BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/BM/DS/2024-25/31066]

UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995

IN THE MATTER OF

Stockholding Services Limited (Formerly SHCIL Services Limited)
PAN No.: AAJCS5661H
SEBI Regn No.: INZ000199936

FACTS OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") conducted comprehensive inspection jointly with the Exchanges, of M/s Stockholding Services Limited (Formerly SHCIL Services Limited) (hereinafter referred to as "**Noticee**") from November 29, 2022 to December 08, 2022 to look into various compliance requirements adhered by the Noticee with respect to the provisions of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as "**Stock Brokers Regulations, 1992**"), applicable SEBI Circulars and circulars of the stock exchanges. The inspection was conducted for the period beginning April 01, 2021 to October 31, 2022 (hereinafter referred to as "**inspection period**"). Noticee is registered as stock broker with SEBI registration no. INZ000199936.

2. The findings/ observations made during the course of comprehensive inspection were communicated to the Noticee by SEBI vide letter / email dated January 17, 2023. Noticee's reply was received on February 02, 2023. On the basis of findings of inspection, it was alleged that the Noticee has violated various provisions of

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

Table 1

Sr. No.	Alleged Violations	Regulatory Provisions
1	Monthly/Quarterly Settlement of Funds and Securities	Clause12 of Annexure A of SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and the exchange notice no. 20091204-7 dated December 04, 2009, 20100203-30 dated February 3, 2010, 20100617-15 dated June 17, 2010, 20131029-15 dated October 29, 2013 and 20150413-3- dated April 13, 2015, Clause 8 of Annexure of SEBI circular ref. no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 issued vide Exchange Notice No. 20160927-41 dated September 27, 2016, Clause 5.1 of SEBI circular ref. no. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 issued vide Exchange notice no. 20210616-41 dated June 16, 2021, 20210831-40 dated August 31, 2021, 20220331-53 dated March 31, 2022 and Clause 4 of SEBI Circular ref. no. SEBI/HO/MIRSD/DoP/P/CIR/2022/101 dated July 27, 2022 issued vide 20220727-48 dated July 27, 2022. Clause (5.2) (5.2.1, 5.2.2, 5.2.3, 5.2.4) and Clause No. 6 of SEBI circular no. SEBI/HO/MIRSD/ DOP/P/CIR/2021/577 dated June 16, 2021, Exchange notice no. 20091204-7 dated December 04, 2009, 20160927-41 dated September 27,2016, 20210616-41 dated June 16,2021, 20210831-40 dated 31 Aug 2021, 20220727-48 dated 27 Jul 2022, 20220331-53 dated 31 Mar 2022 and Clause 4 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022. Clause 4 of SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022. Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 read with Clause 8.1.4 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16,2021, Clause No. (4.1) of SEBI/HO/MIRSD/DOP/P/CIR/2022/101

Sr. No.	Alleged Violations	Regulatory Provisions
		dated July 27, 2022. & Point No. (3) of Clarification of Statement of Accounts of Exchange Notice No.20210205-30 dated February 05, 2021. Clause No. (5.4) of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16, 2021, Clause No. 4(4.i) of BSE Exchange Notice No. 20200210-47 dated February10, 2020.
2	Stock reconciliation	Clause 2.3 of SEBI circular no. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008, Exchange Circular NSE/INSP/29096 dated March11, 2015.
3	Verification of Weekly Holding submission	SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and NSE circular NSE/INSP/33276 dated September 27, 2016, and Exchange Circular NSE/INSP/38743 dated August 30, 2018 and NSE/INSP/39393 dated November 13, 2018, Exchange Circular NSE/INSP/41498 dated July 03, 2019.
4	Reporting and short collection of Margin	Point No 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2. of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020. Exchange's Circular NSE/CMPT/03167 dated Feb 01, 2002, NSE/INSP/43069 dated December 31, 2019 and NSE/INSP/43493 dated February 11, 2020 and NSE/INSP/47278 dated February 09, 2021.
5	Daily Margin Statement	Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated 17 April, 2008 and Exchange's Circular no. NSE/INSP/10239 dated 11-Feb-08, NSE/INSP/10605 dated 21-Apr-08, NSE/INSP/36786 dated 19-Jan-18, NSE/INSP/38154 dated June 27, 2018, NSE/INSP/43069 dated December 31, 2019 and NSE/INSP/45191 dated July 31, 2020.
6	Penalty for short collection of upfront margin passed on to clients	NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/INSP/INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.
7	Securities of credit balance clients	Clause 4.2 of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, NSE NSE/INSP/41359 DATED June 20, 2019 and NSE/INSP/42229 dated September 27, 2019.

Sr. No.	Alleged Violations	Regulatory Provisions
	transferred to CUSA	
8	Client Registration Process (KYC and KRA Process)	Annexure-2 of Point No. 3(ii)(a) of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 and Annexure of Point No. 3(ii)(a) of Annexure issued vide Exchange notice 20110823-4 dated August 23, 2011. SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 and Exchange Notice No. 20161111-24 dated 11 November 2016, 20200425-2 dated April 25, 2020 and 20220208-60 dated 08 Feb 2022. Point No.1(i) of Clause 2 of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 and Exchange Notice No. 20111226-17 dated December 26, 2011.
9	Analysis of Enhanced Supervision data	Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016-95 dated September 26, 2016 CIR/HO/MIRSD?MIRSD2/CIR/P/2017/64 dated June 22, 2017.Exchange Circular nos. MCX/INSP/248/2017 dated July 25, 2017, MCX/INSP/343/2017 dated September 25, 2017, MCX/INSP/446/2017 dated November 29, 2017 and MCX/INSP/400/2017 dated October 30, 2017.
10	Incorrect reporting of Client level Cash & Cash Equivalent Balances	SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; Exchange circular NSE/INSP/43486 dated Feb 10, 2020.
11	Risk Based Supervision	Clause 6.1.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Exchange circular NSE/INSP/28925 dated February 20, 2015, NSE/INSP/41498 dated Jul 03, 2019. Business rule chapter 9, Exchange Circular no MCX/INSP/101/2018 dated Mar 20, 2018 MCX/INSP/400/2017 dated Oct 30, 2017 MCX/INSP/410/2018 dated Oct 1, 2018, MCX/INSP/217/2022 dated April 11, 2022.
12	Verification of UCC, Email ID and Mobile numbers	Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011 and Exchange circular no NSE/INVG/21841 dated Oct 4, 2012 and NSE/INSP/32471 dated May 31, 2016.

Sr. No.	Alleged Violations	Regulatory Provisions
13	Margin Trading Facility	Clause 7 of SEBI circular CIR/MRD/DP /54/2017 dated June 13, 2017, NSE circular NSE/COMP/35125 dated June 15, 2017 & NSE/COMP/35260 dated June 30, 2017, NSE/INSP/43069 dated December 31, 2019, NSE/INSP/43724 dated March 02, 2020, Exchange circular NSE/INSP/45191 dated July 31, 2020 and NSE/COMP/48531 dated June 09, 2021.
14	Cyber security and cyber resilience	SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated Dec 03, 2018 and Clause 42 of SEBI/HO/MIRSD/TPD/P/CUIR/2022/80 dated June 07, 2022.
15	Non-cooperation with inspection team	Regulation 21 of Securities and Exchange Board of India (Stock Broker) Regulation, 1992.
16	Authenticity of data & format of the documents	Regulation 21 of Securities and Exchange Board of India (Stock Broker) Regulation 1992, Clause 6.1.1(j) of Annexure of SEBI circular no. SEBI./HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, BSE Exchange Notice No 20180214-31 dated February 14, 2018.

3. SEBI initiated adjudication proceedings against the Noticee under section 15A(b) and section 15HB of SEBI Act, 1992 for the alleged violations of the relevant provisions as stated above.

APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer **(AO)** vide Order dated March 19, 2024 under Section 15-I of the SEBI Act, 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "**SEBI Adjudication Rules**"), to inquire into and adjudge under section 15A(b) and section 15HB of SEBI Act, 1992, the violations of aforesaid provisions alleged to have been committed by the Noticee.

SHOW CAUSE NOTICE, REPLY OF THE NOTICEE AND HEARING

5. Show Cause Notice No. SEBI/HO/EAD/EAD3/P/OW/2024/18009/1 dated May 29, 2024 (hereinafter referred to as **"SCN"**) was issued to the Noticee in terms of Section 15-I of the SEBI Act, 1992 and rule 4 of SEBI Adjudication Rules, to show cause as to why an inquiry should not be held against it and why penalty, if any, under section 15A(b) and section 15HB of SEBI Act, 1992 be not imposed on the Noticee.

6. The SCN was duly served on the Noticee through SPAD and digitally signed e-mail. Vide letter dated June 18, 2024, the Noticee requested for inspection / provision of certain documents. Vide email dated July 02, 2024, the Noticee was provided an opportunity of inspection of documents on July 09, 2024. The undersigned was informed on August 09, 2024 that the Noticee had filed a settlement application. Consequently, the proceedings were kept in abeyance until the completion of settlement proceedings. Vide email dated October 24, 2024, the undersigned was informed that the Noticee had withdrawn the settlement application. In view of the same, the adjudication proceedings were resumed. Vide notice dated October 25, 2024, the Noticee was advised to submit its reply by November 04, 2024 and was provided an opportunity of personal hearing in the interest of natural justice. The Noticee was advised to appear before the undersigned for the hearing on November 13, 2024. The Noticee submitted its reply vide letter dated November 04, 2024.

7. The submissions made by the Noticee are as summarized below:

   <u>*Monthly / Quarterly settlement of funds / securities*</u>

   7.1. The 103 instances of 62 clients pertain to those where there was zero debit balance. Noticee's erstwhile back-office software vendor Apex Softcell (India)

Pvt. Ltd. did not have the facility / feature to generate statements for zero balance clients. In the absence of actual human intervention, since the software did not enable generation of statements for zero balance clients, it was not possible for SSL to be able to provide the same. This has been rectified by migrating to a new back-office system by Tata Consultancy Services ("TCS"). Thus, all the observations pertain to the period before implementation of TCS back office system.

7.2. Data was provided to SEBI during the inspection process on a best effort basis and due to certain exigent circumstances, data in these 45 instances could not be provided and the same was rectified by providing the same as part of Noticee's communication dated February 2, 2023, and provided as part of Noitcee's Reply as well.

7.3. In 1 out of 2 instances, the client account was duly settled. In the remaining 1 instance, there was no settlement warranted.

7.4. In case of retention of excess margin, the old back office software of Noticee provided by Apex was also considering MTM margin for calculation of margin retention. This issue has also been resolved upon migration to TCS. Pertinently, there is no undue benefit to Noticee as the excess margin constituted part of the trading allocation of the respective client.

7.5. With respect to the allegation of failure to settle 42 clients as of October 07, 2022, following is submitted:

7.5.1. 31 instances pertain to such clients who have NIL or zero balance in their accounts and therefore there is no debit balance to be settled by SSL.

7.5.2. 3 instances pertain to NRI clients where payout was settled after receipt of CA Certificate. Pertinently, SEBI has accepted this rationale in respect of accounts having UCCs VY49218, PI270895 and CS516822, and the same are not alleged to be instances of violation in the SCN.

7.5.3. Lastly, the remaining 8 instances pertain to such clients who were debit balance clients. Pertinently, SEBI had originally identified 18 accounts and the above explanation of SSL has been accepted for 10 accounts which are not alleged to be instances of violation in the SCN

7.6. Noticee has duly maintained sufficient funds to settle inactive clients at all times. Noticee had duly complied with the requirement to maintain sufficient funds to settle inactive clients and had temporarily parked the funds in relation to such inactive clients in an account held with Corporation Bank bearing Account No. 510101005903350. Subsequently, SSL has shifted the funds of the inactive clients from the account held with Corporation Bank to a separate bank account held with HDFC Bank bearing Account No. 57500000519496.

Stock Reconciliation

7.7. In case of the excess shares available in the demat accounts, in certain instances, the mismatches are on account of deficiencies in the back office software of Apex Software Limited which was not capturing instances such as inactive or suspended ISINs or in case of ISINs under lock-in period. In certain additional instances, the client's demat account was inactive at the Depository Participant level or the client PAN was debarred by the exchange and such accounts were identified as inactive. As a result of the above, the shares do not form part of the back office holding of client securities maintained by the Noticee.

7.8. Insofar as the two ISINs excess in Noticee's back office holdings, it is submitted that in case of INE419M01027, the same was reported under as its new ISIN which came into effect from November 1, 2022, as notified in NSE Circular NSE/CML/54168 dated October 21, 2022, whereas in case of INE053F01010, *the same was in Noticee's NSDL pool account was reported in Noticee's CDSL principle account.*

7.9. *The Noticee had also provided instance-wise response in its reply to the Inspection Report, which is reiterated in the present submissions.*

Verification of weekly holding submission

7.10. *Out of 105 instances of excess observed in demat account, 60 instances pertain to those where due to a system error, the stocks were not considered in the weekly holding submission erroneously. In other cases, the mismatches are on account of deficiencies in the back-office software not capturing instances such as inactive or suspended or under lock-in ISINs. In certain additional instances, the client's demat account was inactive at the Depository Participant level or the client PAN was debarred by the exchange and such accounts were identified as inactive. Consequently, such ISINs also did not form part of the weekly holding reporting of the Noticee.*

7.11. *Insofar as the two ISINs excess in Noticee's back office holdings, it is submitted that in case of INE419M01027, the same was reported under as its new ISIN which came into effect from November 1, 2022, as notified in NSE Circular NSE/CML/54168 dated October 21, 2022, whereas in case of INE053F01010, the same was in Noticee's NSDL pool account was reported in Noticee's CDSL principle account.*

7.12. *The Noticee had provided instance-wise submissions in response to the findings of inspection report, which are reiterated in its reply to the SCN.*

Reporting and short collection of margin

7.13. *This allegation is denied in toto. Noticee, along with requisite supporting documents, has demonstrated that there was no shortfall in margin in any of these instances.*

7.14. *The Noticee had provided instance-wise submissions in response to the findings of inspection report, which are reiterated in its reply to the SCN.*

Daily Margin Statement

7.15. *Excess ledger balance and short margin in respect of SM172426 is on account of delay in receipt of MCX trade file.*

7.16. *Short ledger balance reported in DMS in ST316829 is due to a technical issue Noticee's back office system as the SPAN file was incorrectly uploaded. No short ledger balance is reported in TJ14723 and this allegation is denied.*

7.17. *It is denied that securities details were not mentioned in the DMS of the identified instances. Margin statement duly shows details of securities in all instances.*

7.18. *In case of excess upfront margin reported in DMS in AM274209, MI245275, and VN314548, and short upfront margin reported in DMS in GL285289, and TJ14723, the discrepancy is a result of certain technical issues. However, there is no impact on trading limits of the clients due to the aforementioned technical issue.*

Penalty for short collection of upfront margin to be passed on to client

7.19. *Noticee ensures the proper controls and the system sets the trading limits to ensure that no transaction is initiated without upfront margin. As such, Noticee does not pass on penalties for inadequate upfront margin.*

7.20. Accordingly, the allegation is denied as Noticee has rightly imposed penalties for shortfall due to a change in the margin required or due to non – settlement of MTM by the client or in case of F&O, for margin required other than upfront margins.

