.1.2. End of day securities balances (as on last trading day of the month) consolidated ISIN wise (i.e., total number of ISINs and number of securities across all ISINs).*

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.

Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009:

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.

Clause no. 5.4. of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021:

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.

Clause (iii) of Annexure to SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020:

The member shall have to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:

- a) EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD.
 - b) Peak margin obligation of the client, across the snapshots, shall be compared with respective client peak margin available with the TM/CM during the day.
- Higher of the shortfall in collection of the margin obligations at (a) and (b) above, shall be considered for levying of penalty as per the extant framework.

Clause 13(b) and 13(c) of Annexure 6 of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011:

13. In case you have given specific authorization for maintaining running account, payout of funds or delivery of securities (as the case may be), may not be made to you within one working day from the receipt of payout from the Exchange. Thus, the stock broker shall maintain running account for you subject to the following conditions:



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

(c) On the date of settlement, the stock broker may retain the requisite securities/funds towards outstanding obligations and may also retain the funds expected to be required to meet derivatives margin obligations for next 5 trading days, calculated in the manner specified by the exchanges. In respect of cash market transactions, the stock broker may retain entire pay-in obligation of funds and securities due from clients as on date of settlement and for next day's business, he may retain funds/securities/margin to the extent of value of transactions executed on the day of such settlement in the cash market.

Web-link of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 titled "Handling of Clients' Securities by Trading Members/Clearing Members"

https://www.sebi.gov.in/legal/circulars/jun-2019/handling-of-clients-securities-by-trading-members-clearing-members_43347.html

BSE Circular Notice No. 20210727-6 dated July 27, 2021:

"SEBI vide its email dated July 15, 2021 has advised Exchanges to issue guidelines to the trading members to make available the facility for online closure of trading accounts. The guidelines for online closure of trading accounts are enclosed as Annexure A. Further Trading members are also advised to inform their clients regarding the availability of facility for online closure of trading accounts and its guidelines through emails, SMS, weekly / fortnightly /monthly newsletters etc.

Guidelines for online closure of trading accounts

1. Client shall be entitled to close the trading account through online mode without giving any reasons to the trading member. Clients shall not be restricted from requesting, through online mode or offline mode, for the closure of trading account maintained with a member, subject to the compliance requirements as stipulated by SEBI / Stock Exchange from time to time.
2. Online request for closing of trading accounts shall be made available for the clients who have opened their accounts offline or online, by those trading members which provide facility of opening account online and provide various services to their clients in online mode. Those trading members that do not provide any services online and do not open accounts online may not be required to offer online closure of trading accounts.



Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011:

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

This would be subject to the following guidelines:

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

- i. Stock exchanges shall provide a platform to stock brokers to upload the details of their clients, preferably, in sync with the UCC updation module.
- ii. Stock brokers shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address.
- iii. Stock brokers shall ensure that the mobile numbers/E-mail addresses of their employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.
- iv. Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the stock broker may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.

Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957:

8. The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:

(3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if –

(f) he engages either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability.

Web-link of SEBI FAQ on Demat/Trading Account for minors dated September 25, 2018:

https://www.sebi.gov.in/sebi_data/faqfiles/may-2019/1558004460882.pdf

Regulation 3.1.4 and Regulation 3.1.8 of Part A of Capital market Regulation of NSE:

3.1.4 Trading Members may trade on the Trading System in securities that are admitted for dealing on the Exchange, either on behalf of their constituents or on their own



account unless otherwise specified by the relevant authority and trading shall be subject to such conditions as the Exchange may prescribe from time to time.

3.1.8 Particulars of Unique Client Code

When a Trading Member enters an order on behalf of a Constituent, then such a Trading Member shall at the time of entering orders on behalf of such Constituent, enter the unique code in respect of such Constituent in such format and with effect from such date as may be notified by the Exchange. Every Trading Member shall be responsible to furnish particulars of unique client codes of each of his Constituents to the Exchange in such form, manner, at such intervals and within such time as may be specified by the Exchange from time to time.

Regulation 3.1.19 of Regulations (F&O segment) of NSE:

3.1.19 When a Trading Member enters an order on behalf of a Constituent, then such a Trading Member shall at the time of entering orders on behalf of such Constituent, enter the Unique Client Code in respect of such Constituent in such format and with effect from such date as may be notified by the Exchange. Every Trading Member shall be responsible to furnish particulars of Unique Client Codes of each of his Constituents to the Exchange in such form, manner, at such intervals and within such time as may be specified by the Exchange from time to time.

Web-link of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018:

https://www.sebi.gov.in/web/?file=/sebi_data/attachdocs/dec2018/1543839622652.pdf#page=9&zoom=page-width,-16,563

Web-link of SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022:

https://www.sebi.gov.in/web/?file=https://www.sebi.gov.in/sebi_data/attachdocs/jun-2022/1654606353820.pdf#page=1&zoom=page-width,-15,842

SEBI (Stock Brokers) Regulations, 1992

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 stockbroker.*

(4) *It shall be the duty of every director, proprietor, partner, officer and employee of the stock broker to give to the inspecting authority all assistance in connection with the inspection, which the stock broker may reasonably be expected to give.*

Note: For detailed/ complete text of the provisions, relevant Rules, Regulations and Circulars etc., may be referred.”

E. EXAMINATION OF EVIDENCE AND CONSIDERATION OF ALLEGATIONS

10. I have perused the material available on record including the Enquiry Report submitted by the DA, response of the *Noticee* and applicable provisions of law. I shall now proceed to deal with the violations as alleged in the SCN *in seriatim*.

E.1. ALLEGATIONS WITH RESPECT TO STOCK RECONCILIATION

11. It was observed that the *Noticee* failed to reconcile the back-office holdings of client's securities with stocks lying in DP accounts as on September 30, 2022 with respect to 3 ISINs (Quantity – 1,30,010.53, Value – INR 8,280). Out of the aforesaid shares, 1,30,000 shares pertain to Bohra Industries Ltd., which was listed on SME platform of NSE and trading was suspended by NSE w.e.f. December 29, 2021, remaining 10 shares pertain to Indian Link Chain Manufacturers Limited and 0.53 units pertains to Mutual Fund units of Nippon Life India. On account of the non-reconciliation of clients' accounts as mentioned above, it is alleged that the *Noticee* violated the provisions of Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.



12. In terms of the relevant provisions of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008, stock brokers are required to maintain proper records of client collateral and the records should be periodically reconciled with the actual collateral deposited with the stock broker to prevent misuse of client collateral.
13. During the course of proceedings before the DA, the *Noticee* submitted the following with respect to allegations of non-reconciliation of clients' securities:
- (a) Out of the 3 instances, 1 instance of 1,30,000 shares is that of own account of the *Noticee* pertaining to Bohra Industries Ltd (listed on NSE SME Platform and suspended from trading w.e.f. December 29, 2021). Thus, the difference in respect of clients is merely on 2 instances of 10.53 shares/units, wherein 10 shares pertain to Indian Link Chain Manufactures Limited and 0.53 pertains to Mutual Fund units viz. Nippon Life India, totaling to amount of INR 8,280/-.
 - (b) With respect to difference of 1,30,000 shares pertaining to Bohra Industries Ltd., the *Noticee* submitted as under:
 - (i) The said 1,30,000 shares pertained to Stock Broker's own account only.
 - (ii) The reason for difference as per DP statement and Stock Broker's books was due to Corporate Action on part of the Company on July 25, 2022 wherein there was 100% capital reduction.
 - (iii) The said Corporate Action was not taken into account in Stock Broker's books as there was no mechanism for auto updating of Corporate Action and the same was reported to software vendors.
 - (iv) Pursuant to the aforesaid, Stock Broker has made it a point to practice manual reconciliation of Corporate Actions at the end of every day.
 - (c) With respect to difference of 0.53 shares pertaining to Mutual Fund units viz. Nippon Life India, the *Noticee* submitted that the fractional units were accumulating on daily basis over a period of time. Therefore, the same did not reflect in its books of accounts on September 30, 2022.



- (d) With respect to difference of 10 shares of India Link Chain Manufactures Limited, the *Noticee* submitted that it received payout on September 28, 2022 and the same was given to client on September 29, 2022. However, the aforesaid update was pending in the books as on September 30, 2022.
 - (e) The *Noticee* further submitted that on daily basis Stock Broker report around 250-300 scrips. Thus, the differences in reporting of securities are miniscule both in terms of number and value. Pursuant to the investigation, till date there is no instance of differences in securities which are reported.
 - (f) Additionally, the *Noticee* submitted as under:
 - (i) Vendor software was not updated to capture corporate actions on real time basis.
 - (ii) The aforesaid observation is only in very few instances and value wise also there was no material impact.
 - (iii) As on date, at the end of every day *Noticee* do stock reconciliation of our own stock with DP.
 - (iv) Further, presently, there is no requirement with respect to reconciliation of client stock.
14. The DA in its report has stated that the *Noticee* admitted that the securities of clients were not reconciled due to various reasons. The DA found that the justification given by the *Noticee* such as Corporate Action was not taken into account in Stock Broker's books as there was no mechanism for auto updating of Corporate Action or that fractional units were accumulating on daily basis over a period of time etc. were not acceptable since the *Noticee*, being a registered Stock Broker, was required to have the necessary checks and balances to eliminate such omissions / lapses and should have reconciled the securities of clients in timely manner to prevent any misuse of clients securities. Therefore, the DA held that the *Noticee* has failed to reconcile the back-office holdings of client's securities with actual stocks lying in clients DP accounts and found that



the *Noticee* was in violation of the provisions of Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.

15. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA and further submitted that the SEBI Circular dated April 17, 2008 pertains to “Collateral deposited by clients with brokers” whereas the alleged violation pertains to “Stock Reconciliation” and not actual “Collateral Reconciliation”. The *Noticee* contended that since there is no allegation with respect to non-reconciliation of “collaterals” deposited by clients with the *Noticee*, clause 2.3 of SEBI Circular dated April 17, 2008 has not been violated.
16. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I do not find merit in the submission of the *Noticee* that the SEBI Circular dated April 17, 2008 pertains to “Collateral deposited by clients with brokers” whereas the alleged violation pertains to “Stock Reconciliation” and not actual “Collateral Reconciliation”. Stock reconciliation inherently includes collateral reconciliation because the stocks cannot be reconciled without reconciliation of the collaterals. However, I note that out of 1,30,010.53 shares, 1,30,000 stocks were not client stocks. Hence, the allegation of non-reconciliation of client securities only pertains to 10.53 shares out of which payout for 10 shares was given to client but the update with respect to the same was pending in the books. Further, 0.53 fractional units had accumulated over a period of time. While these 10.53 shares constitute a technical violation, the differences in reporting of securities are miniscule both in terms of number and value.
17. In view of the above, I hold that the *Noticee* has violated the provisions of Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008. However, the violation is minor and technical in nature.



E.2. ALLEGATIONS WITH RESPECT TO STOCK MISMATCH ALERTS

18. It was observed that the *Noticee* incorrectly reported holding to the exchanges in 1 instance out of 20 samples as found in the inspection. Therefore, the *Noticee* were alleged to have not complied with the provisions of sub-clause (j) of clause 6.1.1 and clause 7.1.2 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
19. In terms of the relevant provisions of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, stock broker is required to upload the clients' fund balance and securities balance on Stock Exchange system. End of day securities balances (as on last trading day of the month) consolidated ISIN wise (i.e., total number of ISINs and number of securities across all ISINs) are also required to be submitted by the stock broker to the Exchange.
20. During the course of proceedings before the DA, the *Noticee inter alia* submitted the following with respect to allegations of stock mismatch alerts:
 - (a) The incorrect reporting pertains to one client, where 15,000 shares were incorrectly reported instead of 1,500 shares of SBI. The aforesaid was a punching error. 1,500 shares of SBI were pertaining to withdrawal/ recall of stocks in Securities Lending & Borrowing Scheme (SLBS) segment for early Pay-in against client's obligation which is required to be entered manually in the back-office.
 - (b) However, the said error was identified and subsequently rectified. Also, the pay-in and pay-out obligations of clients were being correctly processed. The *Noticee* further submitted that the outward of the said 1,500 shares of SBI were shown correctly in demat account and in the Register of Securities. The *Noticee* also furnished a copy of relevant extracts of demat account of PJS Securities LLP.
 - (c) Further, the *Noticee* submitted that it doesn't have software to import SLBM transactions as the same is very complicated by nature and very few clients



were trading on this segment. So, the *Noticee* was making manual entries in stock register of SLBM segment and doing reconciliation of client stock with DP, on daily basis. The *Noticee* also submitted that as on date, there is no requirement to report stocks in client's accounts.

21. The DA in its report has stated that the *Noticee* accepted the allegation with respect to incorrect reporting of holding to the Exchanges since the *Noticee* admitted that 15,000 shares were incorrectly reported instead of 1,500 shares of SBI. However, the said error was identified and subsequently rectified by the *Noticee*. The DA rejected *Noticee*'s submission that they don't have software to import SLBM transactions as the same is very complicated by nature and they were making manual entries in stock register of SLBM segment as *Noticee* was required to furnish the correct end of day securities balances (as on last trading day of the month) consolidated ISIN wise (i.e., total number of ISINs and number of securities across all ISINs). Therefore, the DA held that the *Noticee* violated the provisions of sub-clause (j) of clause 6.1.1 and clause 7.1.2 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
22. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA and further submitted that there is no allegation of any misutilization of client's funds.
23. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that the *Noticee* admitted the violation pertaining to incorrect reporting of the clients' fund balance and securities balance on Stock Exchange system. I do not find merit in the submission that *Noticee* didn't have software to import SLBM transactions as the same is very complicated by nature and they were making manual entries in stock register of SLBM segment as these compliances have to be mandatorily followed by all stock brokers. Further, the submission of the *Noticee* that there is no allegation of any misutilization of client's funds in the SCN does indicate a



mitigating factor. However, that itself is not enough to negate the finding that the *Noticee* violated the aforesaid provisions.

24. Therefore, I hold that the *Noticee* has violated the provisions of sub-clause (j) of clause 6.1.1 and clause 7.1.2 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. However, the violation is minor and technical in nature.

E.3. ALLEGATIONS WITH RESPECT TO MONTHLY/QUARTERLY SETTLEMENT OF FUNDS

25. It was observed that settlement of 6 inactive clients, i.e. clients who had not traded in the last 30 calendar days from the month of September 2021 onwards, was not done on quarterly basis and settlement of funds for 83 inactive clients was not done on monthly basis, (amounting to a total of INR 28,04,215) from the month of September 2021 onwards in violation of SEBI guidelines applicable from the month of August 2021. The *Noticee* was alleged to have not complied with the provisions of sub-clause (e) of clause 12 of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir19/2009 dated December 03, 2009 read with Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and Clause 5.4. of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021.
26. In terms of the relevant provisions of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009, the actual settlement of funds and securities shall be done by the stock broker, at least once in a calendar quarter or month, depending on the preference of the client. Similarly, SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 provides that the stock broker shall ensure that there must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements. Further, SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 provides that 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 the Stock Broker, within next three working days irrespective of the date when the running account was previously settled.

27. During the course of proceedings before the DA, the *Noticee* submitted the following:

- (a) 6 instances of non-settlement happened prior to introduction of SEBI circular dated June 16, 2021 which came into effect from August 31, 2021. The said clients were not traceable and the said funds were transferred to designated bank account.
- (b) In respect of 83 instances, (i) in 3 instances, the clients' accounts were either settled or settlement requirement was not applicable and the settlement was done during the month for 3 clients for INR 1,89,698; (ii) in 25 instances, pay-out was initiated but the same was rejected due to invalid bank details; (iii) in 55 instances, clients' accounts were settled in subsequent months.
- (c) The instances of non-settlement are miniscule in terms of number and value considering the size of its operations and after introduction of the requirement since August 2021, the *Noticee* has improved its internal control in the said area.
- (d) As on date there are no instances of non-settlement of non-active clients.

28. The DA in its report has stated that:

- (a) Submission of the *Noticee* that some clients were not traceable and that the said funds were transferred to designated bank account is not tenable as the settlement of funds of said 6 inactive clients was not initiated by the *Noticee* within the timelines provided.
- (b) *Noticee* has not explained why the settlement requirement was not applicable to the 3 inactive clients. As per SEBI circular dated June 16, 2021, clients having credit balances, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance was required to be returned to the clients within next 3 working days, however,



the *Noticee* failed to do so. Hence, the *Noticee* has failed to settle the accounts of said 3 inactive clients amounting to INR 1,89,698/-.