Securities of credit balance clients transferred to CUSA

7.21. Noticee has correctly transferred the securities to CUSA in each of the 1143 instances.

7.22. In each instance, the shares were retained in CUSA until fulfilment of client obligation and were released to the client within the permissible period of 7 days.

Client Registration Process (KYC and KRA Process)

7.23. In regard to incorrect date of birth in 31 instances, at the time of Noticee's migration from its old back office system to a new vendor, due to porting error, the first two digits of the birth year were ported as zero were seen in such 31 instances. This has been rectified since.

7.24. In regard to the non – availability of the CKYC, it is submitted that these 2004 instances belong to older pre-existing clients of Noticee which were opened prior to the implementation of the CKYC regime in 2016. Post inspection, Noticee suspended all 2004 clients. Since then, Noticee along with its parent company and its Depository Participant Stockholding Corporation of India Ltd. has taken steps and completed CKYC of 1136 out of 2004 clients.

7.25. In regard to the 11 instances of delay in uploading data to KRA, the delay was on part the KRA which is beyond the control of Noticee. Further details in this regard are provided.

<u>Analysis of Enhanced Supervision data</u>

7.26. *There is an error / mismatch in the difference in aggregate credit balance between the Inspection Report and SCN i.e., difference being Rs. 2,02,678.32/- in the Inspection Report and Rs. 13,46,90,301.50 in the SCN.*

7.27. *There was slight deficiency in the enhanced supervision reporting in the highlighted instance and the same was genuine error on account of a logic gap in the new system in the initial period which caused gaps in the range of Rs 2-3 Lakh for clients debit & credit balances reporting. This has been rectified since.*

7.28. *Notwithstanding the shortfall, Noticee did not have a negative J value. Furthermore, the above shortfall is only with respect to the reporting values themselves and not the lack or shortfall in actual balances available with Noticee.*

<u>Incorrect reporting in client level cash & cash equivalent balances</u>

7.29. *There was slight deficiency in the cash and cash equivalent reporting in the highlighted instance and the same was genuine error on account of a logic gap in the new system in the initial period resulting in incorrect reporting. This has been rectified since. The Noticee had repeatedly highlighted this gap in the system to the software vendor and e-mails in this regard were provided by the Noticee.*

<u>Risk Based Supervision</u>

7.30. *Noticee has correctly reported the collaterals as per the pledge file. The difference of Rs. 22.42 Crores is observed basis the securities in the Pool and CUSA account. As per prevalent guidelines, there was no clarity on whether such balances are to be considered and on a conservative basis, Noticee did* not consider such a valuation of securities while reporting the same. The clarity in guidelines are now issued by SEBI vide its circular issued in April 2024.

7.31. It is also denied that there is incorrect reporting in brokerage income. The difference of Rs. 22,01,607/- has arisen due to commission earned by Noticee out of distribution of third-party products such as IPOs, Mutual Funds, Bonds which has been treated as brokerage income in the RBS and reported under ‘Fees and Commissions’ in the Audited Financial Statement. This has since been rectified and such amounts are not reported as part of brokerage income.

<u>Verification of UCC, Email ID and Mobile numbers</u>

7.32. Noticee’s submissions are provided in the table below.

Deficiency	**Reply of SSL**
Invalid category in UCC in 4 clients	These four instances were NRE category was missed to be updated in UCC and the same was updated on January 24, 2023.
Invalid email ID in UCC in 1 client	It is submitted that the concerned client’s trading account is suspended until the UCC is updated with the correct email ID. Presently, the required rectifications have been carried out and have been certified by the Noticee’s auditors as enclosed herewith.
Single email ID mapped to multiple clients - 570 email IDs against 1,486 clients	(i) Clause 2(b)(iv) of SEBI Circular dated August 2, 2011, provides that a common email ID and phone number can be mapped against multiple UCCs provided that the UCCs belong to immediate family members. (ii) Upon review of our records and instances pointed out during the inspection process, it is submitted that 1,271 out of 1,486 clients meet the criteria of exception where mapping of common email ID is permitted. However, in the interest of transparency, it is submitted that only the nature of the relationship for the purpose of such mapping was set out incorrectly and the same have now
Single mobile number mapped to multiple clients - 1123 mobile number against 2,762 clients	

	been rectified. A detailed sheet identifying the nature of relation is enclosed with the reply. *(iii) Furthermore, in the remaining 215 clients, as discrepancies have been noted, SSL has suspended these accounts and shall continue to remain so until the correct details or updated email IDs are provided.* *(iv) Similarly, it is submitted that 2,360 out of 2,763 clients meet the criteria of exception where mapping of common mobile number is permitted. However, the discrepancy is once again only in respect of the nature of the relationship for the purpose of such mapping was set out incorrectly and the same have now been rectified. A detailed sheet identifying the nature of relation is enclosed with the reply.* *(v) In the remaining 403 clients, as discrepancies have been noted, SSL has suspended these accounts and shall continue to remain so until the correct details or updated mobile number are provided.* *(vi) It is necessary to state and clarify that at all times, SSL has complied with the requirement of obtaining a written request for mapping a common email ID or mobile number. In this regard, on a sample basis, the original and updated requests identifying the correct nature of relationship, in case of both common email ID and mobile number, are enclosed with the reply. SSL undertakes to provide such documentation in all cases if called upon.*
Since single email ID has been mapped to multiple clients, contract notes have not been issued to ultimate client i.e., 48 email IDs mapped against 180 clients	*(i) It is submitted that the referenced Annexures 17 and 19 to the SCN pertains to 1486 clients and therefore the Noticee is uncertain as to the specific 180 clients which is being referred to in the SCN.* *(ii) As has been submitted by SSL, in case of 1,166 out of 1,486 clients, the common mapped email ID pertains to an immediate family member, as per the directive in the SEBI Circular, and the only deficiency in all such cases is the nature of the relationship.*

	(iii) Without prejudice to the above, we reserve our right to provide our response to the specific 180 clients and crave leave to make further submission in this regard.
Mismatch in records between Back office & UCC in case of 237 clients	*Admittedly, certain mismatches have inadvertently crept in. It is submitted that the same have been identified and rectified and no such mismatches remain between UCC and SSL's back office. Details of rectification are enclosed with the reply.*

Margin Trading Facility

7.33. *Allegation in respect of non-collection of adequate margin is denied. Details in respect of the available margin in each instance were also provided in response to the inspection findings and also reiterated in the present reply.*

7.34. *Allegation in respect of not sending DMS to 18 clients is also denied. In 9 instances, there were no trades in the client account whereas in the remaining 9 instances, DMS was duly generated and delivered. Instance wise response along with proof of margin statement and delivery to client is enclosed with the reply.*

Cyber security and cyber resilience

7.35. *During that period in year 2020-21, Noticee's Cyber Security Committee was duly constituted, however, the same included the CISO belonging to Stockholding Corporation of India Ltd., the parent company of Noticee for common oversight and compliance of the cybersecurity requirements.*

7.36. *Noticee's Cyber Security Committee has since been reconstituted. From FY 2023-24, Noticee has availed v-CISO services from Imperium Solutions Pvt. Ltd. and had appointed Ms. Tasneem Popat on March 8, 2023, which was intimated to CERT-IN. Ms. Tasneem Popat continued to be appointed as CISO of Noticee until appointment of Mr. Satish Warrier as CISO with effect from June 15, 2024, and the same has also been intimated to CERT-IN.*

<u>Non-cooperation with inspection team and Authenticity of data & format of the documents</u>

7.37. At the relevant time of the inspection, Noticee was concurrently in the process of migrating its front and back-end software. Notwithstanding the request to provide more time due to strained workload, Noticee in a bona fide manner extended full cooperation and provided documents on a best effort basis.

7.38. It also ought to be noted that data requested in inspection are often in a different format to what is generated on the back end the said process is required to be done manually which is both time consuming and prone to human error.

7.39. The allegations are, therefore, unequivocally denied and any implication of deliberate non – cooperation and / or inauthentic data is completely misconceived.

7.40. Specifically, in respect of emails of NSE highlighted above, it is submitted that the Noticee had responded to the same and large number of emails were sent containing the data & information sought. Equally, a large volume of data and information sought were also uploaded on the Portal of NSE, BSE, MCX.

7.41. With respect to the allegation of lack of authenticity, the Noticee submitted that at the start of the Inspection, it was migrating its front and back end software to a new vendor and at the relevant time, the migration was in transit phase and at its peak at the time of Inspection which greatly reduced the availability of our resources. Furthermore, there was a genuine lack of cooperation from our old vendor at the time when the information was being sought.

7.42. The Noticee had appointed M/s Mehta Sanghvi & Associates (an independent audit firm) to review the present status of the observations as mentioned in the SCNs. The auditor has conducted a detailed review of all the points raised in the SCNs and have submitted their compliance report dated September 17, *2024, whereby it is confirmed that Noticee is in compliance with the existing regulations on all the above points. The Compliance report dated September 17, 2024 from M/s Mehta Sanghvi & Associates is enclosed with the reply.*

8. The Noticee appeared for the scheduled hearing through its authorized representative (**AR**). The AR reiterated submission made vide email dated November 04, 2024. During the hearing, the Noticee was advised to submit the following information / documents:
   8.1. Retention Statement, along with supporting documents for client codes TK317783 and NR237485.
   8.2. Supporting documents with respect to settlement of balances in 3 instances pertaining to NRI clients. Also provide the date of previous settlement, date of receipt of CA certificate and date of settlement.
   8.3. Write up on reasons for which securities were transferred to CUSA for subsequent trades, along with supporting documents for 10 sample instances, i.e row numbers 142, 548, 611, 613, 659, 816, 839, 882, 1038 and 1083 of Annexure 15 to the reply dated November 04, 2024.
   8.4. Supporting documents with respect to 11 instances where delay in uploading process was due to delay from KRA.
   8.5. Supporting documents with respect to submission in paragraph 80 (ii) of reply dated November 04, 2024
   8.6. Date of implementation of the previous back office software and when the Noticee came to know regarding the discrepancies in the back office software.

9. The AR requested time till November 19, 2024 to make additional submissions. The request was acceded to.

10. The additional submissions made by the Noticee vide letter dated November 20, 2024 are as summarized below:

10.1. Noticee reiterated the submissions already made vide letter dated November 04, 2024.

10.2. Noticee provided retention statements for TK317783 and NR237485.

10.3. Noticee provided bank statement and CA certificate in support of its submissions with respect to 3 instances pertaining to NRI clients.

10.4. Noticee provided screenshots of ledgers pertaining to 7 clients, along with explanation for transferring securities from subsequent trades to CUSA.

10.5. With respect to the allegation of delay in KRA uploading process, it is submitted that admittedly from time to time there are certain delays in completion of this process. However, upon review of the KRA date and the date of account opening with SSL in 11 instances, it is seen that in 10 instances, there is no delay as the KRA was done in time and prior to the account opening and the remaining 1 instance pertains to PAN exempt category not requiring KRA registration. Noticee provided supporting documents for the instances.

10.6. In response to Supporting documents with respect to submission in paragraph 80 (ii) of reply dated November 04, 2024, the Noticee submitted that the process to provide a DMS to a client is automated and SSL has duly produced the margin logs. However, as the email to clients is also part of the automated system, the Noticee is presently unable to provide exact email evidencing delivery. However, in the interest of satisfying the query raised, the Noticee is able to provide the log data of emails addressed to the respective clients

10.7. With respect to the query regarding back office software, the Noticee submitted that it procured back-office services from M/s Apex Softcell Pvt. Ltd. (LD) in 2007. Apex is an exchange verified and enabled back-office software vendor. It is submitted that overtime due to the expansion of the compliance and *reporting requirements, Apex's software features and ability became inadequate, particularly post the COVID-19 pandemic. Accordingly, from time to time, SSL has raised grievances with Apex in respect of the lack of availability of relevant data. Due to the widespread inadequacy several brokers and Apex on February 4, 2022, at 4 PM. However, in the absence of any improved, the Noticee migrated to a new back-end software developed by TCS. A copy of various emails of Noticee and the email of NSE setting up a joint meeting have been provided in support of the submissions.*

10.8. *All observations noted in the present Show Cause Notice emanate from day-to-day operational activities of the Noticee in the ordinary course of business and are not egregious acts or delinquent conduct. Noticee quoted and relied upon the judgement of Hon'ble Securities Appellate Tribunal in Religare Securities Limited vs Securities and Exchange Board of India (Order dated June 16, 2011 in Appeal No. 23 of 2011) and DSE Financial Services Ltd. vs Securities and Exchange Board of India (Order dated September 11, 2012 in Appeal No. 153 of 2012) and on Order dated July 31, 2024, passed by the Ld. QJA of SEBI in the matter of Eureka Stock and Share Broking Services Ltd.*

CONSIDERATION OF ISSUES AND FINDINGS

11. Considering the allegations made out in the SCN and the submissions made by the Noticee, the following issues require consideration in the present case:

ISSUE I - Whether the Noticee is in violation of the provisions of Stock Brokers Regulations, 1992 and applicable SEBI and Exchange Circulars, as given in Table 1 above?

ISSUE II - Do the violations, if any, attract penalty under section 15A(b) and section 15HB of the SEBI Act, 1992?

ISSUE III - If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act, 1992?

12. The said provisions under which violations have been alleged against the Noticee are reproduced below –

SEBI (Stock Brokers) Regulations 1992

Regulation 21 - Obligations of stock-broker on inspection by the Board.

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

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

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

(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.

Sr. No.	Circulars	Web-links
1	SEBI Circular MIRSD/ SE /Cir-19/2009 dated December 3, 2009	https://www.sebi.gov.in/legal/circulars/dec-2009/dealings-between-a-client-and-a-stock-broker-trading-members-included_2891.html
2	BSE Notice No. 20091204-7 dated December 04, 2009	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20091204-7
3	BSE Notice No. 20100203-30 dated February 03, 2010	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20100203-30
4	BSE Notice No. 20100617-15 dated June 17, 2010	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20100617-15
5	BSE Notice No. 20131029-15 dated October 29, 2013	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20131029-15
6	BSE Notice No. 20150413-3 dated April 13, 2015	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20150413-3
7	SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016	https://www.sebi.gov.in/legal/circulars/sep-2016/enhanced-supervision-of-stock-brokers-and-depository-participants_33334.html
8	BSE Notice No. 20160927-41 dated September 27, 2016	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20160927-41
9	SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021	https://www.sebi.gov.in/legal/circulars/jun-2021/settlement-of-running-account-of-client-s-funds-lying-with-trading-member-tm-_50570.html
10	BSE Notice No. 20210616-41 dated June 16, 2021	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20210616-41
11	BSE Notice No. 20210831-40 dated August 31, 2021	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20210831-40
12	BSE Notice No. 20220331-53 dated March 31, 2022	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20220331-53
13	SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022	https://www.sebi.gov.in/legal/circulars/jul-2022/settlement-of-running-account-of-client-s-funds-lying-with-trading-member-tm-_61222.html

Sr. No.	Circulars	Web-links
14	BSE Notice No. 20220727-48 dated July 27, 2022	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20220727-48
15	BSE Notice No. 20210205-30 dated February 05, 2021	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20210205-30
16	BSE Notice No. 20200210-47 dated February 10, 2020.	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20200210-47
17	SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008	https://www.sebi.gov.in/legal/circulars/apr-2008/collateral-deposited-by-clients-with-brokers_6922.html
18	NSE circular no. NSE/INSP/29096 dated March 11, 2015	https://nsearchives.nseindia.com/content/circulars/INSP29096.pdf
19	NSE circular no. NSE/INSP/33276 dated September 27, 2016	https://www.nseindia.com/resources/exchange-communication-circulars
20	NSE circular no. NSE/INSP/38743 dated August 30, 2018	https://www.nseindia.com/resources/exchange-communication-circulars
21	NSE circular no. NSE/INSP/41498 dated July 03, 2019	https://nsearchives.nseindia.com/content/circulars/INSP41498.pdf
22	SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011	https://www.sebi.gov.in/legal/circulars/aug-2011/short-collection-non-collection-of-client-margins-derivatives-segments-_20439.html
23	SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November19, 2019	https://www.sebi.gov.in/legal/circulars/nov-2019/collection-and-reporting-of-margins-by-trading-member-tm-clearing-member-cm-in-cash-segment_45011.html
24	SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020	https://www.sebi.gov.in/legal/circulars/jul-2020/collection-and-reporting-of-margins-by-trading-member-tm-clearing-member-cm-in-cash-segment_47220.html
25	NSE circular no. NSE/CMPT/03167 dated Feb 01, 2002	https://www.nseindia.com/resources/exchange-communication-circulars
26	NSE circular no. NSE/INSP/43069 dated December 31, 2019	https://www.nseindia.com/resources/exchange-communication-circulars
27	NSE circular no. NSE/INSP/43493 dated February 11, 2020	https://www.nseindia.com/resources/exchange-communication-circulars
28	NSE circular no. NSE/INSP/47278 dated February 09, 2021	https://www.nseindia.com/resources/exchange-communication-circulars

Sr. No.	Circulars	Web-links
29	SEBI circular no. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008	https://www.sebi.gov.in/legal/circulars/apr-2008/collateral-deposited-by-clients-with-brokers_6922.html
30	NSE circular no. NSE/INSP/10239 dated February 11, 2008	https://www.nseindia.com/resources/exchange-communication-circulars
31	NSE circular no. NSE/INSP/10605 dated April 21, 2008	https://www.nseindia.com/resources/exchange-communication-circulars
32	NSE circular no. NSE/INSP/36786 dated January 19, 2018	https://www.nseindia.com/resources/exchange-communication-circulars
33	NSE circular no. NSE/INSP/38154 dated June 27, 2018	https://www.nseindia.com/resources/exchange-communication-circulars
34	NSE circular no. NSE/INSP/43069 dated December 31, 2019	https://www.nseindia.com/resources/exchange-communication-circulars
35	NSE circular no. NSE/INSP/45191 dated July 31, 2020	https://www.nseindia.com/resources/exchange-communication-circulars
36	NSE circular no. NSE/INSP/49929 dated October 12, 2021	https://www.nseindia.com/resources/exchange-communication-circulars
37	NSE circular no. NSE/INSP/53525 dated September 02, 2022	https://www.nseindia.com/resources/exchange-communication-circulars
38	SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019	https://www.sebi.gov.in/legal/circulars/jun-2019/handling-of-clients-securities-by-trading-members-clearing-members_43347.html
39	NSE circular no. NSE/INSP/41359 dated June 20, 2019 / NSE circular no. NSE/INSP/42229 dated September 27, 2019	https://www.nseindia.com/resources/exchange-communication-circulars
40	SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011	https://www.sebi.gov.in/legal/circulars/aug-2011/simplification-and-rationalization-of-trading-account-opening-process_20483.html
41	BSE Notice no. 20110823-4 dated August 23, 2011	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20110823-4
42	SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016	https://www.sebi.gov.in/legal/circulars/nov-2016/uploading-of-the-existing-clients-kyc-details-with-central-kyc-records-registry-ckycr-system-by-the-registered-intermediaries_33654.html
43	BSE Notice No. 20161111-24 dated 11 November 2016,	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20161111-24

Sr. No.	Circulars	Web-links
44	BSE notice no. 20200425-2 dated April 25, 2020	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20200425-2
45	BSE notice no. 20220208-60 dated 08 Feb 2022	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20220208-60
46	SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011	https://www.sebi.gov.in/legal/circulars/dec-2011/guidelines-in-pursuance-of-the-sebi-kyc-registration-agency-kra-regulations-2011-and-for-in-person-verification-ipv-_21803.html
47	BSE notice no. 20111226-17 dated December 23, 2011	https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20111226-17
48	SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017	https://www.sebi.gov.in/legal/circulars/jun-2017/clarification-to-enhanced-supervision-circular_35165.html
49	MCX circular no. MCX/IMNSP/343/2017 dated September 25, 2017, MCX/INSP/446/2017 dated November 27, 2017 and MCX/INSP/400/2017 dated October 30, 2017	https://www.mcxindia.com/circulars/all-circulars
50	NSE circular NSE/INSP/43486 dated Feb 10, 2020, NSE/INSP/28925 dated February 20, 2015, NSE/INSP/41498 dated Jul 03, 2019	https://www.nseindia.com/resources/exchange-communication-circulars
51	MCX Circular no MCX/INSP/101/2018 dated Mar 20, 2018, MCX/INSP/400/2017 dated Oct 30, 2017 MCX/INSP/410/2018 dated Oct 1, 2018, MCX/INSP/217/2022 dated April 11, 2022	https://www.mcxindia.com/circulars/all-circulars
52	SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011	https://www.sebi.gov.in/legal/circulars/aug-2011/sms-and-e-mail-alerts-to-investors-by-stock-exchanges_20373.html
53	NSE circular no NSE/INVG/21841 dated Oct 4, 2012 and NSE/INSP/32471 dated May 31, 2016	https://www.nseindia.com/resources/exchange-communication-circulars

Sr. No.	Circulars	Web-links
54	SEBI circular no. CIR/MRD/DP/54/2017 dated June 13, 2017	*https://www.sebi.gov.in/legal/circulars/jun-2017/circular-on-comprehensive-review-of-margin-trading-facility_35098.html*
55	NSE circular NSE/COMP/35125 dated June 15, 2017 & NSE/COMP/35260 dated June 30, 2017, NSE/INSP/43069 dated December 31, 2019, NSE/INSP/43724 dated March 02, 2020, Exchange circular NSE/INSP/45191 dated July 31, 2020 and NSE/COMP/48531 dated June 09, 2021	*https://www.nseindia.com/resources/exchange-communication-circulars*
56	SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated Dec 03, 2018	*https://www.sebi.gov.in/legal/circulars/dec-2018/cyber-security-and-cyber-resilience-framework-for-stock-brokers-depository-participants_41215.html*
57	Clause 42 of SEBI/HO/MIRSD/TPD/P/CUIR/2022/80 dated June 07, 2022.	*https://www.sebi.gov.in/legal/circulars/jun-2022/modification-in-cyber-security-and-cyber-resilience-framework-for-stock-brokers-depository-participants_59581.html*
58	BSE Notice No 20180214-31 dated February 14, 2018	*https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20180214-31*

13. The findings in each of the alleged violations against the Noticee in the SCN dated May 29, 2024 are given below.

14. **Monthly / Quarterly Settlement of Funds and Securities –**

14.1. During inspection, settlement data was sought from the Noticee with respect to 310 instances pertaining to 100 sample clients. Noticee provided the required information in 162 instances.

Non-provision of Quarterly Retention Statements and non-settlement in 2 instances

14.2. However, the Noticee did not provide the Quarterly Retention Statement/statement of accounts and supporting documents in 103 instances pertaining to 62 clients for verification; and also did not provide the Quarterly Retention Statement/ statement of accounts and provided only part of supporting documents in 45 instances pertaining to 38 clients for verification.

14.3. Upon verification of 162 instances out of 310 instances of pending quarterly retention statements and supporting provided by the Noticee, it was observed that Noticee had not settled the clients' funds in 2 instances out of 310 instances.

14.4. Therefore, it was alleged that the Noticee had violated the provisions of Clause12 of Annexure A of SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and the exchange notice no. 20091204-7 dated December 04, 2009, 20100203-30 dated February 3, 2010, 20100617-15 dated June 17, 2010, 20131029-15 dated October 29, 2013 and 20150413-3- dated April 13, 2015, Clause 8 of Annexure of SEBI circular ref. no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 issued vide Exchange Notice No. 20160927-41 dated September 27, 2016, Clause 5.1 of SEBI circular ref. no. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 issued vide Exchange notice no. 20210616-41 dated June 16, 2021, 20210831-40 dated August 31, 2021, 20220331-53 dated March 31, 2022 and Clause 4 of SEBI Circular ref. no. SEBI/HO/MIRSD/DoP/P/CIR/2022/101 dated July 27, 2022 issued vide 20220727-48 dated July 27, 2022.

14.5. As per the aforementioned provisions, the settlement of running account of funds of the client shall be done by the TM after considering the End of the day

(EOD) obligation of funds as on the date of settlement across all the Exchanges, at least once in a calendar month or quarter, depending on the preference of the client at least once within a gap of 30 / 90 days between two settlements of running account as per the preference of the client. 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. 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. The settlement of running account of funds of the client shall be done by the TM after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges on first Friday of the Quarter for all the clients. For clients, who have opted for Monthly settlement, running account shall be settled on first Friday of every month. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

14.6. With respect to 103 instances pertaining to 62 clients, for which retention statements/ Statement of Accounts were not provided by the Noticee, it has submitted that as these clients had zero balance, no settlement was required to be made, and the Noticee's back office system was not generating retention statements in such cases. It is observed that the stock brokers are required to generate and send the retention statements to all their clients. The stock brokers are not required to send the 'Statement of Accounts' only to those clients where the funds, securities and commodities balances are zero and also, their accounts are flagged as 'Inactive' (i.e., if no trades are carried out by the client in the last 12 months across all Exchanges) in the UCC database of the Exchange. In the present case, the clients were not marked as 'inactive'. Therefore, statement of accounts was required to be generated and sent to these clients, irrespective of the facility provided to the clients to view their balances on the stock broker's portal or apps. Therefore, the Noticee's submissions are not tenable.

14.7. With respect to 45 instances of 38 clients, the Noticee has submitted that it had already submitted the retention statement and supporting documents along with its letter dated February 02, 2023, and the same was also shared along with its reply to the SCN. Upon perusal of the data submitted by the Noticee, it is observed that the data includes documents of 35 instances of 29 clients originally sought from the Noticee. Thus, complete data has not been provided by the Noticee.

14.8. With respect to the allegation of failure to settle clients' funds in 2 instances, the Noticee submitted that it had duly settled the balance to UCC TK317783 and no amount was required to be settled to UCC NR237485, and provided copies of retention statements and bank statement in support of its submissions. Noticee also provided the summary of its submissions, in tabular format reproduced below.

Client code	Ledger balance	Amount to be retained	Settlement amount	Actual settled	Date Settlement	Bank UTR no.
TK317783	2191139.58	2028710.49	162429.09	162429.09	October 29,	110309541726
NR237485	9607.91	11161.48	Nil	Nil	May 25, 2021	

14.9. Upon perusal of the retention statements provided by the Noticee, it is observed that the Noticee has retained the balances of the clients for T Day funds pay in obligation and 225% of T Day Margin Requirement in Derivatives segment, and had settled the remaining amount to UCC TK317783 and there was no amount required to be settled for UCC NR237485. In view of the same, the Noticee's submission that there has not been failure in settlement of funds of clients in the above two instances, is acceptable.

Retained Excess Margin

14.10. It was also observed that the Noticee has allegedly retained excess margin of Rs. 9.48 Crore in 36 instances. Therefore, it was alleged that Noticee violated Clause (5.2) (5.2.1, 5.2.2, 5.2.3, 5.2.4) and Clause No. 6 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Exchange notice no. 20091204-7 dated December 04, 2009, 20160927-41 dated September 27, 2016, 20210616-41 dated June 16, 2021, 20210831-40 dated 31 Aug 2021, 20220727-48 dated 27 Jul 2022, 20220331-53 dated 31 Mar 2022 and SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022.

14.11. As per the above provisions, a TM may retain funds of the clients, calculated in the manner, specified in clause 5.2 of the SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021.

14.12. With respect to the allegation of retaining excess margin of ₹9.48 crore in 36 instances, the Noticee accepted that excess margins were retained, while explaining that the same occurred due to its old back office software, which was also considering MTM margin for calculation of margin retention. The Noticee has further submitted that the error has been resolved after the Noticee migrated to the new back office software provided by TCS. It is noted that the Noticee, being the stock broker, is responsible for compliance with all the regulatory provisions applicable to it. While it is noted that no instance of excess margin retention was observed during the inspection period after July, 2022, the Noticee had not ensured that only required margins are retained in the 36 instances, which resulted in excess margin retention of ₹9.48 crore.

Non-settlement of client balances

14.13. It was observed that Noticee had not settled 42 clients out of 100 on October 07, 2022. Therefore, it was alleged that Noticee has violated Clause 4 of SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022. As per this Circular, the settlement of running accounts shall be done for all the clients.

14.14. With respect to the allegation of non-settlement of 42 clients out of 100 sample instances on October 07, 2022, the Noticee has submitted that there was nil or zero balance in 31 instances and debit balance in 8 instances. Thus, no settlement was required to be made with respect to these clients. Noticee further submitted that remaining three instances pertained to NRI clients, for which settlement was made after receiving CA certificate. In support of its submissions, the Noticee also provided the CA certificate with respect to amount of TDS to be deducted with respect to two clients, and bank statement screenshot showing the settlement amount transferred to the Noticee. From the submissions of the Noticee, it is observed that no settlement was required to be made with respect to 39 instances of nil/ zero balance and debit balance clients. Upon the perusal of CA certificate with respect to two NRI clients, it is observed that the settlement was made subsequent to the receipt of the CA

Certificate. Thus, the Noticee's submission that there has not been failure in settlement of 42 clients on October 07, 2022, is accepted.

Failure to generate and send Retention Statements

14.15. It was observed that in 81 instances, the Noticee failed to generate and send the retention statement & statement of accounts to debit balance clients and statement of accounts to nil balance clients on October 07, 2022. Therefore, it was alleged that Noticee has violated Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 read with Clause 8.1.4 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Clause No. (4.1) of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022 & Point No. (3) of Clarification of Statement of Accounts of Exchange Notice No.20210205-30 dated February 05, 2021. As per these provisions, TM shall send the retention statement along with the statement of running accounts to the clients within 5 working days. Member shall send a complete 'Statement of Accounts' for both funds and securities/commodities in respect of each of its clients on weekly basis from Monday to Saturday for each week. The members, shall not be required to send the 'Statement of Accounts' to clients with zero funds, zero securities and zero commodities balances and also has been flagged as 'Inactive' (i.e. if no trades are carried out by the client in the last 12 months across all Exchanges) in the UCC database of the Exchange.