- (c) Settlement of funds of 25 inactive clients was required to be initiated by the *Noticee* within 3 working days after clients have not traded in previous 30 calendar days. However, the *Noticee* initiated the settlement of funds of said clients through NEFT beyond the specified timelines. Thus, the *Noticee* failed to settle the funds of said 25 inactive clients amounting to INR 14,79,071/- on monthly basis.
 - (d) The *Noticee* has accepted the allegation that monthly settlement of funds was not done for 55 clients who had not traded in last 30 calendar days from the month of September 2021 onwards. Hence, the *Noticee* failed to settle the accounts of said 55 inactive clients amounting to INR 9,17,845/- on monthly basis in terms of provisions of SEBI circular dated June 16, 2021.
29. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA and further submitted that the alleged instances of non-settlement are miniscule in terms of number and value considering the size of its operations. Further, as on date there are no instances of non-settlement of non-active clients. Additionally, there are no client complaints with respect to non-settlement of funds.
30. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that most of the instances of non-settlement of funds have been admitted by the *Noticee*. However, the instances of non-settlement are miniscule in terms of number and value in comparison to the size of the *Noticee's* operations and the *Noticee* has also improved its internal control in the said area after introduction of the requirement since August 2021. Further, there are no pending complaints from any clients with respect to non-settlement of funds of misutilization of funds.



31. In view of the above, I hold that the *Noticee* has violated sub-clause (e) of clause 12 of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir19/2009 dated December 03, 2009 read with Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and Clause 5.4. of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021. However, the violations are minor in nature.

E.4. ALLEGATIONS WITH RESPECT TO REPORTING AND SHORT COLLECTION OF MARGIN

32. It was observed that *Noticee* did incorrect reporting of margins in respect of various clients to the Stock Exchange. In respect of 10 clients' EOD margin shortfall in 10 instances amounting to INR 3,78,370.21/- was observed. Further, peak margin shortfall in respect of 8 clients in 8 instances amounting to INR 1,51,131.74/- was observed. On account of the shortfall of the margins, the *Noticee* were alleged to have not complied with the provisions of SEBI Circular No. CIR/DNPD/7/2011 dated August 10, 2011 read with Clause (iii) of Annexure to SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020.
33. SEBI Circular No. CIR/DNPD/7/2011 dated August 10, 2011 was issued with an intent of regular monitoring of and levying penalty for short-collection/ non-collection of margins from clients' in Cash and Derivatives segments. Further, as per SEBI Circular No. SEBI/HO/MRD2/DCAP/ CIR/P/2020/127 dated July 20, 2020 the member shall report the margin collected from each client, as at EOD and peak margin collected during the day. Further, higher of the shortfall in collection of the margin obligations with respect to EOD and peak margin shall be considered for levying of penalty as per the extant framework.
34. With respect to allegations of EOD margin shortfall in respect of 10 clients, the *Noticee*, *inter alia*, submitted the following during the course of proceedings before the DA:



- (a) 1 instance is for an NRI client to whom EOD margin is not applicable.
 - (b) 6 instances for client codes VMI 12, VSS4, VSS5, VSSI, VG72 & VMI10 (For EOD Margin and Peak margin). There was an OFS of Axis Bank on May 20, 2021 (Thursday) for retail category (value up to INR 2 Lakhs). All the clients transferred INR 2 Lakhs on May 19, 2021 and bid on May 20, 2021 and received the allotment for the same. However, due to some accounting error on its part, the client's ledger got debited on May 20, 2021. The *Noticee* came to know about the said error only on May 21, 2021 (late night) when client called for wrong debit entries. As May 21, 2021 was a Friday, The *Noticee* could give reversal credit of INR 28,49,715 only on May 24, 2021 i.e. on Monday. Therefore, only due to some accounting errors, the said ledgers generated margin shortfall EOD on May 21, 2021. There was no *mala fide* intention on its part.
 - (c) The calculation of short margin alleged in the SCN is incorrect since the short margin already reported by the *Noticee* has not been considered and there are only 2 instances of incorrect EOD margin reporting amounting INR 49,143/-.
 - (d) The Exchange has levied and collected EOD penalty for all 10 instances as stated above and furnished a copy of list of EOD penalty payment for these 10 instances.
35. With respect to allegations of peak margin shortfall at 8 instances, the *Noticee* submitted as under:
- (a) For 7 instances, the *Noticee* reiterated their submissions mentioned in the preceding paragraph.
 - (b) All the above client's ledgers were in credit of INR 45,000/- on May 21, 2021 by EOD.
 - (c) Exchange has levied and collected EOD penalty for all 8 instances as stated above and furnished a copy of list of EOD penalty payment for these 8 instances.



(d) The alleged incorrect reporting is very miniscule and therefore no adverse inference be drawn against it.

36. The DA in its report has stated that the *Noticee* has accepted the allegation that EOD margin in respect of 9 clients was reported incorrectly to the stock exchange. The DA further stated that *Noticee* has not made any submission with respect to 1 client, indicating that *Noticee* has nothing to submit in this regard and the allegation levelled against *Noticee* is accepted by it.
37. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA and further submitted that there is no allegation of any misutilization of client's funds and that the alleged incorrect reporting is miniscule and therefore no adverse inference be drawn against them.
38. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that the stock exchange has levied and collected penalty for EOD margin shortfall at aforementioned 10 instances and for peak margin shortfall at aforementioned 8 instances.
39. In view of the above, I hold that the *Noticee* has violated the provisions of SEBI Circular No. CIR/DNPD/7/2011 dated August 10, 2011 read with Clause (iii) of Annexure to SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/ 2020/127 dated July 20, 2020. However, the alleged incorrect reporting by the *Noticee* is minor and there is no allegation or finding of misutilization of client's funds.

E.5. ALLEGATIONS WITH RESPECT TO CLIENT REGISTRATION PROCESS

40. With respect to client registration process, it was observed that:



- (a) For Non-Mandatory Document: The *Noticee* has wrongly stated that the Running Account Authorization is also for settlement of securities, which is currently not applicable.
 - (b) For Mandatory Document: Annexure for “DO’s & Don’t” contains the words “settlement of securities”, which is currently not applicable.
 - (c) The *Noticee* did not provide the facility of online closure of accounts on its website.
41. In view of the above, the *Noticee* was alleged to have not complied with the provisions of sub-clauses (b) and (c) of Clause 13 of Annexure 6 of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 read with SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 and BSE Circular Notice No. 20210727-6 dated July 27, 2021 read with sub-clause (5) of Clause A in Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992.
42. In terms of the relevant provisions of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011, the formats relating to trading account opening have to be followed by the stock brokers/trading members. Further, SEBI circular CIR/HO/MIRSD/DOP/CIR/P/ 2019/75 dated June 20, 2019 provides that stock broker is required to transfer the clients’ securities received in payout to clients demat account within one working day. It further stipulates that the provisions with regard to running account settlement of clients’ funds and securities specified in SEBI Circulars MIRSD/ SE /Cir-19/2009 dated December 03, 2009 and SEBI/HO/MIRSD/MIRSD2/CIR/P/ 2016/95 dated September 26, 2016 shall stand modified and the said circulars shall be applicable only as guidelines for running account settlement of clients’ “funds” only.
43. In terms of the relevant provisions of BSE Circular Notice No. 20210727-6 dated July 27, 2021, client shall be entitled to close the trading account through online mode without giving any reasons to the trading member. Online request for



closing of trading accounts shall be made available for the clients who have opened their accounts offline or online, by those trading members which provide facility of opening account online and provide various services to their clients in online mode.