14.16. With respect to the allegation that the Noticee failed to generate and send retention statement and statement of accounts to debit balance clients and Nil balance clients in 81 instances, the Noticee has not made any submissions.

14.17. Inactive clients - It was observed that the Noticee had not parked sufficient funds to settle funds of inactive clients in 7802 instances in a separate bank account. From the Noticee's response to the inspection findings, it was observed that the Noticee has deposited the fund of inactive non-settled clients in the mutual fund settlement account no- 510101005903350. However, the requirement is to maintain separate bank account for untraceable clients and to return funds to inactive clients who have not traded in last 30 days. In view of the same, it was alleged that the Noticee had violated the provisions of Clause No. (5.4) of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Clause No. 4(4.i) of BSE Exchange Notice No. 20200210-47 dated February 10, 2020.

14.18. As per the above provisions, 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. In cases where the stock brokers are unable to trace such clients in spite of all efforts taken, Stock Brokers are inter-alia directed to Open one separate Client Bank/Client Collateral Demat account and immediately set aside the funds and securities of these clients in such account.

14.19. With respect to the observation that the Noticee had deposited the funds of inactive non-settled clients in 7802 instances in the mutual fund settlement account no. xxxxxxxxxxx3350, the Noticee has submitted that it had temporarily parked the funds of inactive clients in this account and subsequently, the funds have been shifted to another HDFC Bank account. It is noted from the provisions of SEBI Circular dated June 16, 2021 and BSE Notice No. 20200210-47 dated February 10, 2020 that the credit balance of those clients who have not traded in 30 calendar days since their last transaction, is required to be settled by the stock broker within next three working days. Only when the stock broker is not able to settle the clients accounts due to non-traceability of the client, it is required to open one separate Client Bank/Client Collateral Demat account and immediately set aside the funds and securities of these clients in such account. In the present case, the Noticee has transferred the funds of inactive non-settled clients in a separate account, irrespective of their traceability. Therefore, the Noticee's submissions are not tenable in this regard.

14.20. In view of the foregoing, the allegation of violation of following provisions against the Noticee stands established:

14.20.1. Clause 12 of Annexure A of SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and the exchange notice no. 20091204-7 dated December 04, 2009, 20100203-30 dated February 3, 2010, 20100617-15 dated June 17, 2010, 20131029-15 dated October 29, 2013 and 20150413-3- dated April 13, 2015, Clause 8 of Annexure of SEBI circular ref. no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 issued vide Exchange Notice No. 20160927-41 dated September 27, 2016, Clause 5.1 of SEBI circular ref. no. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 issued vide Exchange notice no. 20210616-41 dated June 16, 2021, 20210831-40 dated August 31, 2021, 20220331-53 dated March 31, 2022 and Clause 4 of SEBI Circular ref. no. SEBI/HO/MIRSD/DoP/P/CIR/2022/101 dated July 27, 2022 issued vide 20220727-48 dated July 27, 2022;

14.20.2. Clause (5.2) (5.2.1, 5.2.2, 5.2.3, 5.2.4) and Clause No. 6 of SEBI circular no. SEBI/HO/MIRSD/ DOP/P/CIR/2021/577 dated June 16, 2021, Exchange notice no. 20091204-7 dated December 04, 2009, 20160927-41 dated September 27,2016, 20210616-41 dated June 16,2021, 20210831-40 dated 31 Aug 2021, 20220727-48 dated 27 Jul 2022, 20220331-53 dated 31 Mar 2022 and Clause 4 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022;

14.20.3. Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 read with Clause 8.1.4 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16,2021, Clause No. (4.1) of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022. & Point No. (3) of Clarification of Statement of Accounts of Exchange Notice No.20210205-30 dated February 05, 2021;

14.20.4. Clause No. (5.4) of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16, 2021, Clause No. 4(4.i) of BSE Exchange Notice No. 20200210-47 dated February10, 2020.

15. **<u>Stock reconciliation</u>**

15.1. During inspection, reconciliation of back office holdings of client's securities with actual stocks lying in demat accounts was done and it was observed that there were excess shares available in demat account of clients as compared to back office records of shares maintained by the Noticee for clients for 47 ISIN of ₹55.85 Lakhs. Further, it is observed that there were excess shares available in Back Office records of shares maintained by Noticee for clients as compared to demat account holding statement of clients for 2 ISIN of ₹3,901. In view of the above, it was alleged that the Noticee has violated the provisions of Clause 2.3 of SEBI Circular no. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008, Exchange Circular NSE/INSP/29096 dated March 11, 2015.

15.2. As per aforementioned provisions, the client collateral records shall be periodically reconciled with the actual collateral deposited with the broker. The client beneficiary account/s and the register of securities shall be reconciled on a quarterly basis and maintain complete audit trail & documentation of such reconciliation.

15.3. In this regard, the Noticee has submitted that the mismatches were due to deficiencies in back office software, which was not capturing the instances such as inactive or suspended ISINs or ISINs under lock-in period. As there were such instances with respect to some of the clients, their securities were not captured in back-office reporting. Further, shares were excess in back office reporting when compared with demat holding with respect to two clients, as in one case, the holdings in the demat holding were recorded in the new ISINs due to system issue and in the other case, the securities were lying in NSDL Pool Account but erroneously reported in CDSL Principle Account. Thus, there were mismatches in reporting but actual shares were never in excess or deficit of shares in any of the clients' accounts. It has further submitted that it had also escalated the issues to the software vendor, and the correspondence was provided in support of its submissions.

15.4. It is noted that the Noticee accepted that there were mismatches in back office report and demat holding statement, while explaining that the same occurred due to its old back office software, and two instances of excess in back office report due to errors made by the Noticee. It is also noted from the copy of email correspondence of the Noticee with the software vendor that various issues with respect to the back office software were prevailing at least since 2021. It is observed that the Noticee could have identified the error earlier, if it had reconciled the balances periodically. However, the Noticee could not identify and resolve the issues in the back office software, which was implemented by the Noticee in 2007. Only after the Noticee's meeting with the software vendor and the NSE in February, 2022, did it decide to transition to a new back-office software. Thus, it is observed that the Noticee has not been diligent in ensuring that correct and complete information is maintained and reflected in its back office software.

15.5. In view of the foregoing, it is observed that the Noticee has violated the provisions of Clause 2.3 of SEBI Circular no. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 and Exchange Circular NSE/INSP/29096 dated March 11, 2015.

16. **<u>Verification of Weekly Holding submission –</u>**

16.1. During inspection, weekly holding submission to exchanges by Noticee as on October 31, 2022 was verified and it was observed that there was excess of shares of ₹2.15 crores for 105 ISIN in Demat account of clients & Own as compared to back-office records of shares maintained by Noticee for clients & own. Further, it was observed there was excess shares of ₹3,901 for 2 ISIN in Back Office records of shares maintained by Noticee for clients & own as compared to demat account holding statement of clients & own. Thus, it was alleged that the Noticee had violated the provisions of SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and NSE circular NSE/INSP/33276 dated September 27, 2016, and Exchange Circular dated August 30, 2018 and NSE/INSP/39393 dated November 13, 2018, Exchange Circular NSE/INSP/41498 dated July 03, 2019.

16.2. As per the provisions of the stock brokers are required to submit day-wise holding statement of securities on weekly basis to the Exchanges. The reporting shall be correct and complete.

16.3. In this regard, the Noticee has submitted that the mismatches were due to deficiencies in back office software, which was not capturing the instances such as inactive or suspended ISINs or ISINs under lock-in period. As there were such instances with respect to some of the clients, it resulted into errors in weekly submissions. Further, shares were excess in back office reporting when compared with demat holding with respect to two clients, as in one case, the holdings in the demat holding were recorded in the new ISINs due to system issue and in the other case, the securities were lying in NSDL Pool Account but erroneously reported in CDSL Principle Account. In 60 out of 105 instances, the stocks were not considered for the weekly holding submissions due to back office errors.

16.4. While it is accepted that the mismatches were due to back office software, it was Noticee's responsibility to ensure that the back office software is free from errors and bugs, and the Noticee's records and all its reportings are correct and complete. However, the same was not taken care of by the Noticee.

16.5. In view of the foregoing, it is observed that the Noticee has violated the provisions of SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; NSE Circular NSE/INSP/33276 dated September 27, 2016; Exchange Circular dated August 30, 2018; NSE/INSP/39393 dated November 13, 2018; and Exchange Circular NSE/INSP/41498 dated July 03, 2019.

17. **Reporting and short collection of Margin –**

17.1. It was observed that the Noticee had incorrectly reported margin to the Exchanges in CM and F&O Segment in the following instances –

17.1.1. EOD Margin - 4 clients – 4 instances of Rs.1.03 Crores

17.1.2. Peak Margin – 8 Clients – 8 Instances of Rs.1.84 Crores.

17.1.3. It was observed that the Noticee had made the Early pay-In which was not accepted by the Clearing Corporation.

17.2. In view of the above, it was alleged that the Noticee had violated the provisions of Point No 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2. of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020. Exchange's Circular NSE/CMPT/03167 dated Feb 01, 2002, NSE/INSP/43069 dated December 31, 2019 and NSE/INSP/43493 dated February 11, 2020 and NSE/INSP/47278 dated February 09, 2021.

17.3. As per the aforementioned provisions, stock brokers shall collect and maintain adequate margins from their clients as per the extant requirements, and shall be penalized for short collection / reporting of margins. Trading Members shall report on a daily basis details in respect of such margin amount due and collected from the constituents clearing and settling through them, with respect to the trades executed/ open positions of the constituents, which the trading members have paid to the Clearing Members, and on which the Clearing Members have allowed initial margin limit to the Trading Members.

17.4. Noticee has submitted that there was no shortfall of EOD or Peak margin in any of the instances, and has provided the following instance wise response along with supporting documents.

<u>4 instances of alleged shortfall in EOD Margin</u>

Sr. No	Date	Client Code	Shortfall Alleged	Remarks
1.	02.08.2022	SB277197	4004580.7	Sufficient margin of Rs. 1,88,61,431/- was available with the client on trade date 01.08.2022. Furthermore, client had also completed the early pay-in of securities for aforesaid trade on 02.08.2022. Therefore, there is no shortfall.
2.	17.10.2022	VS276480	3790747.12	Client had received proceeds from clearing Corporation on 17-10-2022 against the sale of securities on 14.10.2022. Therefore, there is no shortfall.
3.	26.08.2022	MR309656	1470637.89	Client had received proceeds from clearing corporation against the sale of securities on 25.08.2022. Therefore, there is no shortfall.
4.	28.07.2022	LS320513	944033.90	Sufficient margin of Rs. 41,33,841.14/- was available with the client in the form of ledger balance, margin pledge and early pay-in. Therefore, there is no shortfall.

<u>8 instances of alleged shortfall in Peak Margin</u>

Sr. No.	Date	Client Code	Shortfall Alleged	Remarks
1.	02.08.2022	SB277197	8718580.7	Sufficient margin of Rs. 1,88,61,431/- was available with the client on trade date 01.08.2022. Furthermore, the client had also completed the early pay-in of securities for aforesaid trade on 02.08.2022. Hence, there is no shortfall.
2.	17.10.2022	VS276480	3790747.12	The client had provided as pay-in funds from sale of shares on 14.10.2022 and shares from its demat account to ICCL on 17.10.2022. Hence, there is no shortfall.
3.	04.04.2022	RK267387	1649386.82	SSL has correctly reported the shortfall in margin in respect of this client
4.	26.08.2022	MR309656	1470637.89	Client had provided as pay-in funds from sale of shares on 25.08.2022 and shares from its demat account to ICCL on 26.08.2022. Hence, there is no shortfall.
5.	30.06.2022	VG514827	1099970	The client had sufficient collateral having value of Rs. 95 Lakhs. Hence, there is no shortfall.
6.	28.07.2022	LS320513	942950.25	Sufficient margin of Rs. 41,33,841.14/- was available with the client in the form of ledger balance, margin pledge and early pay-in. Hence, there is no shortfall.

Sr. No.	Date	Client Code	Shortfall Alleged	Remarks
7.	10.02.2022	KP315882	664911.41	The client had sufficient margin of Rs. 1,01,18,969.85/-. Hence, there is no shortfall.
8.	21.10.2022	SN73128	111998.4	The client had sufficient margin of Rs. 27,39,343.67/-. Hence, there is no shortfall.

17.5. Following is observed with respect to the instances of shortfall in EOD margin:

Sr. No.	Date	Client Code	Shortfall Alleged	Observations
1.	02.08.2022	SB277197	4004580.7	The Noticee has not provided Statement of Holdings in support of its submissions.
2.	17.10.2022	VS276480	3790747.12	As seen from the Delivery Out Instruction Report and Transaction Statement of the Noticee's Pool Account, securities sold on October 14, 2022 and October 17, 2022 were given as EPI on the respective dates. Thus, the same may be considered for margin calculation.
3.	26.08.2022	MR309656	1470637.89	As seen from the Delivery Out Instruction Report and Transaction Statement of the Noticee's Pool Account, securities were provided for early pay-in on August 25, 2022.
4.	28.07.2022	LS320513	944033.90	As seen from the NSDL demat transaction statement and Statement of Holdings, and the screenshot of ledger balance provided by the Noticee, it is observed that the Noticee had total margin balance of

				more than the required EOD margin of ₹25,15,851.83. Therefore, the Noticee's submissions are accepted.

17.6. Following is observed with respect to the instances of shortfall in Peak margin:

Sr. No.	**Date**	**Client Code**	**Shortfall Alleged**	**Observations**
1.	02.08.2022	SB277197	8718580.7	The Noticee has not provided Statement of Holdings in support of its submissions.
2.	17.10.2022	VS276480	3790747.12	As seen from the Delivery Out Instruction Report and Transaction Statement of the Noticee's Pool Account, securities sold on October 14, 2022 and October 17, 2022 were given as EPI on the respective dates. Thus, the same may be considered for margin calculation.
3.	04.04.2022	RK267387	1649386.82	Noticee has accepted the shortfall alleged in this instance.
4.	26.08.2022	MR309656	1470637.89	As seen from the Delivery Out Instruction Report and Transaction Statement of the Noticee's Pool Account, securities were provided for early pay-in on August 25, 2022.
5.	30.06.2022	VG514827	1099970	From the pledge master report, it is observed that the client was having sufficient collateral as on June 30, 2022.
6.	28.07.2022	LS320513	942950.25	As seen from the NSDL demat transaction statement and Statement of Holdings, and the screenshot of ledger balance provided by the Noticee, it is

Sr. No.	Date	Client Code	Shortfall Alleged	Observations
				observed that the Noticee had total margin balance of more than the required EOD margin of ₹25,14,768.18. Therefore, the Noticee's submissions are accepted.
7.	10.02.2022	KP315882	664911.41	From the Statement of Holdings, it is observed that the client had pledged securities of value ₹90.22 lakh, which is less than the required peak margin of ₹95.99 lakh. Thus, Noticee's submissions cannot be accepted.
8.	21.10.2022	SN73128	111998.4	Noticee has not provided supporting documents with respect to its submissions.

17.7. To summarize the tables above, the Noticee's submissions with respect to 3 instances of alleged shortfall in EOD Margin and 4 instances of alleged shortfall in Peak Margin can be accepted. Thus, it is observed that there was shortfall in EOD Margin in one instance and shortfall in Peak Margin in four instances, and the same was incorrectly reported by the Noticee.

17.8. In view of the foregoing, it is observed that the Noticee has violated the provisions of Point No 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2. of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020. Exchange's Circular NSE/CMPT/03167 dated Feb 01, 2002, NSE/INSP/43069 dated December 31, 2019 and NSE/INSP/43493 dated February 11, 2020 and NSE/INSP/47278 dated February 09, 2021.

18. **Daily Margin Statements –**

18.1. It was observed that the Noticee had reported following details incorrectly in the Daily Margin Statements (DMS).

18.1.1. Incorrect Ledger Balance – following 3 Client at 3 Instances –

18.1.1.1. In case of client code SM172426 – Noticee has allegedly reported excess amount in DMS amounting to Rs. 7,259.

18.1.1.2. In case of client code ST316829 & TJ14723 - Noticee has reported less amount in DMS amounting to Rs.2,68,298.70.

18.1.2. Securities details were not mentioned in DMS for following two client codes: AM274209 & MI245275(Margin dates dated 11-oct-2021 and 25-Oct-2021 respectively).

18.1.3. Alleged Incorrect Upfront margin for following 6 Client at 6 Instances –

18.1.3.1. In case of client code AM274209, MI245275 and VN314548 Noticee has allegedly reported excess amount in DMS amounting to Rs. 1,14,68,909.6.

18.1.3.2. In case of client code GL285289, TJ14723 & SM172426 Noticee has allegedly reported less amount in DMS amounting to Rs. 3,08,707.66

18.2. In view of the above, it was alleged that the Noticee has violated the provisions of Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated 17 April, 2008 and Exchange's Circular no. NSE/INSP/10239 dated 11-Feb-08, NSE/INSP/10605 dated 21-Apr-08, NSE/INSP/36786 dated 19-Jan-18, NSE/INSP/38154 dated June 27, 2018, NSE/INSP/43069 dated December 31, 2019 and NSE/INSP/45191 dated July 31, 2020.

18.3. As per the aforementioned provisions, Brokers shall issue a daily statement of collateral utilization to clients which shall include, inter-alia, details of collateral deposited, collateral utilised and collateral status (available balance / due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities, at the end of the Trade day itself, in the prescribed format.

18.4. The Noticee has submitted following with respect to the aforesaid observations:

18.4.1. In respect of excess ledger balance reported in DMS in SM172426, MCX provided the trade file at 5:30 AM and consequently, the Noticee's reporting was processed without considering MCX trades. Consequently, there was excess reporting of Rs. 7,259/-.

18.4.2. Similarly, in case of SM172426, short margin was reported on account of delay in receipt of the client's MCX trade file and billing settlement resulting in a difference of Rs. 36,758.50/-. MCX provided the trade file at 5:30 AM and consequently, Noticee's reporting was processed without considering MCX trades

18.4.3. In respect of short ledger balance reported in DMS in ST316829, due to a technical issue SSL's back office system used an outdated margin value leading to an underreporting of ₹1,773. It is submitted that the SPAN file, which is updated 5 times by the exchange, was not uploaded correctly to our back office resulting in a minor shortfall.

18.4.4. In respect of short ledger balance reported in DMS in TJ14723, it is denied that there has been any short reporting as both the DMS and ledger of the client show the correct ledger balance.

18.4.5. In respect of details of securities not mentioned, it is denied that the same were unavailable for AM274209 in margin statement dated October 11, 2021, and for MI245275 in margin statement dated October 25, 2021.

18.4.6. In case of excess upfront margin reported in DMS in AM274209, MI245275, and VN314548, and short upfront margin reported in DMS in GL285289, and TJ14723, it is submitted that admittedly due to a technical issue in Noticee's back office system, the values of the upfront margin were not reported accurately. However, from the client's perspective, there is no impact on Trading limits due to the aforementioned technical issue. Noticee's mobile trading application and online web-based platform are displaying the correct trading limits, allowing clients to initiate their transactions.

18.5. Following is observed from the perusal of inspection findings and the Noticee's submissions:

<u>Incorrect Ledger Balance</u>

18.5.1. SM172426 – Noticee submitted that MCX trades were not considered due to late receipt of MCX trade file, which resulted in excess reporting. It is noted that the Noticee has not provided any supporting document regarding late receipt of MCX trade file. Even if it is accepted that the MCX trade file was received with delay, the Noticee was required to consider the trade details of MCX trades available with it, for the generation of daily margin statements, which has not been done. Thus, Noticee's submissions are not tenable.

18.5.2. ST316829 – Noticee, while submitting that its back office system used an outdated margin value, has admitted that there was under-reporting of ₹1,773.

18.5.3. TJ14723 – From the daily margin statement provided by the Noticee, it is observed that there was no under-reporting of ledger balance in the DMS. Therefore, Noticee's submissions are accepted.

Securities details not mentioned in DMS

18.5.4. AM274209 and MI245275 – Noticee has submitted copies of Daily Margin Statements in which details of securities are available. Therefore, its submissions are accepted in this regard.

18.5.5. Incorrect Upfront Margins in 6 instances – The Noticee has admitted that these were incorrectly reported in the DMS due to technical issues in its back office system.

18.6. In view of the foregoing, it is observed that the Noticee has violated the provisions of Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated 17 April, 2008 and Exchange's Circular no. NSE/INSP/10239 dated 11-Feb-08, NSE/INSP/10605 dated 21-Apr-08, NSE/INSP/36786 dated 19-Jan-18, NSE/INSP/38154 dated June 27, 2018, NSE/INSP/43069 dated December 31, 2019 and NSE/INSP/45191 dated July 31, 2020 as it reported incorrect details in the Daily Margin Statements.

19. **Penalty for short collection of upfront margin passed on to clients** –

19.1. It was observed that the Noticee had passed on penalty (levied by clearing corporation) to clients for short collection of upfront margin in following instances:

19.1.1. CM- 13 clients (Amount of penalty passed on to clients – ₹3.32 lakhs)

19.1.2. FO- 10 clients (Amount of penalty passed on to clients – ₹20.44 lakhs)

19.2. It was further observed that the Noticee had not refunded penalty (levied by clearing corporation) passed on to clients for short collection of upfront margin in the following instances:

19.2.1. CM- 3 clients (Amount of penalty passed on to clients- ₹ 0.93 lakhs)

19.2.2. FO- 8 clients (Amount of penalty passed on to clients – ₹ 17.78 lakhs)

19.3. Thus, it was alleged that the Noticee had violated the provisions of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/INSP/INSP/49929 dated October 12,2021 and NSE/INSP/53525 dated September 02,2022.

19.4. As per the aforementioned provisions, trading members are not permitted to pass on the penalty levied by the clearing corporations for short / non-collection of upfront margins to clients under any circumstances.

19.5. The Noticee has submitted that its system sets the trading limit and same is assigned to the clients to ensure that no transaction is initiated without upfront margin. The direction of NSE in its circular NSE/INSP/49929 dated October 12, 2021 clarifies that penalties imposed by clearing corporation for shortfall arising in instances other than short upfront margin can be passed on to the client. All the instances in which the Noticee has levied the penalty pertain to shortfall due to change in the margin required or due to non-settlement of MTM by the client. Further, with respect to FO clients, the Noticee has informed that the penalties were levied due to margin required other than upfront margins. Noticee provided instance-wise explanations, which are reproduced below.

Trade Date	Client Code	Total Margin	Collected Margin	Margin difference	Penalty Amount	Segment	Noticee's Submissions
16-Mar-22	BK300871	10,28,30,363.50	7,59,88,626.80	2,74,31,166.18	13,71,558.31	FO	client has not taken any fresh position, in fact, some position was reduced, however, shortfall got reported as the margins levied increased during the day.
20-Apr-22	RK267387	57,93,378.54	37,48,622.59	20,44,755.95	1,02,237.80	FO	client has not taken any fresh position, however, shortfall got reported as the margins levied increased during the day / previous days MTM was not settled leading to shortfall.
23-Nov-21	MH271272	98,86,862.23	83,35,147.78	15,51,714.45	77,585.72	FO	client has not taken any fresh position, however, shortfall got reported as the margins levied increased during the day / previous days MTM was not settled leading to shortfall.
23-Feb-22	PR267190	43,09,383.75	43,09,383.75	12,58,480.09	62,924.00	FO	client has not taken any fresh position, in fact, some position was reduced, however, shortfall got reported as the margins levied increased during the day.
29-Nov-21	AP310761	9,82,364.63	-	9,82,364.63	49,118.23	FO	client has not taken any fresh position, however, shortfall got reported as the margins levied increased during the day / previous days MTM was not settled leading to shortfall.

Trade Date	Client Code	Total Margin	Collected Margin	Margin difference	Penalty Amount	Segment	Noticee's Submissions
11-May-22	AA267388	22,98,800.82	15,17,541.39	7,81,259.43	39,062.97	FO	client has not taken any fresh position, however, shortfall got reported as the margins levied increased during the day / previous days MTM was not settled leading to shortfall.
21-Oct-21	PC304685	10,76,099.44	2,96,816.56	7,79,282.88	38,964.14	FO	client has not taken any fresh position, however, shortfall got reported as the margins levied increased during the day / previous days MTM was not settled leading to shortfall.
11-May-22	PM295594	27,39,683.01	19,96,369.33	7,43,313.68	37,165.68	FO	client has not taken any fresh position, in fact, some position was reduced, however, shortfall got reported as the margins levied increased during the day.

19.6. It is noted that the Noticee is in the process of refunding the penalty for short collection of upfront margin to certain clients, for which it had accepted in its reply to inspection findings, that due to some issue with vendor 63 moons Financial Technology (ODIN), few positions got created which resulted in shortfall of upfront margin.

19.7. It is also noted that the Noticee has not provided any explanations or made any submissions with respect to penalty of ₹0.93 lakh passed on to 3 clients in the cash market segment.

19.8. With respect to 8 instances pertaining to 8 clients in F&O segment, the Noticee has submitted that in all these instances, the clients had not taken any fresh positions, which shows that shortfall, if any, in the margin was not of the upfront margin. Upon perusal of the PS-03 file as submitted by the Noticee with respect to the alleged instances, it is observed that no fresh trades were executed by the clients in 7 instances. Fresh positions were opened only in one instance. Therefore, Noticee's submissions with respect to 7 instances, that there was no shortfall in upfront margin, are accepted.

19.9. In view of the foregoing observations, the allegation of violation of provisions of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/INSP/INSP/49929 dated October 12,2021 and NSE/INSP/53525 dated September 02,2022 stands established, as the Noticee had not collected required upfront margin with respect to 13 clients in the cash market segment, out of which the penalty amount has not been refunded to 3 clients.

20. **<u>Securities of credit balance clients transferred to CUSA</u>** –

20.1. It was observed that Noticee had transferred securities of credit balance clients to "Client unpaid securities account" in 1143 instances with respect to 546 Clients of value ₹3.71 crores. Therefore, it was alleged that the Noticee had violated the provisions of Clause 4.2 of SEBI circular CIR/HO/MIRSD/DOP/ CIR/P/2019/75 dated June 20, 2019, NSE NSE/INSP/41359 dated June 20, 2019 and NSE/INSP/42229 dated September 27, 2019.

20.2. As per the aforementioned provisions, with regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled –"client unpaid securities account" shall be opened by the TM/CM. Unpaid securities shall be transferred to such "client unpaid securities account "from the pool account of the concerned TM/CM. The securities that are bought under Margin Trading Facility, shall be kept in a separate account titled as – 'Client Margin Trading Securities Account'.

20.3. The Noticee has submitted that in all the 1143 instances, the shares were retained in CUSA until fulfilment of client obligation and were released to the client within the permissible period of 7 days. The Noticee operates an automated system to manage all securities pay-out processes. Clear balance is calculated for all the clients. In 1140 instances, the clients had executed trades while not having clear credit balances, therefore, the shares were transferred to CUSA. Therefore, the shares were duly transferred to CUSA. The Noticee was asked for relevant documents in support of its submissions regarding BTST. Vide its submissions dated November 19, 2024, the Noticee submitted instance wise explanation and screenshots of ledger statements of some sample instances. Vide emails dated December 06, 2024 and December 09, 2024, the Noticee submitted contract notes for BTST trades and BSE and NSE trade files. The Noticee had also submitted that it has never kept the shares in the Pool account, and has duly transferred the shares to the client accounts upon receipt of funds.

20.4. From the perusal of the documents submitted by the Noticee, it is noted that the Noticee had transferred the shares to CUSA, when clear balance was not available in the clients' accounts at the time of receipt of shares. For example, in instances where a client had executed BTST trades, and sold the shares which were bought on previous day, and simultaneously bought some other shares – the clear ledger balance was negative, as the settlement of shares sold will take place on subsequent day. On the day of settlement, when the shares (simultaneously) purchased by the client were received in the pool account but consideration towards the same was not received by the client, it transferred the shares to CUSA until the receipt of funds from the client. During the hearing, the Noticee had also submitted that as only clear cheque balances are considered for margin / collateral, in the same way, it was considering clear ledger balance before transferring the shares to client's demat account. In cases where the funds were not received from the client, the Noticee transferred the shares to CUSA, until the receipt of funds. It is noted that the Noticee has been conservatively ensuring the receipt of consideration at the time of posting of shares to the client demat account. In 1004 out of 1143 instances, the shares were withheld in CUSA for up to 3 days. The Noticee has transferred the shares to CUSA when there was no clear credit ledger balance.

20.5. In view of the aforesaid, it is observed that the allegation of violation of provisions of Clause 4.2 of SEBI circular CIR/HO/MIRSD/DOP/ CIR/P/2019/75 dated June 20, 2019, NSE NSE/INSP/41359 dated June 20, 2019 and NSE/INSP/42229 dated September 27, 2019, against the Noticee, does not stand established.

21. **Client Registration Process (KYC and KRA Process)** –

21.1. It was observed that the Noticee had captured incorrect date of birth of 31 clients. Thus, it was alleged that the Noticee had violated the provisions of

Annexure-2 of Point No. 3(ii)(a) of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 and Annexure of Point No. 3(ii)(a) of Annexure issued vide Exchange notice 20110823-4 dated August 23, 2011.

21.2. It was also observed that the Noticee had failed to provide CKYC number of 2004 clients. Thus, it was alleged that the Noticee had violated the provisions of SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 and Exchange Notice No. 20161111-24 dated 11 November 2016, 20200425-2 dated April 25, 2020 and 20220208-60 dated 08 Feb 2022.

21.3. It was observed that in 11 instances, the Noticee had not followed KRA process, i.e. uploading of KYC on KRA within the stipulated time. Thus, it was alleged that the Noticee had violated the provisions of Point No.1(i) of Clause 2 of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 and Exchange Notice No. 20111226-17 dated December 26, 2011.

21.4. As per the provisions of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011, stock brokers are required to document basic information about the clients in the KYC form, which inter-alia includes date of birth of the client. As per the provisions of SEBI Circular dated November 10, 2016, stock brokers are required to upload clients' KYC details with Central KYC Records Registry (CKYCR) system by the registered intermediaries at the time of client registration. As per the BSE Notice No. 20200425-2 dated April 25, 2020, which contains SEBI Circular dated April 24, 2020, stock brokers are required to collect and verify Proof of Identity and Proof of Address from the investors. The Circular also provides clarification with respect to KYC process and use of technology for KYC. Further, BSE Notice No. 20220208-60 dated February 08, 2022 provides clarification with respect to the SEBI Circular dated April 24, 2020. SEBI Circular dated December 23, 2011 provides guidelines in pursuance of the SEBI KYC Registration Agency (KRA) Regulations, 2011 and for In-Person Verification (IPV).

21.5. The Noticee has submitted that the inspection team had reviewed 54,316 UCCs, out of which deficiencies were identified in 2046 instances. These instances are largely pertaining to older pre-existing clients of the Noticee. With respect to incorrect date of birth in 31 instances, due care was taken in the KYC process. However, at the time of Noticee's migration from its old back office system to a new vendor, due to porting error, the first two digits of the birth year were ported as zero were seen in such 31 instances. The Noticee had duly retained the back up of all data in the old back office system, it was able to rectify these issues promptly. Further, 2004 instances of non-availability of CKYC pertain to older pre-existing clients, whose accounts are KRA compliant but they are yet to comply with CKYC in spite of several reminders. The Noticee has suspended the accounts of these clients until the completion of CKYC process. As of now, CKYC of 1136 clients has been completed by the Noticee, 25 accounts have been closed and the Noticee is taking steps to complete the CKYC of remaining 843 clients. With respect to 11 instances of delay in KRA uploading process, upon review of the KRA date and the date of account opening with the Noticee, it was submitted that in 10 instances, there is no delay as the KRA was done in time and prior to the account opening and the remaining 1 instance pertains to PAN exempt category not requiring KRA registration. Noticee has provided instance-wise submissions, which are summarized below for reference. It has also provided supporting documents.

S. NO.	UCC	KRA KYC Date	Trading account Registration Date	Noticee's submissions
1	SP519051	03/05/2012	13/06/2022	This client has completed his KRA formalities, and KRA has registered on 03-05-2012. Thereafter, stockholding services opened trading accounts on 13-06-2022. Therefore, there is no delay in KRA update at Stockholding Services Ltd. A screen shot of the KRA registration portal is attached for verification.
2	OF508508	09/03/2023	09/02/2022	This account belongs to the Official Liquidator, which falls under the PAN-exempt category, hence, KRA registration is not required for this account.
3	TS519905	20/06/2013	04/07/2022	This client has completed his KRA formalities, and KRA has registered on 20-06-2013. Thereafter, stockholding services opened trading accounts on 04-07-2022. Therefore, there is no delay in KRA update at Stockholding Services Ltd. A screen shot of the KRA registration portal is attached for verification.
4	TK510693	17/08/2012	23/02/2022	This client has completed his KRA formalities, and KRA has registered on 17-08-2012. Thereafter, stockholding services opened trading accounts on 23-02-2022. Therefore, there is no delay in KRA update at Stockholding Services Ltd. A screen shot of the KRA registration portal is attached for verification.
5	AD514519	10/09/2012	01/04/2022	This client has completed his KRA formalities, and KRA has registered on 10-09-2012. Thereafter, stockholding services opened trading accounts on 01-04-2022. Therefore, there is no delay in KRA update at Stockholding Services Ltd. A screen shot of the KRA registration portal is attached for verification.

S. NO.	UCC	KRA KYC Date	Trading account Registration Date	Noticee's submissions
6	CL511284	08/09/2015	28/02/2022	This client has completed his KRA formalities, and KRA has registered on 08-09-2015. Thereafter, stockholding services opened trading accounts on 28-02-2022. Therefore, there is no delay in KRA update at Stockholding Services Ltd. A screen shot of the KRA registration portal is attached for verification.
7	WP515987	01/08/2015	27/04/2022	This client has completed his KRA formalities, and KRA has registered on 01-08-2015. Thereafter, stockholding services opened trading accounts on 27-04-2022. Therefore, there is no delay in KRA update at Stockholding Services Ltd. A screen shot of the KRA registration portal is attached for verification of the KRA date for your kind consideration. .On 14th August 2024 , this clients KRA deactivated as the client not available in MCA site and we have suspended this account.
8	HL508128	29/09/2014	29/01/2022	This client has completed his KRA formalities, and KRA has registered on 29-09-2014. Thereafter, stockholding services opened trading accounts on 29-01-2022. Therefore, there is no delay in KRA update at Stockholding Services Ltd. A screen shot of the KRA registration portal is attached for verification.
9	MH514906	10/08/2012	18/04/2022	This client has completed his KRA formalities, and KRA has registered on 10-08-2012. Thereafter, stockholding services opened trading accounts on 18-04-2022. Therefore, there is no delay in KRA update at Stockholding Services Ltd. A screen shot of the KRA registration portal is attached for verification.

S. NO.	UCC	KRA KYC Date	Trading account Registration Date	Noticee's submissions
10	SP511500	03/05/2012	04/03/2022	This client has completed his KRA formalities, and KRA has registered on 03-05-2012. Thereafter, stockholding services opened trading accounts on 04-03-2022. Therefore, there is no delay in KRA update at Stockholding Services Ltd. A screen shot of the KRA registration portal is attached for verification.
11	KN507911	22/01/2022	25/01/2022	This client has completed his KRA formalities, and KRA has registered on 22-01-2012. Thereafter, stockholding services opened trading accounts on 25-01-2022. Therefore, there is no delay in KRA update at Stockholding Services Ltd. A screen shot of the KRA registration portal is attached for verification.

21.6. Following observations are made from the perusal of the findings of inspection and submissions of the Noticee:

21.6.1. With respect to the allegation of incorrect date of birth of 31 clients, the Noticee, while explaining the reasons for the error being the porting error during migration from old to new back office software, has admitted that the error had occurred.

21.6.2. With respect to the allegation of non-provision of CKYC number with respect to 2004 clients, the Noticee has submitted that the accounts were KRA compliant but yet to comply with CKYC requirements, the Noticee is taking appropriate steps to complete the CKYC of these clients. Noticee was required to send the documents to the KRA as per the timeline mentioned in the SEBI Circular No. CIR/MIRSD/120/2016 dated November 10, 2016, i.e. CKYC process to be completed by December 31, 2016 for all the existing clients, and in other cases, within 10 working days from the execution of documents by the clients. However, during the inspection period, the Noticee had not completed CKYC process of submitting the documents to the KRA and getting the same verified, to receive the CKYC number.

21.6.3. With respect to not following the KRA process in 11 instances, the Noticee submitted that there was no delay as the process was completed in time and prior to account opening and one instance pertains to PAN exempt category. It is observed from the screenshots of the KRA Registration portal that KYC documents pertaining to clients in remaining 10 instances were already uploaded on the portal. Vide email dated December 12, 2024, the Noticee has provided the billing details received from the KRA for downloading the documents at the time of client registration. Upon perusal of these details, it is observed that the Noticee had provided billing details with respect to six out of ten clients, who had downloaded the KYC documents around the time of client registration. In view of the same, it is observed that the Noticee was not required to upload the documents as the documents were already present and also that the Noticee had diligently downloaded the available KYC documents for verifying the details submitted by the new clients in the Account Opening Form and KYC Form. Thus, the Noticee's submissions with respect to 11 instances are accepted.

21.6.4. Noticee has submitted that there were only 2046 instances where deficiencies were observed out of the total 54316 instances inspected, and these instances are mainly pertaining to older clients. It is observed that there is no permissible threshold up to which discrepancies can be accepted. Being a SEBI registered intermediary, the Noticee is expected to maintain complete and accurate records of KYC of its clients. Thus, Noticee's submissions are not tenable.

21.7. In view of the aforesaid, it is observed that the Noticee has violated the provisions of

21.7.1. Annexure-2 of Point No. 3(ii)(a) of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 and Annexure of Point No. 3(ii)(a) of Annexure issued vide Exchange notice 20110823-4 dated August 23, 2011, as incorrect date of birth was maintained in the system in 31 instances.

21.7.2. SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 and Exchange Notice No. 20161111-24 dated 11 November 2016, 20200425-2 dated April 25, 2020 and 20220208-60 dated 08 Feb 2022, as the Noticee had not completed the CKYC process with respect to 2004 clients during the inspection period.

22. **Analysis of Enhanced Supervision data –**

22.1. It was observed that aggregate value of Credit & Debit Balances of all clients as obtained from trial balance across Stock Exchanges was incorrectly reported under weekly reporting under enhanced supervision monitoring of client assets as on September 23, 2022.

Particulars	***As on 23-Sep-2022***		
	Values as per calculation	***Actual Submission by Noticee***	***Difference***
Aggregate value of Credit Balances of all clients	1,91,98,74,774.50	1,78,51,84,473.00	13,46,90,301.50
Aggregate value of Debit Balances of all clients	551,497,893.76	551,794,085.00	296,191.24

22.2. Thus, it was alleged that the Noticee had violated the provisions of Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016-95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017; Exchange Circular nos. MCX/INSP/248/2017 dated July 25, 2017, MCX/INSP/343/2017 dated September 25, 2017, MCX/INSP/446/2017 dated November 29, 2017 and MCX/INSP/400/2017 dated October 30, 2017.

22.3. As per the provisions mentioned above, the stock brokers are required to submit enhanced supervision data on weekly basis, including aggregate value of Credit & Debit Balances of all clients as obtained from trial balance across Stock Exchanges.

22.4. The Noticee has submitted that the difference in credit balance as observed in the inspection report was ₹2,02,678.32 and as per the SCN was ₹13,46,90,301.50. The Noticee has further submitted that the differences in the range of ₹2 lakh to ₹3 lakh for credit and debit balances due to logic gap in the new system in the initial period. The same has been rectified afterwards.

22.5. It is noted that the difference in credit balance of all clients as per the trial balance, as pointed out by the Noticee as on September 23, 2022 is ₹2,02,678.32, as can be seen from the table provided below.

Particulars	**As on 23-Sep-2022**		
	Values as per calculation	**Actual Submission by Member**	**Difference**
Aggregate value of Credit Balances of all clients	178,53,87,151.50	178,51,84,473.00	-202,678.32

Particulars	As on 23-Sep-2022		
	Values as per calculation	Actual Submission by Member	Difference
Aggregate value of Debit Balances of all clients	55,14,97,893.76	55,17,94,085.00	296,191.24

22.6. The Noticee has admitted the differences in reporting and has submitted that the differences were due to logic gap in the new system software. It is noted that it was Noticee's responsibility to ensure that all the data gets recorded and reported correctly and completely. However, the Noticee could not take care of the same, and this resulted in incorrect reporting of enhanced supervision data, with respect to week ended on September 23, 2022.

22.7. In view of the aforesaid, it is observed that the Noticee has violated the provisions of Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016-95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017; Exchange Circular nos. MCX/INSP/248/2017 dated July 25, 2017, MCX/INSP/343/2017 dated September 25, 2017, MCX/INSP/446/2017 dated November 29, 2017 and MCX/INSP/400/2017 dated October 30, 2017.

23. **Incorrect reporting of Client level Cash & Cash Equivalent Balances** –

23.1. It was observed that the Noticee had incorrectly reported Clear Ledger Balance of 13 Clients in 13 Instances amounting to ₹3.24 crore. Further, the Noticee had incorrectly reported Peak Ledger balance of 55 Client in 55 instances amounting to ₹5.99 crore. Thus, it was alleged that the Noticee had violated the provisions of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; Exchange circular NSE/INSP/43486 dated Feb 10, 2020.

23.2. As per the above-mentioned provisions, weekly submission of day wise Client Level Cash/Cash Equivalent Balances and day wise reporting of Bank balances is required to be made by the stock brokers, in the formats prescribed therein.

23.3. The Noticee has submitted that same reasons as provided above for incorrect reporting of figures in enhanced supervision data.

23.4. The Noticee has admitted the differences in reporting and has submitted that the differences were due to logic gap in the new system software. It is noted that it was Noticee's responsibility to ensure that all the data gets recorded and reported correctly and completely. However, the Noticee could not take care of the same, and this resulted in incorrect reporting of client level cash and cash equivalent balances.

23.5. In view of the aforesaid, it is observed that the Noticee has violated the provisions of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; and Exchange circular NSE/INSP/43486 dated Feb 10, 2020.

24. **<u>Risk Based Supervision (RBS)</u>** –

24.1. It was observed that the Noticee had incorrectly reported the following risk based supervision data:

Particulars	Total available collaterals from all debit balance clients (₹ in crore)
Amount Submitted towards RBS as on March 31, 2022	435.15
Amount Observed during inspection	457.56
Difference	-22.42

24.2. Thus, it was alleged that the Noticee has violated the provisions of Clause 6.1.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Exchange circular NSE/INSP/28925 dated February 20, 2015, NSE/INSP/41498 dated Jul 03, 2019.

24.3. It was also observed that the brokerage income was incorrectly reported in risk based supervision submission. The details are provided below.

Particulars	**Amt in ₹**
Brokerage income reported as per RBS submission as on March 2022	1,096,966,360
Brokerage income as per Audited Financial Statements as on March 2022	1,094,764,753
Difference	**2,201,607**

24.4. In view of the above, it was alleged that the Noticee had violated the provisions of Clause 6.1.1 of Annexure of SEBI circular SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016-95 date Sep 26, 2016 Business rule chapter 9, Exchange Circular no MCX/INSP/101/2018 dated Mar 20, 2018 MCX/INSP/400/2017 dated Oct 30, 2017 MCX/INSP/410/2018 dated Oct 1, 2018, MCX/INSP/217/2022 dated April 11, 2022.

24.5. The above provisions pertain to the data / details to be submitted by the stock brokers for risk based supervision in the templates and within the timelines prescribed in the Circulars above.

24.6. With respect to the difference of ₹22.42 crore as on March 31, 2022 for the Total available collaterals from all debit balance clients, the Noticee has submitted that the difference was due to the value of Pool account and CUSA, which was earlier not considered by the Noticee due to lack of clarity. Only in April, 2024, SEBI had issued clarification that Pool Account and CUSA are to be considered for the aforesaid submissions. With respect to the difference of ₹22,01,607 in the brokerage income as on March, 2022, reported under RBS submission, when compared with calculations of the inspection team, the Noticee submitted that it had also included the commission earned by it from distribution of third party products such as IPOs, Mutual Funds, Bonds, etc, as also reported by the Noticee in its annual statement for the year ended 2022.

24.7. Value of total available collateral from all debit balance clients includes the value of securities of debit balance clients in the Pool account and CUSA. In case of debit balance clients, there may be significant value of securities transferred to CUSA or in the Pool account. Thus, the Noticee was required to consider the value of securities of debit balance clients in pool account and CUSA account for reporting of total collateral available. Hence, Noticee's submissions that it was considering the balances after receiving clarifications from SEBI in April, 2024, is not tenable.

24.8. With respect to brokerage income, it is noted that the stock brokers are required to provide the amount of gross brokerage revenue from broking operations across all exchanges. However, the Noticee has also included commissions received from distribution of third party products, which does not constitute brokerage income from broking operations. Therefore, the Noticee's submissions are not tenable.

24.9. Thus, it is observed that the Noticee has incorrectly reported value of total available collateral from all debit balance clients and amount of brokerage income in its RBS reporting as on March 31, 2022. In view of the same, the allegation of violation of provisions of Clause 6.1.1 of Annexure of SEBI circular SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016-95 date Sep 26, 2016 Business rule chapter 9, Exchange Circular no MCX/INSP/101/2018 dated Mar 20, 2018 MCX/INSP/400/2017 dated Oct 30, 2017 MCX/INSP/410/2018 dated Oct 1, 2018, MCX/INSP/217/2022 dated April 11, 2022 stands established.

25. **Verification of UCC, Email ID and Mobile numbers** –

25.1. It was observed that the Noticee had not updated correct category in UCC data of Exchange of 4 clients and there was invalid email ID in the UCC database with respect to 1 client. It was also observed that 1123 mobile number were mapped to 2,762 clients and 48 Email IDs were mapped to 180 clients. Since same email ID was mapped to multiple clients, it was alleged that the contract notes did not reach to the actual clients. Further, it was observed that there was mismatch in records between Back office & UCC of 237 Clients. Thus, it was alleged that the Noticee has violated the provisions of Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011 and Exchange circular no

NSE/INVG/21841 dated Oct 4, 2012 and NSE/INSP/32471 dated May 31, 2016.

25.2. As per the provisions of the aforesaid Circulars, Stock brokers shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address. 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.

25.3. The Noticee has submitted the following in this regard:

25.3.1. Invalid category in UCC in 4 clients - These instances pertained to NRE category, and was missed to be updated in UCC and the same was updated on January 24, 2023.

25.3.2. Invalid email ID in UCC in 1 client - concerned client's trading account was suspended until the UCC is updated with the correct email ID. Presently, the required rectifications have been carried out and have been certified by the auditors.

25.3.3. Single email ID mapped to multiple clients - 570 email IDs against 1,486 clients - 1,271 out of 1,486 clients meet the criteria of exception where mapping of common email ID is permitted. However, in the interest of transparency, it is submitted that only the nature of the relationship for the purpose of such mapping was set out incorrectly and the same have now been rectified. In the remaining 215 clients, as discrepancies have been noted, the Noticee has suspended these accounts and shall continue to remain so until the correct details or updated email IDs are provided.

25.3.4. Single mobile number mapped to multiple clients - 1123 mobile number against 2,762 clients - 2,360 out of 2,763 clients meet the criteria of exception where mapping of common mobile number is permitted. However, the discrepancy is once again only in respect of the nature of the relationship for the purpose of such mapping was set out incorrectly and the same have now been rectified. In the remaining 403 clients, as discrepancies have been noted, the Noticee has suspended these accounts and shall continue to remain so until the correct details or updated mobile number are provided.

25.3.5. At all times, the Noticee has complied with the requirement of obtaining a written request for mapping a common email ID or mobile number.

25.3.6. Mismatch in records between Back office & UCC in case of 237 clients – These have been identified and rectified and no such mismatches remain between UCC and Noticee's back office.

25.4. Following observations are made upon perusal of findings of inspection and the Noticee's submissions:

25.4.1. Invalid category in UCC in 4 clients – The Noticee has admitted to have missed to update the category of 4 NRE clients, and submitted that the category was updated subsequently.

25.4.2. Invalid email ID in UCC in 1 client – The Noticee has accepted the observation and submitted that it had subsequently taken appropriate steps to update correct email ID, which is updated presently.

25.4.3. Single email ID mapped to multiple clients – The Noticee has admitted that there were discrepancies with respect to 215 clients, for which the Noticee has taken corrective actions subsequently. In the instances where email ID of the actual client or its relative was not mentioned, the contract notes could not have reached the actual client through the email.

25.4.4. Single mobile number mapped to multiple clients – The Notice has submitted that discrepancies were present with respect to 413 clients, fhich have been suspended by the Noticee until provision of correct mobile number. In the remaining instances, the nature of relationship whose mobile number was provided was mentioned incorrectly, and the same was rectified subsequently.

25.4.5. Mismatch in records between Back office & UCC in case of 237 clients – The Noticee has accepted the observation and submitted that the mismatches were identified and rectified subsequently.

25.5. In view of the aforesaid, it is observed that the Noticee has violated the provisions of Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011 and Exchange circular no NSE/INVG/21841 dated Oct 4, 2012 and NSE/INSP/32471 dated May 31, 2016.

26. **Margin trading facility** –

26.1. It was observed that the Noticee had not collected adequate margin in the form of cash, cash equivalent or Group I equity shares with appropriate haircut, which resulted in margin shortfall of Rs. 47,08,273/- with respect to 10 clients. It was also observed that daily margin statement related to MTF transaction has not been sent to 18 clients. Thus, it was alleged that the Noticee had violated the provisions of Clause 7 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, NSE circular NSE/COMP/35125 dated June 15, 2017 & NSE/COMP/35260 dated June 30, 2017, NSE/INSP/43069 dated December

31, 2019, NSE/INSP/43724 dated March 02, 2020, Exchange circular NSE/INSP/45191 dated July 31, 2020 and NSE/COMP/48531 dated June 09, 2021.

26.2. As per the provisions of above-mentioned Circulars, Stock brokers shall ensure maintenance of the aforesaid margin at all times during the period that the margin trading facility is being availed by the client. In case of short fall, stock broker shall make necessary margin calls. The NSE Circulars provide guidelines / clarifications on margin reporting and collection, and FAQs on Margin Trading Facility.

26.3. The Noticee has submitted that sufficient margin was available in all the alleged instances. It has provided instance-wise response, along with copies of daily margin statements. Its response is summarized in the table below.

Date	**UCC**	**Available Margin along with Valuation (Rs)**	**Noticee's Remarks**
01-Apr-21	BP280604	No MTF Trade on 01.04.2021	Margin statement is generated and sent to client.
01-Apr-21	RP96403	650.15	No trade on 01.04.2021. Therefore, margin statement was not generated
01-Apr-21	PV171	No MTF Trade on 01.04.2021	No trade on 01.04.2021. Therefore, margin statement was not generated
01-Apr-21	SC265296	No MTF Trade on 01.04.2021	No trade on 01.04.2021. Therefore, margin statement was not generated
04-May-21	MP122337	1055118.95	Margin statement is generated and sent to client.

Date	UCC	Available Margin along with Valuation (Rs)	Noticee’s Remarks
02-Jun-21	SS290128	552849.3	Margin statement is generated and sent to client. The copy of the same is attahced as Annexure-SS290128_02-06-2021
02-Aug-21	VB296140	1651872.1	Margin statement is generated and sent to client. The copy of the same is attahced as Annexure-VB296140_02-08-21
20-Aug-21	TB297621	2172208	Margin statement is generated and sent to client. The copy of the same is attahced as Annexure-TB297621_20-08-21
01-Sep-21	SN162765	3815500	No trade on 01.04.2021. Therefore, margin statement was not generated
01-Sep-21	TG228879	3021534.35	No trade on 01.04.2021. Therefore, margin statement was not generated
22-Oct-21	CB239556	1264909.65	Margin statement is generated and sent to client. The copy of the same is attahced as Annexure-CB239556_22-10-221
22-Oct-21	SS151551	1147175.45	Margin statement is generated and sent to client. The copy of the same is attahced as Annexure-SS151551_22-10-21
01-Nov-21	PP274028	168809	No trade on 01.04.2021. Therefore, margin statement was not generated
02-Nov-21	CP230340	572922.35	No trade on 02.04.2021. Therefore, margin statement was not generated
02-Nov-21	NJ207806	11296.53	Margin statement is generated and sent to client. The copy of the same is attahced as Annexure-NJ207806_02-11-21
02-Nov-21	PK316365	806372.7	No trade on 02.04.2021. Therefore, margin statement was not generated
02-Nov-21	PP274028	168504	No trade on 02.04.2021. Therefore, margin statement was not generated
02-Nov-21	RJ277346	830490	Margin statement is generated and sent to client. The copy of the same is attahced as Annexure-RJ277346_02-11-21

26.4. A stock broker is required to provided daily margin statement with respect to MTF on a daily basis, even when no trades are placed by the MTF clients. In view of the same, Noticee’s submissions in 9 instances that margin statement was not generated as no trades were made on the respective dates, is not acceptable. With respect to the remaining 9 instances, the Noticee has provided copies of daily margin statements which were generated and sent to the clients and it also submitted that adequate margin was available in all these instances, as evident from the copies of DMS provided in support of the submissions. Upon perusal of these statements, it is observed that the figures of margin available and margin required are not matching with the details in the MG13 file pertaining to these instances. Thus, it is observed that the Daily Margin Statements sent by the Noticee do not include correct details of the margin position of clients. Further, no explanation with respect to the variance has been provided by the Noticee. In view of the same, Noticee’s submissions in this regard cannot be accepted.

26.5. In view of the aforesaid, it is observed that the Noticee has violated the provisions of Clause 7 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, NSE circular NSE/COMP/35125 dated June 15, 2017 & NSE/COMP/35260 dated June 30, 2017, NSE/INSP/43069 dated December 31, 2019, NSE/INSP/43724 dated March 02, 2020, Exchange circular NSE/INSP/45191 dated July 31, 2020 and NSE/COMP/48531 dated June 09, 2021.

27. **<u>Cyber security and cyber resilience</u>**–

27.1. It was observed that the Noticee had not shared the details of CISO with CERT-In. Thus, it was alleged that the Noticee had violated the provisions of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated Dec 03, 2018 and clause 42 of SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022. These Circulars provide Cyber Security & Cyber Resilience framework for Stock Brokers / Depository Participants.

27.2. The Noticee has submitted that it is in compliance of the cyber security framework. During FY 2020-21, Mr. Satish Warrier was CISO of Stockholding Corporation of India Limited and a member of the Cyber Security Committee, and he was assisting SSL with cyber security matters. From FY 2022-23, the Noticee availed the CISO services from Imperium Solutions Pvt. Ltd. and appointed a v-CISO Ms. Tasneem Popat on March 08, 2023, and intimation of the same was done to CERT-IN. Further, the Noticee appointed Mr. Satish Warrier as CISO with effect from June 15, 2024, and the same has also been intimated to CERT-IN. At the relevant time, the Noticee had the CISO or cyber security expert and has complied with all the applicable compliances as stated in the circular.

27.3. It is noted that Mr Satish Warrier was CISO of Stockholding Corporation of India Limited, and was also part of the Noticee's Cyber Security Committee. However, he was not the CISO, or 'Designated Officer' of the Noticee during the Inspection Period, as required under SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated Dec 03, 2018. Noticee had also submitted in its response to the inspection that it was in the process of appointment of CISO.

27.4. In view of the aforesaid, it is observed that the allegation of violation of provisions of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated Dec 03, 2018 and clause 42 of SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022 against the Noticee stands established.

28. **<u>Non-cooperation with inspection team</u>** –

28.1. It was alleged that the Noticee had not fully co-operated with Inspection teams and had failed to furnish all the information and material required by the inspecting team despite being provided with sufficient time and multiple reminders. Some of the instances are provided below:

28.1.1. <u>Verification of Margin - Short Collection and Wrong Reporting</u> - NSE had shared the instances with the Noticee on 18-12-2022 with reminders given on 20-12-2022, 23-12-2022,27-12-2022,28-12-2022,30-12-2022,02-01-2023,03-01-2023. However, the Noticee had not provided correct and complete response.

28.1.2. <u>Verification of Daily margin statements</u> - NSE had shared the instances with Noticee on 29-12-2022 with reminders given on 30-12-2022, 03-01-2023. However, the Noticee has not provided correct and complete response.

28.1.3. <u>Short margin penalty passed on to clients</u> - NSE had shared the instances with the Noticee on 19-12-2022 with reminders given on 20-12-2022, 28-12-2022, 30-12-2022 However, the Noticee has not provided correct and complete response.

28.1.4. <u>UCC verification</u> - NSE had shared the instances with the Noticee on 07-09-2022 with reminders given on 09-09-2022, 12-09-2022, 16-09-2022, 19-09-2022, 20-09-2022, 21-09-2022, 22-09-2022 and 26-09-2022 however, the Noticee did not provide correct and complete response.

28.1.5. <u>Margin Trading Facility</u> - NSE had shared the instances with the Noticee on 26-12-2022 with reminders given on 27-12-2022, 28-12-2022, 30-12-

2022, 03-01-2023. However, the Noticee had not provided correct and complete response.

28.2. Thus, it was alleged that the Noticee has violated the provisions of Regulation 21 of Stock Brokers Regulations, 1992, which states that the stock brokers are obligated to produce all documents / information, as required by the inspecting authority.

28.3. The Noticee has submitted that during the time of inspection, the Noticee was transitioning from the old front and back end software to the new ones, due to which the availability of its resources was greatly reduced. Also, there was lack of cooperation from the old vendor at the time when the information was being sought. The Noticee has provided data and information sought from it, which were readily available in the formats desired by the inspection team, but those data where the format required by the Exchanges was not available in the Noticee's back end software, the it had to be done manually as it was a time consuming process. Noticee has provided a large volume of data to the Exchanges through email and also a large volume of data was also uploaded by the Noticee on the portal of the Exchanges. Thus, the Noticee has extended full cooperation with best efforts to meet the requirements of the inspection team.

28.4. It is noted that various reminders had to be sent and follow ups had to be made to receive required information and documents from the Noticee. It is Noticee's responsibility to extend cooperation and provide all the information to the inspection team in the formats required by them in a timely manner. While the Noticee has submitted that it had provides large volume of data and information to the Exchanges through email and uploading the same on the portals of the Exchanges, and that the delay was due to constraint of resources due to the transition activity taking place. It is also noted that the Noticee was transitioning to the new back-end and front-end softwares. The Noticee had also submitted various information and documents, on the basis of which several observations of the inspection team were addressed. Also, during the current proceedings, it is noted that the Noticee has diligently provided various documents sought from it during the hearing and post-hearing.

28.5. In view of the aforesaid, benefit of doubt may be given to the Noticee with respect to the allegation that the Noticee had not cooperated with the inspection team.

29. **Authenticity of data and format of the documents** –

29.1. During inspection, to verify the authenticity of all the data provided by the Noticee for inspection, BSE requested for certain data for verification, and it was observed that the data was allegedly incomplete and there were various deficiencies in provided data. Further, email highlighting lack of cooperation in providing accurate data within prescribed timeline, was also sent to Noticee. The deficiencies which were observed are as follows –

29.1.1. Incomplete sample client ledgers (excluding October month ledger), Retention statements, for supporting of settlement working

29.1.2. Sample dump without email id of respective clients

29.1.3. Incorrect settlement working sheet repeatedly provided for sample verification

29.1.4. Settlement working not provided in given format for October 07, 2022 settlement

29.1.5. Noticee has not provided 38 KYC/Account Opening Form out of 89 samples.

29.1.6. Incomplete KYC kit has been shared by the Noticee (Policy & Procedure, Right & Obligation, Do & Don'ts, etc are missing)

29.1.7. Initially, the Noticee provided exchange trade file instead of back-office trade files. Further Noticee provided back-office trade files without UCC.

29.1.8. UCC scan provided other than sample UCC given to Noticee.

29.2. Thus, it has been alleged that the Noticee has violated the provisions of Regulation 21 of Securities and Exchange Board of India (Stock Broker) Regulation 1992, Clause 6.1.1(j) of Annexure of SEBI circular SEBI./HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, BSE Exchange Notice No 20180214-31 dated February 14, 2018.

29.3. The Noticee's submissions in this regard are summarized in para 28.3 above. Additionally, it has submitted that errors or inability to meet the format requirements is neither intentional nor malicious act by the Noticee, but due to lack of cooperation from the old vendor and due to different formats in which data was required.

29.4. It is noted that the Noticee had provided incomplete and inaccurate information / documents in several instances. Due to non-provision of various required information, the Noticee was observed to have not maintained such information / documents. Thereafter, various information was provided by the Noticee in its reply to the inspection findings, on the basis of which some of the allegations were reduced or removed. Further, Noticee has also been alleged for non-maintenance of documents which it had failed to provide. The Noticee has also provided various documents in its reply to the SCN and sought from hit during and post hearing. The Noticee has also submitted that the delay was due to lack of cooperation from its old vendor from which it was transitioning to the new back and front end software during and after the inspection was carried out.

29.5. In view of the circumstances as submitted by the Noticee, and the clarifications and documents as submitted by the Noticee in its reply to the inspection findings and during the course of present proceedings, no charges are made out against the Noticee, as alleged.

30. To summarize the foregoing findings, Noticee has violated following provisions:

30.1. Clause 12 of Annexure A of SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and the exchange notice no. 20091204-7 dated December 04, 2009, 20100203-30 dated February 3, 2010, 20100617-15 dated June 17, 2010, 20131029-15 dated October 29, 2013 and 20150413-3- dated April 13, 2015, Clause 8 of Annexure of SEBI circular ref. no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 issued vide Exchange Notice No. 20160927-41 dated September 27, 2016, Clause 5.1 of SEBI circular ref. no. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 issued vide Exchange notice no. 20210616-41 dated June 16, 2021, 20210831-40 dated August 31, 2021, 20220331-53 dated March 31, 2022 and Clause 4 of SEBI Circular ref. no. SEBI/HO/MIRSD/DoP/P/CIR/2022/101 dated July 27, 2022 issued vide 20220727-48 dated July 27, 2022

30.2. Clause (5.2) (5.2.1, 5.2.2, 5.2.3, 5.2.4) and Clause No. 6 of SEBI circular no. SEBI/HO/MIRSD/ DOP/P/CIR/2021/577 dated June 16, 2021, Exchange notice no. 20091204-7 dated December 04, 2009, 20160927-41 dated September 27,2016, 20210616-41 dated June 16,2021, 20210831-40 dated 31 Aug 2021, 20220727-48 dated 27 Jul 2022, 20220331-53 dated 31 Mar 2022 and Clause 4 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022

30.3. Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 read with Clause 8.1.4 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16,2021, Clause No. (4.1) of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022. & Point No. (3) of Clarification of Statement of Accounts of Exchange Notice No.20210205-30 dated February 05, 2021

30.4. Clause No. (5.4) of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16, 2021, Clause No. 4(4.i) of BSE Exchange Notice No. 20200210-47 dated February10, 2020

30.5. Clause 2.3 of SEBI Circular no. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 and Exchange Circular NSE/INSP/29096 dated March 11, 2015

30.6. SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; NSE Circular NSE/INSP/33276 dated September 27, 2016; Exchange Circular dated August 30, 2018; NSE/INSP/39393 dated November 13, 2018; and Exchange Circular NSE/INSP/41498 dated July 03, 2019

30.7. Point No 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2. of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020. Exchange’s Circular NSE/CMPT/03167 dated Feb 01, 2002, NSE/INSP/43069 dated December 31, 2019 and NSE/INSP/43493 dated February 11, 2020 and NSE/INSP/47278 dated February 09, 2021

30.8. Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated 17 April, 2008 and Exchange's Circular no. NSE/INSP/10239 dated 11-Feb-08, NSE/INSP/10605 dated 21-Apr-08, NSE/INSP/36786 dated 19-Jan-18, NSE/INSP/38154 dated June 27, 2018, NSE/INSP/43069 dated December 31, 2019 and NSE/INSP/45191 dated July 31, 2020

30.9. NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/INSP/INSP/49929 dated October 12,2021 and NSE/INSP/53525 dated September 02,2022

30.10. Annexure-2 of Point No. 3(ii)(a) of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 and Annexure of Point No. 3(ii)(a) of Annexure issued vide Exchange notice 20110823-4 dated August 23, 2011.

30.11. SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 and Exchange Notice No. 20161111-24 dated 11 November 2016, 20200425-2 dated April 25, 2020 and 20220208-60 dated 08 Feb 2022

30.12. Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016-95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017; Exchange Circular nos. MCX/INSP/248/2017 dated July 25, 2017, MCX/INSP/343/2017 dated September 25, 2017, MCX/INSP/446/2017 dated November 29, 2017 and MCX/INSP/400/2017 dated October 30, 2017

30.13. SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; and Exchange circular NSE/INSP/43486 dated Feb 10, 2020

30.14. Clause 6.1.1 of Annexure of SEBI circular SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016-95 date Sep 26, 2016 Business rule chapter 9, Exchange Circular no MCX/INSP/101/2018 dated Mar 20, 2018 MCX/INSP/400/2017 dated Oct 30, 2017 MCX/INSP/410/2018 dated Oct 1, 2018, MCX/INSP/217/2022 dated April 11, 2022

30.15. Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011 and Exchange circular no NSE/INVG/21841 dated Oct 4, 2012 and NSE/INSP/32471 dated May 31, 2016

30.16. Clause 7 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, NSE circular NSE/COMP/35125 dated June 15, 2017 & NSE/COMP/35260 dated June 30, 2017, NSE/INSP/43069 dated December 31, 2019, NSE/INSP/43724 dated March 02, 2020, Exchange circular NSE/INSP/45191 dated July 31, 2020 and NSE/COMP/48531 dated June 09, 2021

30.17. SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated Dec 03, 2018 and clause 42 of SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022

ISSUE II - Do the violations, if any, attract penalty under Section 15HB of the SEBI Act, 1992?

31. It is noted that the above violations make the Noticee liable for monetary penalty under Section 15HB of the SEBI Act, 1992, the text of which is reproduced hereunder:

SEBI Act, 1992

Penalty for contravention where no separate penalty has been provided.

15HB. *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

32. In context of the above, reference may be made to the observations of Hon'ble Supreme Court in the matter of Chairman, SEBI vs. Shriram Mutual Fund {[2006] 5 SCC 361} wherein the Hon'ble Court had observed: "*In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as*

contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant A breach ofcivil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must made by the defaulter with guilty intention or not."

ISSUE III - If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act, 1992?

33. While determining the quantum of penalty under Section 15HB of the SEBI Act, 1992, it is important to consider the factors stipulated in Section 15J of the SEBI Act, 1992 respectively, which read as under:

    <u>SEBI Act, 1992</u>

    15J While adjudging quantum of penalty under section 15-I, the adjudicating officer shall have due regard to the following factors, namely

    (a)the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

    (b) the amount of loss caused to an investor or group of investors as a result of the default;

    (c) the repetitive nature of the default.

34. In the present matter, it is noted that no quantifiable figures are available to assess the disproportionate gain or unfair advantage made as a result of the defaults by Noticee. Further, from the material available on record, it may not be possible to ascertain the exact monetary loss to the clients on account of default by Noticee. Further, as per the available records, it is observed that Noticee has not been penalised earlier. However, the fact cannot be ignored that as a SEBI registered intermediary, Noticee was under statutory obligation to comply with the applicable

circulars, rules and regulations. The very purpose of the said regulations is to deter wrong doing and promote ethical conduct in the securities market. Therefore, such non-compliance deserves and attracts imposition of suitable penalty.

ORDER

35. Having considered all the facts and circumstances of the case, the material available on record, the submissions made by Noticee and also the factors mentioned in Section 15J of the SEBI Act, 1992, and also taking into account judgment of the Hon'ble Supreme Court in SEBI vs. Bhavesh Pabari (2019) 5 SCC 90, in exercise of power conferred under Section 15-I of the SEBI Act,1992 read with Rule 5 of the SEBI Adjudication Rules, 1995, following penalty is hereby imposed upon the Noticee for the violations made hereunder.

Name of Noticee	Violation provisions	Penal Provisions	Penalty
Stockholding Services Limited (Formerly SHCIL Services Limited) (PAN: AAJCS5661H)	• Clause 12 of Annexure A of SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and the exchange notice no. 20091204-7 dated December 04, 2009, 20100203-30 dated February 3, 2010, 20100617-15 dated June 17, 2010, 20131029-15 dated October 29, 2013 and 20150413-3- dated April 13, 2015, Clause 8 of Annexure of SEBI circular ref. no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 issued vide Exchange Notice No. 20160927-41 dated September 27, 2016, Clause 5.1 of SEBI circular ref. no. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 issued vide Exchange notice no. 20210616-41 dated June 16, 2021, 20210831-40 dated August 31, 2021, 20220331-53 dated March 31, 2022 and Clause	Section 15HB of SEBI Act, 1992	₹10,00,000/- (Rupees Ten Lakh Only)

Name of Notice e	Violation provisions	Penal Provisio ns	Penalty
	4 of SEBI Circular ref. no. SEBI/HO/MIRSD/DoP/P/CIR/2022/101 dated July 27, 2022 issued vide 20220727-48 dated July 27, 2022 • Clause (5.2) (5.2.1, 5.2.2, 5.2.3, 5.2.4) and Clause No. 6 of SEBI circular no. SEBI/HO/MIRSD/ DOP/P/CIR/2021/577 dated June 16, 2021, Exchange notice no. 20091204-7 dated December 04, 2009, 20160927-41 dated September 27,2016, 20210616-41 dated June 16,2021, 20210831-40 dated 31 Aug 2021, 20220727-48 dated 27 Jul 2022, 20220331-53 dated 31 Mar 2022 and Clause 4 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022 • Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 read with Clause 8.1.4 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16,2021, Clause No. (4.1) of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022. & Point No. (3) of Clarification of Statement of Accounts of Exchange Notice No.20210205-30 dated February 05, 2021 • Clause No. (5.4) of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16, 2021, Clause No. 4(4.i) of BSE Exchange Notice No. 20200210-47 dated February10, 2020 • Clause 2.3 of SEBI Circular no. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 and Exchange Circular NSE/INSP/29096 dated March 11, 2015		

Name of Notice e	Violation provisions	Penal Provisio ns	Penalty
	• SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; NSE Circular NSE/INSP/33276 dated September 27, 2016; Exchange Circular dated August 30, 2018; NSE/INSP/39393 dated November 13, 2018; and Exchange Circular NSE/INSP/41498 dated July 03, 2019 • Point No 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2. of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020. Exchange’s Circular NSE/CMPT/03167 dated Feb 01, 2002, NSE/INSP/43069 dated December 31, 2019 and NSE/INSP/43493 dated February 11, 2020 and NSE/INSP/47278 dated February 09, 2021 • Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated 17 April, 2008 and Exchange's Circular no. NSE/INSP/10239 dated 11-Feb-08, NSE/INSP/10605 dated 21-Apr-08, NSE/INSP/36786 dated 19-Jan-18, NSE/INSP/38154 dated June 27, 2018, NSE/INSP/43069 dated December 31, 2019 and NSE/INSP/45191 dated July 31, 2020 • NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/INSP/INSP/49929 dated October 12,2021 and NSE/INSP/53525 dated September 02,2022 • Annexure-2 of Point No. 3(ii)(a) of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 and Annexure of Point No. 3(ii)(a) of Annexure issued vide Exchange notice 20110823-4 dated August 23, 2011.		

Name of Notice e	Violation provisions	Penal Provisio ns	Penalty
	• SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 and Exchange Notice No. 20161111-24 dated 11 November 2016, 20200425-2 dated April 25, 2020 and 20220208-60 dated 08 Feb 2022 • Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016-95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017; Exchange Circular nos. MCX/INSP/248/2017 dated July 25, 2017, MCX/INSP/343/2017 dated September 25, 2017, MCX/INSP/446/2017 dated November 29, 2017 and MCX/INSP/400/2017 dated October 30, 2017 • SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; and Exchange circular NSE/INSP/43486 dated Feb 10, 2020 • Clause 6.1.1 of Annexure of SEBI circular SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016-95 date Sep 26, 2016 Business rule chapter 9, Exchange Circular no MCX/INSP/101/2018 dated Mar 20, 2018 MCX/INSP/400/2017 dated Oct 30, 2017 MCX/INSP/410/2018 dated Oct 1, 2018, MCX/INSP/217/2022 dated April 11, 2022 • Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011 and Exchange circular no NSE/INVG/21841 dated Oct 4, 2012 and NSE/INSP/32471 dated May 31, 2016 • Clause 7 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, NSE circular NSE/COMP/35125 dated June 15, 2017 & NSE/COMP/35260 dated June 30,		

Name of Noticee	Violation provisions	Penal Provisions	Penalty
	2017, NSE/INSP/43069 dated December 31, 2019, NSE/INSP/43724 dated March 02, 2020, Exchange circular NSE/INSP/45191 dated July 31, 2020 and NSE/COMP/48531 dated June 09, 2021 • SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated Dec 03, 2018 and clause 42 of SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 07, 2022		

36. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:
ENFORCEMENT → Orders → Orders of AO → PAY NOW.

37. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under Section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

38. In terms of Rule 6 of the SEBI Adjudication Rules, 1995, copy of this order is sent to the Noticee and also to the Securities and Exchange Board of India.

DATE: DECEMBER 20, 2024 **BARNALI MUKHERJEE**

PLACE: MUMBAI **ADJUDICATING OFFICER**