44. With respect to allegations of settlement of securities, the *Noticee*, *inter alia*, submitted the following during the course of proceedings before the DA:
- (a) Deletion of word "Settlement of Securities" is not specified in any of the SEBI and exchange circulars. Even though un-pledging or release of client securities is not required under present margin pledge system, the value of securities pledged is considered in calculating the amount of settlement.
 - (b) Irrespective of nomenclature, the *Noticee* has been following the procedure for settlement of client funds as specified in SEBI circular dated June 20, 2019 bearing reference no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 on handling of client securities. Thus, in the light of express statutory requirements for settlement of securities specified in SEBI Circular, the word "Settlement of Securities" has become automatically ineffective.
 - (c) Taking cognizance of the said allegation, the *Noticee* communicated to its clients, vide email dated December 05, 2022 that the word "Settlement of Securities" referred to in Running Account Authorization and Do's and Don'ts of KYC stand deleted.
45. With respect to allegations of not providing the facility of online closure of accounts on its website, the *Noticee* submitted before the DA that for online closure of accounts, it has provided closure form on its website which the client is required to fill and send the same through email for closure of account. In absence of expressed process for online account closure, the *Noticee* is following the above methodology, which is also followed by other Stock Brokers as well. The *Noticee* also furnished a copy of snapshot of website showing account closure form.



46. The DA in its report has stated that:
- (a) With regard to allegations of words ‘Settlement of Securities’ contained in Running Account Authorization and ‘DO’s & Don’ts, the *Noticee* should have modified the Annexure for “DO’s & Don’t” which contained the words “settlement of securities”.
 - (b) With regard to Running Account Authorization format, SEBI circulars lay down the guidelines to be followed by the stock brokers and it may not always specify the deletion of words to be done by stock brokers. Stock brokers are expected to make the consequential changes to their forms/undertaking based on the instructions, directions and guidelines specified under SEBI circulars. Thus, the *Noticee* should have modified the Running Account Authorization format.
 - (c) With regard to online closing of trading accounts, the *Noticee* was required to provide the facility of online closure of trading accounts through its website, however, the *Noticee* provided only closure form on its website and not the facility of online closure of accounts on its website.
47. In view of the above, the DA held that the *Noticee* has violated sub-clauses (b) and (c) of Clause 13 of Annexure 6 of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 read with SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 and has also violated BSE Circular Notice No. 20210727-6 dated July 27, 2021 read with sub-clause (5) of Clause A of Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992.
48. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA and further submitted that it has taken immediate corrective measures to provide facility of online closure of accounts on its website.
49. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that Running



Account Authorization was not applicable for settlement of securities and considering the amended SEBI circulars and guidelines, the *Noticee* should have modified the Running Account Authorization format and should have made consequential changes to its forms/ undertaking based on the instructions, directions and guidelines specified under SEBI circulars. Further, with respect to account closure form, I note that the *Noticee* has admitted that it provided only closure form on its website and not the facility of online closure of accounts on its website. I also note that the *Noticee* has taken immediate corrective measures upon being notified of the alleged violations.

50. In view of the above, I find that the *Noticee* has violated the provisions of sub-clauses (b) and (c) of Clause 13 of Annexure 6 of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 read with SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 and has also violated BSE Circular Notice No. 20210727-6 dated July 27, 2021 read with sub-clause (5) of Clause A of Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992. However, there has been no complaint that investors faced an issue with the *Noticee* while closing the account.

E.6. ALLEGATIONS WITH RESPECT TO NET WORTH VERIFICATION

51. It was observed that the net worth of the *Noticee* reduced from INR 40.90 Crores to INR 40.72 Crores due to wrongful inclusion of assets. Therefore, the *Noticee* was alleged to have not complied with the provisions of sub-clause (j) of clause 6.1.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
52. In terms of the relevant provisions of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, stock broker is required to submit the complete and correct data with respect to net worth to the Exchange.



53. With respect to aforesaid allegations, the *Noticee*, *inter alia*, submitted the following during the course of proceedings before the DA:
- (a) The non-allowable asset considered by the inspection team included (i) IPO Brokerage receivable; (ii) Amount receivable from certain related parties; and (iii) Advance given to Vendors totalling to 17.89 Lakhs which a miniscule amount of 0.44% of reported figure.
 - (b) In respect of Advance to vendors of INR 8,59,943/-, the *Noticee* submitted that amount has been considered as non-allowable under the head of "Prepaid Expenses, Losses". However, Sr. No. 7 of Annexure -A of NSE Circular dated March 08, 2021 bearing reference no. NSE/COMP/47555 and Circular dated July 10, 2021 bearing reference no. NSE/COMP/48895 on clarification on net worth computation, does not specify any deduction for advances to vendors for net worth calculation. In fact, advance to vendors is not specified for deduction under any other head in the said Circulars.
 - (c) In respect of non-allowable assets of IPO brokerage receivable and receivable from certain related parties amounting to INR 9,29,531/- *Noticee* submitted the said amounts are not deducted but the same does not materially impact the net worth amount.
 - (d) Thus, effectively the variation is only 0.44% in total and 0.23% without considering the variation due to IPO brokerage receivable and receivable from certain related parties which are very miniscule.
 - (e) Further, net worth of the *Noticee* is 8 times the required net worth.
54. The DA in its report has stated that the difference in net worth reported to the Exchange by the *Noticee* and actual net worth is miniscule and it does not materially impact the total net worth of the *Noticee*, which is well above the minimum required net worth. Accordingly, the DA found that the *Noticee* has not violated the provisions of sub-clause (j) of clause 6.1.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016.



55. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA.
56. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that even if allegations were considered to be true, the difference in net worth reported to the Exchange by the *Noticee* and the actual net-worth of the *Noticee* is miniscule and it does not materially impact the total net worth of the *Noticee*, which is well above the minimum required net worth.
57. Accordingly, I find that the *Noticee* has not violated the provisions of sub-clause (j) of clause 6.1.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

E.7. ALLEGATIONS WITH RESPECT TO VERIFICATION OF WEEKLY HOLDING STATEMENT

58. On examination of holding statement submitted by the *Noticee*, it was observed that *Noticee* had not reconciled stocks lying in DP accounts as on September 30, 2022 in respect of 3 ISIN i.e. 1,69,496.53 shares having value of INR 11,12,342.40. Therefore, the *Noticee* was alleged to have not complied with the provisions of Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
59. SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 provides for monitoring of clients' funds lying with the stock broker by the stock exchanges. It further provides that 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.
60. With respect to aforesaid allegations, the *Noticee*, *inter alia*, submitted the following:



- (a) With respect to non-reconciliation of 1,30,000 shares pertaining to Bohra Industries Ltd pertains, the *Noticee* submitted as follows:
- (i) The said 1,30,000 shares pertained to Stock Broker's own account only.
 - (ii) The reason for difference as per DP statement and Stock Broker's books was due to Corporate Action on part of the Company on July 25, 2022 wherein there was 100% capital reduction.
 - (iii) The said Corporate Action was not taken into account in Stock Broker's books as there was no mechanism for auto updating of Corporate Action and the same was reported to software vendors.
 - (iv) Pursuant to the aforesaid, Stock Broker has made it a point to practice manual reconciliation of Corporate Actions at the end of every day.
- (b) Additionally, for 39,496 shares, the *Noticee* submitted that the said 39,496 shares pertain to G.K.P. Printing and Packaging Ltd held in its account. Bonus shares were received via corporate action on September 29, 2022, but the same got updated in its books only after September 30, 2022. Therefore, there is difference in DP account and its own account.
- (c) The *Noticee* submitted that corrective and remedial steps have been taken post inspection and the lapses or deficiencies, if any, are no longer in existence.
61. The DA in its report stated that *Noticee* has admitted to the violation with respect to the findings with respect to allegations of non-reconciliation of holding statement and accordingly found that *Noticee* violated the provisions of Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016.
62. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA and further submitted that there is no allegation of misutilization of securities against it.



63. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 provides for monitoring of clients' funds lying with the stock broker with the primary objective of preventing misuse of clients' funds by stock brokers. I note that 1,30,000 shares of Bohra Industries Ltd pertained to Stock Broker's own account only and hence the majority of alleged non-reconciled shares did not pertain to any client. While the *Noticee* has partly admitted to non-reconciliation of holding statement, I am also apprised of the fact that there was no allegation of misuse of client securities and that the *Noticee* had taken corrective and remedial steps immediately after inspection to remedy all defects.

64. In view of the above, I find that although the *Noticee* has violated Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2 /CIR/P/2016/95 dated September 26, 2016. However, the violation is minor and technical in nature.

E.8. ALLEGATIONS WITH RESPECT TO VERIFICATION OF UNIQUE CLIENT CODE (UCC)

65. It was observed that single e-mail ID was mapped to multiple clients i.e. 27 e-mail ID were mapped against 75 clients and single mobile number was mapped to multiple clients i.e. 24 mobile number were mapped against 117 clients. Therefore, the *Noticee* was alleged to have not complied with the provisions of sub-clause (B) of clause 2 of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011.

66. In terms of the relevant provisions of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011, Stock Brokers shall ensure that separate mobile number/e-mail address is uploaded for each client. However, under exceptional circumstances, the stock broker may, at the specific written request of a client, upload the same mobile number/e-mail address for more than one client



provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.

67. With respect to above allegations, the *Noticee inter alia* submitted the following during the course of proceedings before the DA:
- (a) The common Email IDs and mobile numbers are that of family members. The same is allowed vide Para 1 of NSE Circular dated May 31, 2016 bearing reference no. NSE/INSP/32471, wherein it is mentioned that "*The stock broker may, at the specific written request from client, upload the same mobile number/ E-mail address of one of the client's family member*".
 - (b) *Noticee* furnished a copy of list of clients along with the relationship in case of mobile number and e-mail IDs, copies of sample letters received from clients belonging to the same family for common mobile number and for common Email Id's.
 - (c) *Noticee* further submitted that as on date the KYC form itself has a provision to include common mobile number and e-mail ID of the family members.
68. The DA in its report has stated that in support of their claim, the *Noticee* has furnished a copy of list of clients along with the relationship in case of mobile number and email IDs, and copies of sample letters received from clients belonging to the same family for common mobile number and for common email IDs. Accordingly, the DA found that the *Noticee* has not violated the provisions of sub-clause (B) of clause 2 of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011.
69. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA.
70. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that the *Noticee* has followed the procedure established under the relevant Circulars while



uploading mobile number and e-mail IDs of various clients. Adequate proof in this regard has also been provided by the *Noticee*.

71. In view of the above, I find that the *Noticee* has not violated the provisions of sub-clause (B) of clause 2 of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011.

E.9. ALLEGATIONS WITH RESPECT TO MEMBER ENGAGED AS A PRINCIPAL OR EMPLOYEE IN A BUSINESS OTHER THAN THAT OF SECURITIES INVOLVING PERSONAL FINANCIAL LIABILITY

72. It was observed that the *Noticee* invested in associate companies and entered into an arrangement to borrow funds from client. It was also observed that, the *Noticee* entered into arrangement with arbitragers to extend loans, financing the securities transactions directly/indirectly, except as allowed for Margin Trading purposes. Therefore, the *Noticee* was alleged to have not complied with the provisions of Clause (f) of sub-rule (3) of rule 8 of SCR Rules and NSE circular No. NSE/COMP/50957 dated January 07, 2022.
73. In terms of the relevant provisions of SCR Rules, a member of stock exchange shall not engage either as a principal or as an employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability.
74. With respect to allegations of investment in associate company, the *Noticee*, *inter alia* submitted the following during the course of proceedings before the DA:
- (a) The associate company i.e. Rikhav Insurance Broker Private Limited ("**RIBPL**") was incorporated with an objective of carrying on the business of insurance broker but the business activities did not start.
 - (b) *Noticee's* investments in RIBPL is from its own surplus funds. Further, the *Noticee* has not provided loan to RIBPL but invested in the equity shares



of RIBPL, which is a private limited company. Its equity stake in RIBPL is only 20%.

- (c) The said investment amount is already deducted while calculating the Net worth.
- (d) Further, the *Noticee* submitted that there is no bar in investing in listed or unlisted private companies.

75. With respect to allegations of arrangement to borrow funds from clients, the *Noticee*, *inter alia* submitted the following during the course of proceedings before the DA:

- (a) With respect to borrowing funds from Total Holdings and Finvest Private Limited ("**Total Holdings**"), the *Noticee* submitted that Total Holdings is a NBFC registered with Reserve Bank of India and the funds have been borrowed under a separate loan arrangement for working capital purpose in the normal course of its broking business.
- (b) *Noticee* further submitted that the allegation is merely on the grounds that Total Holdings, which has extended loan facility to the *Noticee*, is also its client. However, loan from NBFC and Member-Client relationship are two different things and should not be interlinked merely because both exist at the same time. As a client there is separate ledger account, separate bank account for pay in and pay out of funds and separate DP account is maintained for pay in and pay out of securities. Further, as a borrower too, there are separate bank account and ledger account maintained.
- (c) Notably, funds have been borrowed for securities business and utilized for the same. Hence, SCRR Rules, Exchange Rules and NSE Circular dated January 07, 2022 bearing reference no. NSE/COMP/50957 cannot be said to be violated.
- (d) The trading transactions, including pay-in, pay-out of Total Holding has taken place in a normal course of business like any other client and there is no impact on it due to the loan agreement. Hence, the loan transaction with Total Holdings is like any other transaction which an NBFC enters in its regular course of its NBFC activities and not otherwise.



(e) *Noticee* has taken loan from Total Holding and not the other way round.

76. With respect to allegations of arrangement with arbitragers to extend loans, the *Noticee*, *inter alia* submitted the following during the course of proceedings before the DA:

(a) Submissions with respect to arbitrage activities carried out by the *Noticee*:

- (i) *Noticee* is engaged in doing jobbing and Arbitrage business with the help of the expert jobbers in its Proprietary Trading Account (Prop. Account).
- (ii) Arbitrage is a specialized skill which requires understanding of markets, research and movement of scrips over a period of time and spontaneity *with* presence of mind to buy and sell at the spur of the moment. Being a very specialized skill, the arbitragers are generally paid incentive. The incentive is determined after considering the transaction cost and cost of finance.
- (iii) In this regard, an agreement or Memorandum of Understanding (MoU) or Term Sheet is entered into them outlaying the Terms and conditions in respect of dealings or arrangement with them.

(b) Submissions with respect to agreements or MoU or Term Sheet (collectively known as Agreement) with arbitragers:

- (i) Whenever an arbitragers/ jobber approaches, after all its due diligence, the *Noticee* takes an appropriate sum of amount as interest free security deposits. In the agreement as submitted by it by letter dated December 07, 2022, it is mentioned that "*The Jobber shall simultaneously on the execution of this Agreement, deposit and keep deposited with the Company as and by way of interest free deposit for the entire period of this Agreement for the due observance and performance of the terms of this Agreement by the Jobber.*"
- (ii) The *Noticee* is in charge of risk management, strategies to be adopted, guidance, training etc. The deposit so taken from them to



ensure that they implement the strategy as given to them and adhere to the terms as agreed upon. The deposits are taken for its safety.

- (iii) Pursuant thereto, each arbitrager is allotted a specific exposure/limit as maybe mutually decided between *Noticee* and the arbitragers/jobber. *Noticee* also provides them with the required infrastructure, software for trading terminal, latest updated data etc. which helps them in better execution of trades.
 - (iv) Arbitragers carry out their activities in its Proprietary Code. The overall supervision and control is with *Noticee*.
 - (v) *Noticee* is obligated to pay all margin monies to the stock exchange for the transactions carried out by its jobbers/arbitragers in its Prop account.
- (c) Submissions with respect to charging of interest to arbitragers:
- (i) The funds through which the arbitrager trades are from its own funds which are required to kept/reserved/available in Prop account and therefore interest is charged to them.
 - (ii) Notional interest is charged as a component of cost of funds made available to the arbitragers for calculation of incentive to given to arbitragers. The notional interest component is a notional charge which is considered in calculation of incentive of each individual arbitrager as the same is not affected in books of accounts and thereafter incentive is provided to arbitrager.
 - (iii) There is no loan or other financing for the securities transactions provided to the jobbers/ arbitragers.
- (d) *Noticee* also stated that *Noticee* has discontinued the practice of taking deposits from Arbitragers and it has returned deposits of all the arbitragers.

77. The *Noticee* further submitted the following during the course of proceedings before the DA:



- (a) The said investment, borrowing or arrangement, did not affect its net worth in any manner whatsoever.
- (b) The investment was out of the surplus funds available with *Noticee*.
- (c) The said investment, borrowing or arrangement did not affect the client's dealings with *Noticee*. The said investment was not out of client's funds but from its own surplus funds.
- (d) The aforesaid instances did not possess risk to its business as "Stock Broker".
- (e) SEBI circular dated May 07, 1997 inter alia states that ".....borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under clause (f) of sub-rule (1) of rule 8 and clause (f) of sub-rule (3) of rule 8". Hence the said transactions are not disqualified under clause (f) of sub-rule (3) of rule 8 of SCR Rules.
- (f) The validity of circular dated January 07, 2022 bearing reference no. NSE/COMP/50957 which pertains to clarification to the clause (f) of sub-rule (1) of rule 8 of SCR Rules and clause (f) of sub-rule (3) of rule 8 of SCR Rules, which is the subject matter of present email September 18, 2024, is under challenge before the Hon'ble Bombay High Court.
- (g) Petition (L) No. 32739 of 2023 and said Writ Petition is admitted on July 24, 2024. The outcome of the said Writ Petition will have direct bearing on the subject matter of present proceedings.

78. The DA, in its report, has stated that:

- (a) With regard to violation of clause (f) of sub-rule (3) of rule 8 of SCR Rules, the investments in associate company, arrangement to borrow funds and entering into arrangement with arbitragers to extend loans and financing the securities transactions were carried out using its surplus funds and not out of client's funds.
- (b) With respect to investment in associate company, the *Noticee* invested its surplus funds in its associate company viz. RIBPL and the networth of the *Noticee* was INR 40.89 Crore as on March 31, 2022 whereas its investment



in RIBPL (its associate company) was INR 1.10 Crore as on March 31, 2022.

- (c) With respect to borrowing funds from clients, the *Noticee* borrowed funds from 'Total Holdings', which is a RBI registered NBFC and the borrowed funds are under a loan arrangement for working capital purpose in the normal course of its broking business.
- (d) With respect to allegations of arrangement with arbitrageurs to extend loans and financing the securities transaction, the *Noticee* is engaged in doing jobbing and arbitrage business with the help of the Arbitrageurs/Jobbers in its Prop account after entering into agreement with them, which is in connection with or incidental to the securities business.

79. Considering the aforesaid findings, the DA stated that the main purpose of clause (f) of sub-rule (3) of rule 8 of SCR Rules is to prohibit the brokers from investing clients' money in other businesses. The DA found that since the said investment by the *Noticee* was not out of client's funds but from its own surplus funds, the *Noticee* has not violated the provisions of clause (f) of sub-rule (3) of rule 8 of SCR Rules, 1957 and NSE circular No. NSE/COMP/50957 dated January 07, 2022.
80. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA.
81. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that the objective of clause (f) of sub-rule (1) of rule 8 of SCR Rules and clause (f) of sub-rule (3) of rule 8 of SCR Rules, 1957 is to, *inter alia*, provide appropriate safeguards for activities in the securities market without placing unreasonable restrictions on normal investment and business activities of the stock brokers. Vide Circular No. SMD/Policy/Cir-6 dated May 07, 1997, SEBI itself had clarified that borrowing and lending of funds by a trading member in connection with or incidental to or consequential upon the securities business would not be



disqualified under SCR Rules, 1957. Further, in Adjudication Order of Geojit BNP Paribas (Adjudication Order No. EAD-12/ AO/SM/48/2017-18), SEBI observed that “*the main purpose of rule 8(3)(f) is to prohibit the brokers to invest the clients’ money in other businesses*”. In *Jitendra Pukhraj Jain v. NSE*, the Securities Appellant Tribunal (SAT), in its order dated 17th November 2020 observed that “the intention behind the said provision is to prevent negative impact on the balance sheet of a broker and to maintain the safety and integrity of the securities trading ecosystem.”

82. In view of the above, I find that has the *Noticee* has not violated the provisions of clause (f) of sub-rule (3) of rule 8 of SCR Rules sand NSE circular No. NSE/COMP/50957 dated January 07, 2022.

E.10.ALLEGATIONS WITH RESPECT TO TRADING IN MINOR’S ACCOUNTS

83. It was observed that *Noticee* has allowed trading of securities in accounts of minor. Therefore, the *Noticee* was alleged to have not complied with sub-clause (2) of clause A of Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992 read with SEBI FAQ on demat/trading account for minors dated September 25, 2018.
84. With respect to aforesaid allegation, the *Noticee inter alia* submitted the following during the course of proceedings before the DA:
- (a) All minor accounts were opened for investing in IPOs.
 - (b) In 12 instances, minors had already attained majority at the time of first trade.
 - (c) In remaining cases, the minor’s trading accounts were opened for the purpose of sale of securities which were in minor’s possession by way of IPO, inheritance, corporate action and off market transfers which are allowed in accordance with SEBI FAQ on demat/trading account for minors dated September 25, 2018. However, inadvertently since the buying limit was not restricted, trades got executed in the said minor accounts.



- (d) However, pursuant to inspection, the *Noticee* has frozen the said minor trading accounts with immediate effect. Also, it has implemented necessary controls to ensure that minor accounts are not allowed to trade.
85. In terms of the relevant provisions of SEBI FAQ on demat/trading account for minors dated September 25, 2018, a minor cannot enter into a contract with a stock broker to purchase or sell any security. However, a trading account in the name of a minor can be opened for the sole purpose of selling of securities which minor has possessed by way of investment in IPO, inheritance, corporate action or off market transfers by reason of gift, donation, transfer between family members, implementation of government / regulatory directions or orders. However, such an account will be operated by the natural guardian till the minor becomes a major.
86. The DA in its report has stated that the *Noticee* submitted that in case of 12 instances, minors had already attained majority at the time of first trade. However, inadvertently since the buying limit was not restricted, trades got executed in the said minor accounts. Further, pursuant to inspection, Rikhav has freezed the said minors trading accounts with immediate effect. Thus, the DA stated that *Noticee* has accepted the allegation of trading of securities in accounts of minors in respect of remaining 279 minor accounts. Even though the *Noticee* has frozen the minors trading accounts with immediate effect, the DA found that the *Noticee* has admitted the allegation pertaining to trading of securities in accounts of minors. Accordingly, the DA found that *Noticee* has violated the provisions of sub-clause (2) of clause A of Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992 read with SEBI FAQ on demat/trading account for minors dated September 25, 2018.
87. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA.



88. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that the *Noticee* has submitted that the accounts were opened for the minor in terms of the SEBI FAQ on demat/trading account for minors dated September 25, 2018. However due to inadvertent error the buying limit was not restricted due to which trades happened in minor accounts. I also note that the *Noticee* has promptly frozen the said minor trading accounts with immediate effect after inspection of SEBI,
89. In view of the above, I find that *Noticee* has violated the provisions of sub-clause (2) of clause A of Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992 read with SEBI FAQ on demat/trading account for minors dated September 25, 2018. However, I note that the *Noticee* has already taken immediate corrective measures.

E.11.ALLEGATIONS WITH RESPECT TO DEALING WITH UNREGISTERED CONSTITUENTS

90. It was observed that *Noticee* was dealing with constituents who were not registered as clients on stock exchange platform, taking funds from them in own account and trading on their behalf in Proprietary code. Therefore, the *Noticee* was alleged to have not complied with sub-clause (5) of clause A of in Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992 read with Regulation 3.1.4 read with Regulation 3.1.8 of Part A of Capital market Regulation of NSE and Regulation 3.1.19 of Regulations (F&O segment) of NSE.
91. In terms of the relevant provisions of Capital market Regulation of NSE and Regulations (F&O segment) of NSE, Trading Members may trade on the Trading System in securities that are admitted for dealing on the Exchange, either on behalf of their constituents or on their own account. Further, when a Trading Member enters an order on behalf of a Constituent, then such a Trading Member shall at the time of entering orders on behalf of such Constituent, enter the unique code in respect of such Constituent in such format and with effect



from such date as may be notified by the Exchange. Every Trading Member shall be responsible to furnish particulars of unique client codes of each of his Constituents to the Exchange in such form, manner, at such intervals and within such time as may be specified by the Exchange from time to time.

92. With respect to aforesaid allegations, the *Noticee inter alia* submitted the following during the course of proceedings before the DA:

- (a) Adverse allegation of a serious nature like trading in own account through arbitragers using funds of constituents not registered with the exchange have been drawn against *Noticee* merely on the basis of a single random complaint and its inability to provide agreement in a timely manner. In this regard, the *Noticee* submitted that *Noticee* is carrying out jobbing and arbitrage activities since more than past 25 years and this is the first ever complaint of such nature.
- (b) The complainant, Mr. Thakkar was introduced to the *Noticee* by Mr. Ashish Mehta, its arbitrager and they were supposed to carry out jobbing activities jointly. As per its practice, the *Noticee* demanded a security deposit of INR 15 Lakhs for jobbing. The said deposit was paid jointly from the family members. Instead of crediting the amount to a single arbitrager deposit account of Mr. Thakkar, it was credited to individual account of the family members so that it is easy to identify the same at the time of returning the deposit. However, due to personal and professional difference between Mr. Mehta and Mr. Thakkar it was decided amongst them they will not work together. Mr. Ashish Mehta kept on pursuing Mr. Thakkar to discuss for settlement of their dispute as he was hopeful that the issues would be resolved by discussion. Meanwhile, Mr. Thakkar was insecure of the security deposit and thought that the funds have been mis-used by Mr. Ashish and therefore there is a delay in refunding the deposit. As a result, Mr. Thakkar, instead of approaching *Noticee*, escalated the matter, resulting in the said complaint.
- (c) The issues were discussed by the *Noticee* in a joint meeting with Mr. Ashish Mehta and Mr. Kalpesh Thakkar. Mr. Thakkar agreed to withdraw



the complaint when he was explained that *Noticee* had no issue in refunding the said deposits. *Noticee* had warned Mr. Ashish Mehta for delaying the refund of security deposit and as a goodwill gesture decided to settle the matter by paying a sum of INR 3.60 Lakhs. The sum so paid was ultimately recovered from Mr. Ashish by adjusting against his share of arbitrage. Hence, the conclusion of the inspection team that settlement was done due to some wrongdoing on its part is incorrect, baseless and based on assumptions as the settlement amount has been recovered by the *Noticee*.

- (d) Further, the *Noticee* also has taken "No Dues Pending" letter dated October 17, 2022 from Mr. Kalpesh Thakkar. *Noticee* has been unnecessarily dragged in the matter in the dispute between two of its arbitragers for no fault of its. It has discontinued the practice of taking deposits from arbitragers and it has returned deposits of 49 arbitragers.

93. The DA in its report has stated that from the material available on records it is found that an agreement was entered into between *Noticee* and Mr. Kalpesh Thakkar for jobbing/ arbitrage activities and as per the agreement Mr. Kalpesh Thakkar was required to pay the security deposit to the *Noticee*. I also observe that the similar agreements were entered into by the *Noticee* with other jobbers/ arbitragers also. The DA has further stated that that *Noticee* has discontinued the practice of taking deposits from arbitragers and it has returned deposits of all the arbitragers.

94. Accordingly, the DA found that the *Noticee* has not violated the provisions of Regulation 3.1.4 read with Regulation 3.1.8 of Part A of Capital market Regulation of NSE and Regulation 3.1.19 of Regulations (F&O segment) of NSE read with sub-clause (5) of clause A of Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992.



95. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA.
96. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that an agreement was entered into by the *Noticee* for jobbing/ arbitrage activities and as per the agreement the arbitrager was required to pay the security deposit to the *Noticee*. I further note that *Noticee* has discontinued the practice of taking deposits from arbitragers and it has returned deposits of all the arbitragers. Thus, from the material available on record, the allegations with respect to dealing with unregistered constituent is not proved.
97. In view of the above, I find that *Noticee* has not violated the provisions of Regulation 3.1.4 read with Regulation 3.1.8 of Part A of Capital market Regulation of NSE and Regulation 3.1.19 of Regulations (F&O segment) of NSE read with sub-clause (5) of clause A of Schedule II (Code of Conduct for Stock Brokers) of the SEBI (Stock Brokers) Regulations, 1992.

E.12.ALLEGATIONS WITH RESPECT TO CYBER SECURITY AND CYBER RESILIENCE

98. It was observed that *Noticee* has not obtained Standardization Testing and Quality Certification (“**STQC**”) for off-the-shelf products used by the *Noticee* (Trading application and Back office application) for core business functionality. Therefore, the *Noticee* was alleged to have not complied with the provisions of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 and SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022.
99. In terms of the relevant provisions of SEBI Circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018, Stock Brokers / Depository Participants should ensure that off the shelf products being used for core business functionality (such as Back office applications) should bear Indian



Common criteria certification of Evaluation Assurance Level 4. The Common criteria certification in India is being provided by (STQC) Standardisation Testing and Quality Certification (Ministry of Electronics and Information Technology). Custom developed / in-house software and components need not obtain the certification, but have to undergo intensive regression testing, configuration testing etc. The scope of tests should include business logic and security controls.

100. With respect to above allegations, the *Noticee inter alia* submitted the following:

- (a) The *Noticee* has not acquired or purchased the software. *Noticee* is only users of the software on an annual license basis. The requirement for obtaining certification is in case off-the shelf products acquired or developed in house. Since *Noticee* is not the owners of the said software, the requirement is not applicable to the *Noticee*.
- (b) The *Noticee* further submitted that front office trading software is approved by Exchange Empanelled vendor. Exchange has issued a circular requiring back office vendor to register with the Exchange. Exchange has not made it mandatory for front office software to comply with STQC requirements before providing approval for the Front office software of Empanelled vendors or in house software of members.
- (c) Further, it is not possible for *Noticee* to apply and obtain the required certification. Also, there are no statutory guidelines specified by SEBI or Exchange requiring mandatory certification for back office and trading office software.
- (d) STQC specified in the Cyber Audit reports are quality standards like ISO, COBIT etc. which are best business practices. In the absence of statutory requirements for adoption of standards, such standards are required to be adopted as per the business requirement, nature and size of operations.
- (e) The *Noticee* furnished the copies of certificate from Greeksoft Technologies Pvt. Ltd., Multitrade Softech Pvt. Ltd., 63 Moons Technologies Limited and Techexcel Software Solutions Pvt. Ltd for reference.



101. The DA in its report stated that the SEBI Circular dated December 03, 2018 provides that off-the-shelf products being used by stock brokers for core business functionality (such as Back office applications) should bear Indian Common criteria certification of Evaluation Assurance Level 4 i.e. STQC. The DA stated that the *Noticee* was required to obtain the off-the-shelf products which were STQC compliant (Trading application and Back office application) for core business functionality which it failed to obtain. Accordingly, the DA held that that the *Noticee* violated the provisions of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 and SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022.
102. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA.
103. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that *Noticee* has denied the fact that the software used by it was obtained off the shelf. However, it may be noted that in software terminology, off the shelf products are used on license basis also. Hence, the *Noticee* was was non- compliant with Indian Common criteria certification of Evaluation Assurance Level 4 i.e. STQC.
104. In view of the above, I find that *Noticee* has violated the provisions of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 and SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022. However, I note that the aforesaid provisions are being reviewed by SEBI in consultation with the exchanges in view of representations made by various stock brokers regarding difficulty in complying with STQC requirements due to limited number of STQC auditors, time taken for issuing certification and high cost of certification. In the interim, the certification requirement has been suitably modified to ensure continuity of business and the interim requirements have been complied with by the *Noticee*.



E.13.ALLEGATIONS WITH RESPECT TO NON CO-OPERATION WITH INSPECTION TEAM

105. It was observed that *Noticee* has failed to furnish the net worth related data viz. ageing for IPO brokerage receivable, amount receivable from related party i.e. Rikhav IFSC and Rikhav Commodity and arbitragers/ jobbers agreements despite given sufficient time and multiple reminders. Therefore, the *Noticee* was alleged to have not complied with the provisions of regulation 21 of the SEBI (Stock Brokers) Regulations, 1992.

106. In terms of the relevant provisions of the SEBI (Stock Brokers) Regulations, 1992, it is 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.

107. With respect to above allegations, the *Noticee inter alia* submitted the following:

- (a) The inspection was jointly conducted by all the Exchanges and SEBI. It is possible that its team would have been occupied in providing information sought by the other Exchanges/SEBI resulting in delay.
- (b) With respect to verification of net worth, the *Noticee* further submitted that the ageing was sought for IPO Brokerage receivable and receivable from certain related Parties totalling around INR 9,29,531/-. Since the amount of IPO Brokerage was not a party account, ageing was not readily available from the system. Further, the amount could not have any material bearing on the net worth and therefore there was no intention to conceal or hide information.
- (c) With respect to non-submission of copies of agreement of 54 arbitragers, the *Noticee* stated that the same was not intentional or deliberate. *Noticee* further submitted that *Noticee* had shifted to new premises just 2 days prior



to the inspection. Hence, it was difficult to search for the documents. Therefore, the same could not be submitted at that point in time. However, the said agreements with 54 Arbitrators were submitted along with its reply dated December 07, 2022 which was filed in response to the findings of the inspection team.

- (d) Additionally, below are certain reasons because of which there was delay in submitting the documents/ data:
 - (i) There were approximately 10 tasks between October 15, 2022 to November 30, 2022 that had to be completed as per Exchange Compliance calendar.
 - (ii) Corporate Income Tax Return filing date was November 07, 2022.
 - (iii) GST and TDS Returns filing due date was November 20, 2022.
 - (iv) Also, the inspection was being done closer to Diwali and many of its support staff members were on holiday.
 - (v) As also stated aforesaid, the *Noticee* had shifted to new office premises just 23 days before the inspection commenced and *Noticee* was finding it difficult to locate certain documents.
- (e) In view of the aforesaid submissions, the *Noticee* stated that it was never their intention not to co-operate with the inspection team, however due to certain circumstances beyond its control there was delay in submitting certain data and documents.
- (f) The inspection of SEBI and other Exchanges coincided just prior to religious festival of Diwali. Hence, some of the concerned staff which was aware of the matter was on holiday.
- (g) Further, all the documents/ data/ information was provided by its letter dated December 07, 2022. There is no allegation of not providing any documents/ information/data.

108. The DA in its report stated that submissions of the *Noticee* is not acceptable as *Noticee* being a registered stock broker is expected to have the necessary system and man power in place to effectively discharge its responsibilities as a stock broker and also to furnish the requisite data/ information during inspection.



109. The DA found that *Noticee* had failed to furnish the information to SEBI and has therefore violated the provisions of Regulation 21 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

110. During the course of proceedings before me, the *Noticee* reiterated the submissions made before the DA and further submitted the following:

- (a) On 22.07.2022 there was an Income Tax Search at the office premises of the *Noticee* and some of the documents were taken by Income Tax Department due to which the *Noticee* had to collect certain documents from Income Tax department and thereafter submit the same to SEBI.
- (b) There were approximately 10 tasks between 15.10.2022 to 30.11.2022 that had to be completed by the *Noticee* as per Exchange Compliance calendar.
- (c) Corporate Income Tax Return filing date was 07.11.2022 and GST and TDS Returns filing due date was 20.11.2022. This took considerable manpower of the *Noticee*.
- (d) The inspection was done closer to Diwali and many of the support staff of the *Noticee* were on holiday.
- (e) The *Noticee* had shifted to new office premises just 2-3 days before the inspection commenced hence there was difficulty in locating certain documents.
- (f) It was never the intention of the *Noticee* to not co-operate with the inspection team, however due to certain circumstances beyond our control there was delay in submitting certain data and documents. It is pertinent to note that there is no allegation of non-submission of documents. Hence, the same may not be treated as non-cooperation.

111. Having gone through the aforesaid allegations, the DA report and submissions made by the *Noticee* in response to the Enquiry Report, I note that due to exceptional circumstances created by compliance calendar, income tax search,



shifting of office premises and holiday period, which led to delay in submission of documents.

112. In view of the above, I hold that the *Noticee* has violated the provisions of Regulation 21 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992. However, the non-compliance has taken place due to reasons as mentioned above and the documents were submitted subsequently.

F. CONCLUSION

113. In view of the findings, and for reasons mentioned in the preceding paragraphs, I find that the *Noticee* has violated most of the provisions of laws alleged in the Enquiry Report and referred at paragraph 4 above. The *Noticee* has submitted that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements. In support of this plea, the *Noticee* has relied upon various orders passed by Hon'ble Securities Appellate Tribunal ("**SAT**"). In the matter of ***Religare Securities Limited vs. SEBI*** (Appeal No. 23 of 2011) Hon'ble SAT has held as follows:

"5. It must be remembered that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements in regard to the maintenance of records. We also cannot lose sight of the fact that every minor discrepancy/ irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant. This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent."

114. The ratio of Religare matter was also relied upon by Hon'ble SAT in the matter of ***M/s DSE Financial Services Limited vs. SEBI*** (Appeal No. 153 of 2012).



Further, in the matter of **UPSE Securities Limited vs. SEBI** (Appeal No. 109 of 2011) Hon'ble SAT held as follows:

“5. Before concluding we cannot resist observing that the object of carrying out inspection of the books of accounts and records of any intermediary including a stock exchange or its subsidiaries is to ensure compliance with the provisions of the Act, Rules, Regulations, By-laws and circulars issued from time to time which are meant to regulate the securities market. Every little irregularity / deficiency noticed during the course of the inspection is not culpable and does not call for initiation of penalty proceedings. The purpose of inspection in quite a few cases could be better achieved if the inspecting team at the time of the inspection were to advise the erring entity. However, if any serious lapse is discovered, it would always be open to the Board to take penal action in accordance with law. Having said this, we leave the matter at that.”

115. In view of the above, I observe that the purpose of carrying out inspection is not punitive but to make the intermediary comply with the relevant regulations and circulars. Hon'ble SAT has also observed that every minor discrepancy/irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant. While observing the same, Hon'ble SAT has also cautioned that it would also depend on the nature of the irregularity noticed and if any serious lapse is found during the course of the inspection, SEBI should take appropriate punitive action against the delinquent.

116. I further note that 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 participation of retail and small investors in the securities market. For the reasons mentioned in the preceding paragraphs, I find that the *Noticee* has violated most of the provisions of laws alleged in the Enquiry Report. I also note that an adjudication order dated November 29, 2024 has been passed against the *Noticee* for violation of the aforesaid provisions



wherein, the Adjudicating Officer had imposed a penalty of INR 10 Lakhs on the *Noticee* and the same has been paid by it.

117. In the present matter, the DA in its report has also stated that the *Noticee* has taken remedial and corrective steps after inspection and the alleged lapses or deficiencies as observed during the said inspection have been cured. While some violations have been established, most of these violations are technical in nature and not of such grave nature that would warrant enforcement action over and above the monetary penalty already paid by the *Noticee*. Further, there is no allegation of loss being caused to any person due to *Noticee's* acts and omission. Further, there is no allegation of misutilization of funds or securities against the *Noticee* or a finding that the *Noticee* made any unlawful gains or derived any unfair advantage. The *Noticee* has also submitted that it has appointed additional qualified personnel in the compliance department so that the applicable securities laws are properly complied with.
118. It is true that Enquiry and Adjudication proceedings are separate and independent of each other. Even if penalty is imposed in adjudication proceedings, directions under sub-section (3) of section 12 of the SEBI Act can also be issued. However, I am of the view that directions have to be in proportion to the gravity of the violation. For technical/procedural violations of minor nature, which did not assume serious nature and got corrected, adjudicating proceeding may be considered as sufficient enforcement action.
119. Having regard to the facts and circumstances of the instant proceeding, I do not agree with the recommendation of the DA to issue regulatory censure to the *Noticee* since it would not be commensurate with the violations committed by the *Noticee*.
120. I note that in terms of sub-regulation (5) of regulation 27 of the Intermediaries Regulations, after considering the facts and circumstances of the case, material on record and the written submissions made by the *Noticee*, it would be endeavoured to pass the order in 120 days from the date of receipt of the written



submissions or personal hearing, whichever is later. In the present case, the final written submissions on behalf of the *Noticee* were filed on April 07, 2025 and the present order is being passed within 120 days of receipt of said written submissions.

G. ORDER

121. I, in exercise of the powers conferred upon me under sub-section (3) of section 12 and section 19 of the SEBI Act, 1992 read with sub-regulation 5 of regulation 27 of the Intermediaries Regulations, hereby dispose of the proceedings against the *Noticee* without any adverse action.

DATE: JULY 14, 2025

PLACE: MUMBAI

KAMLESH
CHANDRA
VARSHNEY

Digitally signed by
KAMLESH CHANDRA
VARSHNEY
Date: 2025.07.14 15:25:28
+05'30'

KAMLESH C. VARSHNEY

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA