**BEFORE THE ADJUDICATING OFFICER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**

**[ADJUDICATION ORDER No. Order/AN/AK/2024-25/31169]**

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

In respect of:

**Anand Rathi Share & Stockbrokers Ltd.**
**(Stock Broker)**
(PAN: AAACN3405F / SEBI Registration Number: INZ000170832)

**In the matter of Anand Rathi Share & Stock Brokers Ltd.**

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## A. BRIEF BACKGROUND:

1. Securities and Exchange Board of India ('SEBI') along with Stock Exchanges viz., BSE Limited ('BSE'), National Stock Exchange of India Ltd.('NSE'), Multi Commodity Exchange of India Limited ('MCX') and National Commodity & Derivatives Exchange Limited ('NCDEX'), and Depositories viz., Central Depository Services (India) Limited ('CDSL') and National Securities Depository Limited ('NSDL'), conducted an inspection of books of accounts and other records of Anand Rathi Share & Stock Brokers Ltd. ('Noticee'/ 'Entity' / 'Member'/ 'ARSL'), a SEBI registered stock broker and depository participant, from November 25, 2021 to December 15, 2021 for the Inspection period April 01, 2020 to October 31, 2021.

2. Pursuant to the inspection, the findings of the inspection were communicated to the Noticee vide letter dated February 25, 2022 and the Noticee submitted its reply dated March 16, 2022. Thereafter, revised findings were communicated to the Noticee on June 02, 0222 and Noticee submitted its reply on June 22, 2022 to SEBI.

3. Pursuant to the above, SEBI carried out post inspection analysis. In view thereof, based on the analysis of comments / explanations received and examination in the matter by SEBI, inter alia, SEBI observed that Noticee had allegedly violated the following:
   3.1. Section 23D of Securities Contracts (Regulation) Act, 1956 ['SC(R) Act'], read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
   3.2. Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26,2016;
   3.3. Regulation 9 read with Clause A (2) under Schedule II on Code of Conduct for Stock Brokers of SEBI (Stock Brokers) Regulations, 1992;
   3.4. Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016;
   3.5. Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008;
   3.6. Clause 7 of Circular CIR/MRD/DP/54/2017 dated June 13, 2017 & Clause 3 of Circular CIR/MRD/DP/54/2017 dated June 13, 2017;
   3.7. Clause 3 of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017;
   3.8. Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
   3.9. Clause 2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26,2016
   3.10. Regulation 21 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992

4. In view thereof, inter alia, SEBI initiated Adjudication proceedings in respect of the Noticee under Section 15 I of the Securities and Exchange Board of India Act, 1992 for the alleged violations of the provisions of law, as stated.

## B. APPOINTMENT OF ADJUDICATING OFFICER:

5. Whereas, the Competent Authority was prima facie of the view that there were sufficient grounds to adjudicate upon the alleged violations by the Noticee, as stated and therefore, in exercise of the powers conferred under Section 19 of the SEBI Act, 1992 read with Section 15I (1) of the SEBI Act, 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and under Section 23 I of the Securities Contracts (Regulation) Act, 1956 read with Rule 3 of the Securities Contracts (Regulations) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005, the Competent Authority appointed the Ms. Soma Majumder, GM as Adjudicating Officer vide order dated September 21, 2023 to inquire into and adjudicate under Section 15 A (a), 15HB of the SEBI Act, and Section 23D of the SC(R) Act, for the alleged violations by the Noticee. Pursuant to the transfer of the Ms. Soma Majumder, undersigned was appointed as Adjudicating Officer in the instant proceedings vide order dated December 07, 2023. The proceedings of appointment were communicated to the undersigned vide Communique dated December 19, 2023.

## C. SHOW CAUSE NOTICE, REPLY, AND HEARING:

6. A Show Cause Notice No. EAD-10/ADJ/SM/AD/OW/42085/1/2023 dated October 11, 2023 along with Annexures (SCN) was issued upon the Noticee under Rule 4 of the Adjudication Rules, to show cause as to why an inquiry should not be held and penalty not be imposed against the Noticee under

Section 15 A(a) and 15HB of the SEBI Act, 1992 and Section 23D of the SC(R) Act, for the violations alleged to have been committed by the Noticee.

7. The allegations in respect of the Noticee inter alia brought out in the SCN are as under:

'…

4. *The non-compliances observed during the inspection and details of the violations alleged to have been committed by Noticee are as furnished hereunder: -*

A. *Observation on misuse of clients' funds*

i. *During the course of inspection, it was observed that value of G was negative on 6 out of 43 sample instances, thereby indicating funds of credit balance clients was misutilized by Noticee for meeting the obligations of debit balance clients and/or for its own purpose. The amount of misutilization ranged from Rs.22.07 lakhs to Rs. 16.36 crore. (Refer Para 4.1.1 at Page 28 ,29 and 30 of Inspection Report)*

ii. *It was also observed that value of J was positive on 1 out of 43 sample instances, thereby indicating funds of credit balance clients was mis-utilized by Noticee towards margin obligations of debit balance clients and proprietary margin obligations. The amount of misutilization was Rs. 90.75 crore. (Refer Para 4.1.1 at Page 28 ,29 and 30 of Inspection Report).*

iii. *In view of the above, it is alleged that Noticee has violated Section 23D of SC(R)A, read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016*

B. *Observation on Non –Maintenance of Daily reconciliation statement:*

i. *During the course of inspection, it was observed that Noticee had not maintained the daily – reconciliation statement for transfer of funds between client account/Settlement account and own account during the inspection period.(Refer Para 4.1.2 at page no. 33 and 34 of inspection report , Annexure D of the Inspection Report. ")*

ii. *In view of the foregoing, it is alleged that Noticee has violated Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26,2016.*

C. *Observation on Settlement of client funds and securities*

i. *It was observed that Noticee had not exercised due diligence in following up with untraceable clients for settlement of fund (Refer Para 4.5 at page no. 35,36, 37 & 38 of inspection report)*

ii. *In view of the foregoing, it is alleged that Noticee has violated Regulation 9 read with Clause A (2) under Schedule II on Code of Conduct for Stock Brokers of SEBI (Stock Brokers) Regulations, 1992.*

D. *Observation on Reporting and short collection of Margin*

i. *It was observed that Noticee had done incorrect reporting of margin collection to NSE amounting to Rs. 20.45 lakhs in 9 instances out of 300 sample instances. (Refer para 4.6 at Page 38 of Inspection Report; Annexure–E of inspection report; Reply submitted by Noticee vide letter dated – March 16, 2022 and June 22, 2022)*

ii. *In view of the foregoing, it is alleged that Noticee has violated Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.*

E. *Observation on Verification of Daily Margin Statements*

i. *Ledger balance mismatch in daily margin statement was found for 5 out of 20 sample instances. Further, total margin mismatch was found in one out of 20 sample instances. (Refer Para 4.7 at Page 39 of Inspection Report and Annexure F of the inspection report; Reply submitted vide letter dated – March 16, 2022 and June 22, 2022 from Noticee)*

ii. *In view of the foregoing, it is alleged that Noticee has violated Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008.*

F. *Observation on Margin Trading Funding Verification*

*Noticee had collected inadequate margin from clients under MTF facility for 2 clients in 2 instances. The amount of short collection observed was Rs. 30,21,874/-.*

i. *Noticee had considered securities other than Group I for margin collection under MTF facility for 5 clients on 56 instances.*

ii. *Noticee had allowed exposure in securities other than Group I under MTF facility for 4 clients on 18 instances. (Refer Para 4.8 at Page 39 & 40 of Inspection Report, (ii) Annexure G, G1 and G2 of the inspection report; (iii) Reply submitted by Noticee vide letter dated – March 16, 2022.)*

iii. *In view of the foregoing, it is alleged that the Noticee has violated Clause 7 of Circular CIR/MRD/DP/54/2017 dated June 13, 2017 & Clause 3 of Circular CIR/MRD/DP/54/2017 dated June 13, 2017.*

G. *Observation on Unauthorized trading*

i. *On perusal of complaints, it was noticed that the trades were executed without the consent of the client (Unauthorized trade) in 28 instances. (Refer Para 4.10 at Page 42 & 43 of Inspection Report ,* *Annexure H, H1 and H2 of the inspection report and Reply submitted vide letter dated – March 16, 2022 from the Noticee).*

ii. *In view of the foregoing, it is alleged that Noticee has violated Clause 3 of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.*

H. *Observation on Client order recording*

i. *Noticee did not keep appropriate evidences in respect of the orders placed by their clients in 6 out of the 21 sample instances. (Refer Para 4.11 at Page 43 of Inspection Report , Annexure I of the inspection report and Reply submitted vide letter dated – March 16, 2022 from Noticee).*

ii. *In light of the foregoing, it is alleged that Noticee has violated Clause 3 of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.*

I. *Observation on Risk Based Supervision*

i. *Noticee did not correctly report the details of financial data (Total debit balance of all clients) under RBS to the tune of Rs. 10 lakhs.(Refer Para 4.18 at Page 46 & 47 of Inspection Report and Reply submitted vide letter dated March 16, 2022 from Noticee).*

ii. *In view of the foregoing, it is alleged that Noticee has violated Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.*

J. *Observation on Demat Verification*

i. *Noticee had done incorrect reporting of tagging of demat accounts on 2 instances and had done incorrect reporting of status of demat accounts to NSE on 1 instance. (Refer Para 4.20.4 at Page 49 of Inspection Report and Reply submitted vide letter dated – March 16, 2022 from Noticee).*

ii. *In view of the foregoing it is alleged that Noticee has violated Clause 2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26,2016.*

K. *Observation on Non -cooperation with the inspection team*

i. *Noticee did not provide the complete data /information on timely basis. (Refer Para 4.20.4 at Page 48 of Inspection Report and Annexure J of Inspection report.)*

*In view of the foregoing, it is alleged that Noticee has violated Regulation 21 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.…"*

…'

8. Vide letter and email dated November 25, 2023, the Noticee submitted its reply to the SCN.

9. In the interest of principles of natural justice, vide Hearing Notice dated February 22, 2024, Noticee was afforded with an opportunity of hearing on February 29, 2024. On the scheduled date of hearing i.e. on February 29, 2024, the Noticee availed the opportunity of hearing through its Authorised Representatives (ARs) viz. Mr. Deepak Kedia, Mr. Roshan Moondra and Mr. Nilesh Parmar. During the hearing, the ARs relied upon and reiterated the submissions made by the Noticee vide its letter dated November 25, 2023. Further, the AR sought additional time till March 07, 2024 to make additional submissions as final and complete submissions in the matter, accordingly the same was allowed. Vide letter dated March 07, 2024, the Noticee submitted its additional submissions.

10. Key submissions of Noticee made vide letter dated November 25, 2023 and March 07, 2025, as its reply and additional submissions to the SCN respectively, are as under:

## Submissions dated November 25, 2023:

'…

*A. '…**Observation on misuse of client funds***

*(i) During the course of the inspection, it was observed that value of G was negative on 6 out of 43 sample instances, thereby indicating funds of credit balance clients was misutilized by Noticee for meeting the obligations of debit balance clients and/or for its own purpose. The amount of misutilization ranged from Rs.22.07 lakhs to Rs. 16.36 crore. (Refer Para 4.1.1 at Page 28, 29 and 30 of Inspection Report). Details of 6 instances is as under:*

*…*

*Member Response: With respect to the said observation, we hereby humbly wish to submit that, we are complying with respective circulars of enhanced supervision (SEBI No. SEBI/HO/MIRSD/MIRSD2/CIR/2016/95 dated September 26, 2016), as per the guidelines issued by regulatory, aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across stock exchanges are reported on timely basis.*

*Further, while referring to the 'Post Inspection Analysis' ('PIA") report received to us on November 09, 2023, from your good self, where in regards to 'G' negative observation, we have observed differences between the comments mentioned in the column named "Member Reply" in "PIA" report and the actual submission made by the Member on March 16, 2022. This "PIA" report was not received earlier, hence now taking it into consideration we wish to submit it as under.*

*We, hereby wish to elaborate the below mentioned points as per our previous response dated March 16, 2022, for your kind reference.*

*(a) It is pertinent to note here that, the Anand Rathi Shares and Stock Brokers Ltd ("ARSSBL") was a Trading Member and ICICI bank was a clearing Member during the period May, 2019 to March 2020, then later from March 02, 2020 the ARSSBL became a self-clearing member. "Exhibit-A1" is the copy of letters containing changes in clearing member affiliation for your ready reference.*

*(b) As regards to the aforesaid SEBI observation, we hereby wish to submit that, throughout the month of September 2020, the Member had an additional free Fixed Deposit ("FD") amounting to Rs. 50 Crores, which we had considered at the time of 'Enhance reporting'. However, the same was not submitted to the Clearing Corporation due to a change in the clearing member/operational issue. If, the aforesaid FD is taken into account, there was no shortfall at all, and in fact there was a surplus fund available with the ARSSBL. "Exhibit-A2" is the copy of the aforesaid FD receipt for your reference.*

*(c) Thus, considering the aforesaid free FD, it is evident that there was no shortfall (G negative) to cover the payables to the clients. In fact, there was surplus over Rs. 49.28 crores approx., the same can be validated from the below table, wherein FD has been considered in column 'A', which was resulted into the value of 'G' positive.*

*…*

*(d) Thus, considering the above, there is no dispute about the availability of the required funds. The only concern was that it was not then immediately submitted to Clearing Corporation. Therefore, we humbly submit that, the said oversight was merely operational or venial and did not merit for any adverse action if any. If there had been no change in the Clearing Member, then there would have been no such allegations or issues and the said free FD of Rs. 50 crores would have been accepted and considered, but then merely brushes aside the same by holding that the same had not been submitted with the Clearing Corporation. It is pertinent to note that, while internal evaluation of our process, we have observed such operational issue and stopped such practice of maintaining free FDRs and adjusting OD negative balance w.e.f. November 30, 2020. Thus, we request you to consider our response and take a lenient appropriate view in this matter.*

*(e) Further, with respect to the observation related to 'Trade Guarantee Fund' ("TGF") considered under the head "Aggregate value of collateral deposited with clearing corporations and/or clearing member' (column- 'B') we hereby submit that, there is no explicit clarification from the exchanges with respect to the "TGF" consideration while Enhance Reporting under the tab 'Collateral deposited with clearing member'. However, we humbly wish to submit that, we have discontinued considering "TGF" w.e.f. May 14, 2021. Thus, we request your goodself to consider our response and take a lenient view in this matter. It is also pertinent to note that the TGF was merely of Rs. 10 lakh and hence, non consideration of TGF value; would not have impacted the final G calculation while Enhance Reporting.*

*(f) With respect to the observation under the head 'Minimum Liquid Net Worth' we hereby submit that, we have last traded on MSEI in the month of September, 2020 and the collaterals were lying with the Exchange during membership surrendering process. As per regulatory guidelines, enhance supervision data is to be uploaded and therefore we have considered 'Minimum Liquid Net Worth' lying with MSEI till the date of surrendering membership. We further humbly submit that, there is no explicit clarification from the exchanges with respect to the "Minimum Liquid Net worth" consideration while Enhance Reporting. Further, we wish to state that, we have discontinued considering the same w.e.f. March 09, 2022. It is noteworthy that the 'Minimum Liquid Net Worth' was merely of Rs. 37.50 lakh and hence, non consideration of 'Minimum Liquid Net Worth' value; would not have impacted the final 'G' calculation while Enhance Reporting.*

*(g) Further, it is noteworthy to mention here that, we have not carried out any proprietary trading during the said inspection period, we have adequate networth to secure our clients and there is no Misutilization of client funds. It is worth highlighting here that, as per the SEBI Inspection report received to us on October 20, 2023, it also stated that, "value of "I" found to be negative on all sample dates", which clearly indicates that the funds of clients is not utilized towards proprietary margin obligations.*

*(h) It is our humble submission that, previously, for the NSE inspection period between April 01, 2017, to November 30, 2018, we received NSE order dated June 06, 2020, where the Member was penalised for amounting to Rs. 54 lakhs approx., towards the observation on "shortfall of client funds". However, we hereby humbly wish to state that, as there was no intention to misuse of clients funds and as FD was separately maintained so, there is no question arise of using it for debit balance clients. Thus, on August 13, 2020, we have filed Appeal against the aforesaid order, before the 'Securities Appellate Tribunal' (SAT) to substantiate our stand.*

*(i) It is noteworthy to mention here that, even though the aforesaid appeal proceeding was and still in process, we have made necessary changes in our reporting process of "Enhance supervision" w.e.f. November 30, 2020 itself. Thus, we humbly request you to kindly keep the same in consideration while taking any further action in this matter and to refrain from any punitive action for the similar nature of observation where we have been already penalised by NSE and also stopped considering such free FDRs in Column 'A' , while Enhance Reporting.*

*(j) We further wish to state that, recently as per SEBI circulars dated June 08, 2023 vide reference number SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 towards up-streaming/down-streaming and also as per SEBI circular dated April 25, 2023 vide reference number SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/061, pertaining to closing down the BG created out of client's fund, which itself does not allow Member to create any FD out of clients funds.*

*Therefore, it will further strengthen us to comply with the regulatory norms and to non-reoccurrence of such instances in the future.*

*Thus, considering all above, we humbly wish to state that, we have not misutilized client funds as stated in the aforesaid SEBI observation. Also kindly note that instances of G Negative was observed only for the 6 dates of September 2020, Thereafter, neither such observation have been found nor we have been penalised for a similar nature of observation till date.*

*Therefore, we humbly request your goodself to consider our response, obliged and do not proceed with any punitive action in this regard.*

*(k) It was also observed that value of J was positive on 1 out of 43 sample instances, thereby indicating funds of credit balance clients was mis-utilized by Noticee towards margin obligations of debit balance clients and proprietary margin obligations. The amount of misutilization was Rs. 90.75 crore. (Refer Para 4.1.1 at Page 28 ,29 and 30 of Inspection Report).*

*…*

*Member response:*

*In response to the aforesaid observation, we humbly wish to submit that, the NSE has implemented the margin pledge mechanism in August 2020. As per the MG11 file dated September 04, 2020, the additional deposit required shows a positive amount (Shortfall) but there was no actual shortfall and we were trading without any margin shortfall on the next day. We had sufficient collateral pledged with the NSE amount of Rs. 3214 Crore and the same can be validated from 'SEC_PLEDGE' file for the respective date. The details of the collateral are attached herewith (Exhibit – A3).*

*We have communicated the aforesaid difference regarding the MG11 file to the NSE auditor during the preliminary observation & received below reply from NSCCL in response to our email dated May 17, 2021:-*

> *"Please note that client collateral acceptance was started from August 2020. However, the information on margin utilized from client collateral was incorporated in the MG11 reports only from September 25, 2020. You may refer to circular no 45806 dated September 24, 2020.*
>
> *For the interim period data, you may refer to SEC_PLEDGE file to ascertain the client collateral valuation which was considered".*

*Email attached below for your ready reference from NSCCL – Risk Team. (Exhibit – A4)*

*…*

*Thus we state that there was no misuse of clients funds, and there was certainly no 'J positive' as on 04.09.2020.*

*With reference to the POST INSPECTION ANALYSIS ("PIA") report, we wish to state that we have gone through the same and observed that under the heading 'Misuse of client funds', in the DPIEA comments section for J Value, it has written that "based on the revised calculation based on updated MG11 figures provided by NCL, it is observed that J was positive on one date amounting to Rs. 90.75 Crore (in contrast to earlier observations of J Positive on 13 dates with values ranging from Rs. 84.10 crore to Rs. 161.49 Crore)". In response to the said observation we have requested to SEBI vide email dated November 16, 2023, to provide the aforesaid updated MG11 figures, which we are yet to receive till date.*

*The regulatory has made the observation based on the updated MG11 figures received from NCL while calculating J positive. With regards to that, we wish to highlight that, aforesaid facts came to our notice after receipt of SEBI "PIA" report on November 09, 2023.*

*Therefore, we humbly request you to provide us the requested data to verify and provide an appropriate response for the said observation related to 'J positive'.*

*Thus, considering the above circumstances it would not be justifiable to determine that, the Member has violated Section 230 of SC(R) Act, 1956 read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.*

***B.*** *Observation on Non- Maintenance of Daily reconciliation statement:*

*During the course of inspection, it was observed that Noticee had not maintained the daily - reconciliation statement for transfer of funds between client account/Settlement account and own account during the inspection period.(Refer Para 4.1.2 at page no. 33 and 34 of inspection report , Annexure D of the Inspection Report.")*

*Member Response:*

*In response to the said observation, we humbly wish to submit that, during the course of inspection we have provided comprehensive details of transactions carried out between clients/settlement and own bank accounts. After quite deliberation and thorough checking done by NCDEX and SEBI jointly, it was concluded that there was proper segregation of clients/settlement bank account and own bank account and vice versa, as it is being always in surplus deposits against the withdrawals. Therefore, the regulatory considered our submissions and consequently, there is no adverse observation found w.r.t. transfer of excess fund from client/settlement account to own account as per SEBI inspection report.*

*Thus, considering the above we have not violated Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. The extract of the circular is as under:*

> *2.4.2.Transfer of funds between "Name of Stock Broker -Client Account" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker -Client Account" to "Name of Stock Broker -Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred."*

*Further we humbly wish to state that, since the implementation of SEBI circular dated June 08, 2023 vide reference number SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 on "Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)", as per the framework, no clients' funds shall be retained by SBs/ CMs on End of Day (EOD) basis. The clients' funds shall all be upstreamed by SB/ CMs to CCs. This circular enabled all Members to smoothen the reconciliation process going forward.*

*Thus, in view of above we humbly request your goodself to consider our response, obliged and do not proceed with any punitive action in this regard.*

***C.*** *Observation on Settlement of client funds and securities*

*It was observed that Noticee had not exercised due diligence in following up with untraceable clients for settlement of fund (Refer Para 4.5 at page no. 35, 36, 37 & 38 of inspection report)*

*Member Response:*

*As regards the said observation, we hereby humbly submit that; the said 69 clients had incorrect Bank details with us, therefore we were unable to transfer the funds as per settlement norms.*
*Further, as it is stated in the SEBI "PIA" report, "As the member has set aside requisite funds, and has submitted to have taken corrective measures, Member's reply may be accepted". In response to the foregoing, we are pleased to note that SEBI has taken into account our efforts towards untraceable unsettled 69 clients. We therefore reiterate our earlier response submitted on June 22, 2022 is as under:*

- *Please note that all the 69 clients had incorrect Bank details with us so we were not able to transfer funds as per settlement norms. Further, we have issued cheques to the clients which have been reversed on account of the non-availability of client details, the same has been reflected in the client ledger. We have transferred /set aside the requisite funds in form of FD and submitted them to the exchange itself.*
- *Out of 69 clients, we have successfully settled 34 clients by releasing the payment. Kindly refer to the Ledger statement as attached in Exhibit - C1.*
- *As per the regulatory requirement, we are in the practice of sending a statement of account on weekly / monthly basis containing an extract of the client's ledger on designated email ids which communicates the details of funds lying in the client ledger.*
- *As an add-on effort we have added the below activity for non-settled clients such as, sending email/text message to the clients at intervals of 15-20 days communicating about the funds, sending physical communication to the clients intimating the clients about the funds, reissuance of cheques to the clients.*
- *We are attaching herewith the current status of all 69 clients for your reference, please refer to the file name "Member_response for 69 clients". Exhibit - C1.*

*Further, we humbly wish to state that, since the implementation of SEBI circular dated June 08, 2023 vide reference number SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 on "Upstreaming of clients' funds by Stock Brokers (SBs) / Clearing Members (CMs) to Clearing Corporations (CCs)", "Funds lying in a separate client bank account maintained for keeping untraceable/unclaimed clients funds shall be upstreamed to CC", which we are already complied.*
*We therefore humbly wish to submit that we have not violated regulation 9 read with Clause A (2) under Schedule II of Code of Conduct for Stock Brokers of SEBI (Stock Brokers) Regulations, 1992. The extract of the regulation is as under:*

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

*The aforesaid 69 clients were unsettled only due to incorrect bank details provided by the client. However, the aforesaid endeavored efforts itself evident that, we have acted with due skill, care, and diligence in the conduct of all our business and have not violated the aforesaid or any other regulatory norms.*
*Thus, in view of the aforesaid facts and evidence, we humbly request your goodself to consider our aforesaid response and do not proceed with any punitive action.*

***D.*** *Observation on Reporting and short collection of Margin*
*It was observed that Noticee had done incorrect reporting of margin collection to NSE amounting to Rs. 20.45 lakhs in 9 instances out of 300 sample instances. (Refer para 4.6 at Page 38 of Inspection Report; Annexure-E of inspection report; Reply submitted by Noticee vide letter dated - March 16, 2022 and June 22, 2022)*
*Instances in Final Observations:*
*…*
*Member response:*

*In reference to the given 9 instances, as mentioned in the 'Post Inspection Analysis' (PIA) Report, Regulatory has considered our responses wherein for the 5 instances; DPIEA has commented that the 'observation can be dropped' for which we are sincerely grateful that our responses for given 5 instances are accepted. For the remaining 4 cases, please find below our detailed responses:*

| *Client Code* | *Member remark* |
|---|---|
| *G****98* | *For the instant case, we wish to state that the Margin Pledge securities value calculated by us is Rs. 6,32,52,066 and the value mentioned in the NSE working file is Rs. 6,31,64,403. Enclosed herewith is our working file for arriving at the above mentioned securities valuation considered by us. Please refer to the attached Exhibit-D1.*<br><br>*In Post Inspection Analysis Report, it has been commented by DPIEA that 'Member has wrongly considered excess valuation of margin pledge securities to the tune of Rs. 89,630 for given 6 securities and sought source of rate/bhav as NSE has taken rate/bhav from AMFI database. In response to this, we wish to state that we had taken rate/bhav as per the NAV file received from Stockholding Corporation of India Limited. Enclosed herewith is NAV file marked as Exhibit-D2 for your ready reference.*<br><br>*Please note, while reporting the Margin Collection, we are considering T-1 rate in order to derive the valuation and since the valuation was fulfilling the Margin requirement, there was no wrong reporting or short collection happened from our end.*<br><br>*Further, we would like to inform you that we had made necessary changes in the source file and started referring rate files from NSEMF and BSEStar MF. We humbly request your goodself to let us know if there is any other source for rate which as a member we need to follow.*<br><br>*Also, we hereby confirm that we are complying with the regulatory guidelines mentioned in SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 and have not reported falsely the margin collected from clients.*<br><br>*Further, we hereby confirm that we have not violated the guidelines of Circulars bearing reference numbers NSE/CMPT/03167 dated Feb 01, 2002, NSE/INSP/19583 dated Dec 14, 2011, NSE/CMPT/18591 dated Aug 10, 2011, NSE/INSP/24805 dated October 23, 2013 and NSE/INSP/25612 dated January 20, 2014, and the clauses mentioned as under:*<br><br>*Clause 4.1.2 of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019: "Henceforth, like in derivatives segment, the TMs/CMs in cash segment are also required to mandatorily collect upfront VaR margins and ELM from their clients. The TMs/CMs will have time till 'T+2'* |

| | |
|---|---|
| | *working days to collect margins (except VaR margins and ELM) from their clients. (The clients must ensure that the VaR margins and ELM are paid in advance of trade and other margins are paid as soon as margin calls are made by the Stock Exchanges/TMs/CMs. The period of T+2 days has been allowed to TMs/CMs to collect margin from clients taking into account the practical difficulties often faced by them only for the purpose of levy of penalty and it should not be construed that clients have been allowed 2 days to pay margin due from them.)"*<br><br>*Clause 2.1 of SEBI/HO/MIRS6D/DOP/CIR/P/2020/146 dated July 31, 2020: "If TM / CM collects minimum 20% upfront margin in lieu of VaR and ELM from the client, then penalty for short-collection / non-collection of margin shall not be applicable. However, it is reiterated that Clearing Corporation shall continue to collect the upfront margin from the TM / CM based on VaR and ELM"*<br><br>*In view of the above, we humbly request your goodself to consider our response and oblige.* |
| *H*****04* | *For the instant case, we wish to state that the amount was wrongly reported as collected due to SLBS ledger balance was considered twice at the time of final reporting because of some technical issue.*<br><br>*However, aforesaid issue was exceptional and resolved. Further, it is pertinent to note that the issue was purely unintentional and necessary measures have already been taken care to avoid repetition of such instances in future.*<br><br>*Thus, we humbly request your goodself to take lenient approach and do not proceed with any punitive actions in this regards.* |
| *S*****21* | *For the instant case, we wish to state that post verifying our response, DPIEA has concluded in Post Inspection Analysis Report that the Commodity bills amount Rs. 3693.71 (NSE Commodity T-1 bill of Rs. 2901.09 + MCX T-1 bill of Rs. 792.62) is not collectible on T day hence benefit of the same can be given to the member. This means there was no wrong reporting for the amount of Rs. 3693.71.*<br><br>*With regards to the balance amount of Rs.19,664/-, we wish to state that it was incorrectly reported as collected due to a technical issue at the time of final reporting. However, this technical issue was purely unintentional and which was resolved and necessary measures have already been taken care to avoid repetition of such instances in the future.*<br><br>*In view of the above, we humbly request your goodself to accept our response and oblige.* |
| *H***38* | *For the instant case, we would like to inform you that earlier commodity valuation was being done manually for reporting purpose as backoffice vendor had not developed the commodity pledge module.*<br><br>*So, while doing valuation of commodity pledged, we have considered closing rate (T-1 Day) for CASTOR Rs.6957.6/- instead of Rs.6657.6/- as there was a typographical error in updating number 9 instead of 6. Due to which there was increase in the valuation by Rs. 2,89,926/-.*<br><br>*We wish to state that the aforesaid issue happened due to inadvertent human clerical error which was purely unintentional and there was no intention to violate any regulations or avoid the penalty. Further, necessary measures have already been taken care to avoid the repetition of such instances in future.*<br><br>*Thus, we humbly request your goodself to take a lenient approach and do not proceed with any punitive actions in this regards.* |

*With regards to Short-Collection of Margin instance, it is noteworthy that, in Post Inspection Analysis Report, DPIEA has commented that penalty has been levied by CC, therefore no further action may be warranted.*

*However, with regards to Wrong Reporting of Margin instances, we humbly wish to state that as mentioned above the respective issue was purely unintentional and necessary measures have already been taken care to avoid repetition of such instances in future. Hence, we humbly request your goodself to accept our response as given above for each instance, take lenient approach and do not proceed with any punitive actions in this regards.*

**E.** Observation on Verification of Daily Margin Statements

Ledger balance mismatch in daily margin statement was found for 5 out of 20 sample instances. Further, total margin mismatch was found in one out of 20 sample instances. (Refer Para 4.7 at Page 39 of Inspection Report and Annexure F of the inspection report; Reply submitted vide letter dated - March 16, 2022 and June 22, 2022 from Noticee)

*Final instances of Ledger balance mismatch in Daily Margin Statement*

| Sr.no | Date | Client Code | Difference |
|---|---|---|---|
| 1 | 03/09/2021 | A***00 | 33500000 |
| 2 | 28/10/2021 | H***43 | 3422000 |
| 3 | 29/10/2021 | H***38 | 571000 |
| 4 | 28/07/2020 | H***21 | -178800 |

*Instance of Total Margin mismatch in Daily Margin Statement*

| Sr.no | Date | Client Code | Difference |
|---|---|---|---|
| 1 | 28/07/2020 | H***21 | -103690 |

*Member Response regarding Ledger Balance Mismatch Observations:*

*In reference to the given 5 instances, as mentioned in the 'Post Inspection Analysis' (PIA) Report, Regulatory has considered our response wherein for the 1 instance; DPIEA has commented that the 'observation can be dropped'. For remaining 4 cases given in final observations, please find below our detailed responses:*

| *Client Code* | *Member remark* |
|---|---|
| *A***00* | *For the instant case, we wish to state regarding Cheque entry dated 2nd September, 2021 for Rs.1,75,00,000 that, after receipt of Cheque from the client we entered the same in back office system on same day i.e on 2nd September 2021. On 3rd September, 2021 the cheque was presented in our bank which got cleared on same day. As per process, we reconciled the cheque in back office after receiving the clearing file from our bank on 4th September, 2021 in morning and the cheque was marked as cleared in back office system for the date 3rd September, 2021. As per process, the Daily Margin Statement was generated on 3rd September, 2021 and since the aforesaid cheque was uncleared, the amount was not considered in DMS. As, we are displaying clear ledger balances in DMS.*<br><br>*Regarding other cheque entry dated 3rd September 2021 for amount Rs. 1,60,00,000, please note the cheque got cleared on 4th September 2021 hence it was not considered for the date 3rd September 2021 and same is showing in provided Ledger statement.*<br><br>*To validate aforesaid sequence, enclosed herewith is Client Ledger Statement marked as Exhibit - E1 for your reference.*<br><br>*With regards to display of 2 unclear cheque entries amounted to Rs. 3,35,00,000 in DMS, DPIEA commented as, "trading member should provide unclear cheque details in Daily Margin Statement to clients if the same has been consider for margin purpose in order to enable the client to get the clear status for his collateral utilization towards margin". However, the given reference circulars do not provide any specification.*<br><br>*With regards to NSE Circular NSE/INSP/36786 dated January 19, 2018 and NSE/INSP/45191 dated July 31, 2020, we wish to state that we are adhering to the guidelines provided in aforesaid Circulars and issuing the DMS to the clients as per given format. It is noteworthy that an indicative format of daily margin statement received in given circulars does not provide any guideline or specification regarding display of Unclear Cheques details in DMS. Furthermore, we wish to state that the given circular bearing reference number NSE/INSP/45191 dated July 31, 2020 states that 'we can consider the unclear cheque entry as Margin collected in Margin reporting to Exchange' however, in case the Cheque gets dishonored or do not get cleared till final margin reporting day i.e. (T+5 day) then we cannot consider this cheque as Margin collected in Margin reporting as well. Therefore, we considered only Clear Balances in DMS sent to clients. If we include unclear cheque as Margin available in DMS and if the Cheque gets dishonored or do not get cleared till final margin reporting day then client will be in shortfall.*<br><br>*Further we hereby confirm that the Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 states that "Brokers should 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". Since, we are issuing DMS as per formats and guidelines provided in the circulars NSE Circular NSE/INSP/36786 dated January 19, 2018 and NSE/INSP/45191 dated July 31, 2020, it is evident that we are complying with the given clause of 2.4 of said Circular.*<br><br>*In view of the above, we humbly wish to state that we have not violated any Compliance / Regulatory guidelines. Thus, we humbly request you to accept our response and oblige.* |
| *H***43* | *For the instant case, we wish to state that the correct ledger balance Rs. 1,45,49,644.65 as per back office system is showing in the Combined Commodity Daily Margin Statement and no difference observed in ledger balance in both the statements.*<br><br>*Enclosed herewith are Daily Margin statement and Ledger Statement marked as Exhibit - E2 & Exhibit - E3 respectively.*<br><br>*With reference to display of unclear cheque entry of Rs. 34,22,000 in DMS, please note; we are displaying clear ledger balances in DMS. With regards to NSE Circular NSE/INSP/36786 dated January 19, 2018 and NSE/INSP/45191 dated July 31, 2020, we wish to state that we are adhering to the guidelines provided in aforesaid Circulars and issuing the DMS to the clients as per given format. It is noteworthy that an indicative format of daily margin statement received in given circulars does not provide any guideline or specification regarding display of Unclear Cheques details in DMS. Furthermore, we wish to state that the given circular bearing reference number NSE/INSP/45191 dated July 31, 2020 states that 'we can consider the unclear cheque entry as Margin collected in Margin reporting to Exchange' however, in case the Cheque gets dishonored or do not get cleared till final margin reporting day i.e. (T+5 day) then we cannot consider this cheque as Margin collected in Margin reporting as well. Therefore, we considered only Clear Balances in DMS sent to clients. If we include unclear cheque as Margin available in DMS and if the Cheque gets dishonored or do not get cleared till final margin reporting day then client will be in shortfall.*<br><br>*In view of the above, we humbly wish to state that we have not violated any Compliance / Regulatory guidelines. Thus, we humbly request you to accept our response and oblige.* |
| *H***38* | *For the instant case, we wish to state that the correct ledger balance as per back office system is showing in the Combined Commodity Daily Margin Statement and no difference observed in ledger balance in both the statements.* |

| | |
|---|---|
| | Enclosed herewith is Daily Margin statement and Ledger Statement marked as Exhibit - E4 & Exhibit - E5 respectively.<br><br>With regards to display of unclear cheque entry of Rs. 5,71,000 in DMS, please note; we are displaying clear ledger balances in DMS. With regards to NSE Circular NSE/INSP/36786 dated January 19, 2018 and NSE/INSP/45191 dated July 31, 2020, we wish to state that we are adhering to the guidelines provided in aforesaid Circulars and issuing the DMS to the clients as per given format. It is noteworthy that an indicative format of daily margin statement received in given circulars does not provide any guideline or specification regarding display of Unclear Cheques details in DMS. Furthermore, we wish to state that the given circular bearing reference number NSE/INSP/45191 dated July 31, 2020 states that 'we can consider the unclear cheque entry as Margin collected in Margin reporting to Exchange' however, in case the Cheque gets dishonored or do not get cleared till final margin reporting day i.e. (T+5 day) then we cannot consider this cheque as Margin collected in Margin reporting as well. Therefore, we considered only Clear Balances in DMS sent to clients. If we include unclear cheque as Margin available in DMS and if the Cheque gets dishonored or do not get cleared till final margin reporting day then client will be in shortfall.<br><br>In view of the above, we humbly wish to state that we have not violated any Compliance / Regulatory guidelines. Thus, we humbly request you to accept our response and oblige. |
| H***21 | For the instant case, we wish to state that earlier we were issuing segmentwise Daily Margin Statement which includes particular Exchange's segment ledger balance only and for MCX, we were sending Daily Activity Statement (DAS) to the clients. This statement was showing Opening Balance, for the day M2M/Premium bill/Other Dr/Cr and Closing Balance and in Margin Summary section as per Closing balance it was calculating the Excess / Deficit margin amount of the client. Therefore MTM of futures for Rs. 178,800 was displayed in DAS under cash summary section along with opening and closing balance for the day.<br><br>To substantiate our stand, we have provided the reference statement in Exhibit - E6.<br><br>Furthermore, it is pertinent to note that, necessary steps were already taken in order to adhere to the Regulatory guidelines and we had started sending DMS from August, 2020 as per format prescribed by Regulatory only.<br><br>In view of the above, we humbly request you to accept our response and oblige. |

*Member Response regarding Total Margin Mismatch Observation:*

| Client Code | Member remark |
|---|---|
| H***21 | For the instant case, we wish to state that due to some issue in Individual segment Margin Statement for NSE Commodity, the exposure margin calculated twice. Enclosed herewith Margin files marked as Exhibit-E7<br><br>It is noteworthy that, we have rectified this issue in Combined Margin Statement Generation.<br><br>Please note, aforesaid issue was exceptional and resolved. Further, it is pertinent to note that the issue was purely unintentional and necessary measures have already been taken care to avoid repetition of such instances in future.<br><br>Thus, we humbly request your goodself to take lenient approach and do not proceed with any punitive actions in this regards. |

*For the aforesaid observation made herewith, we would like to mention that we are adhering to the guidelines provided in aforesaid Circulars and we are into practice of sending daily margin statement as per Circulars bearing reference no. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 and NSE Circular NSE/INSP/36786 dated January 19, 2018 and NSE/INSP/45191 dated July 31, 2020 as per the format prescribed by the regulatory and as per the clause of 2.4 of SEBI Circular bearing reference no. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 which states "Daily Margin statement should include, inter-alia, details of collateral deposited, collateral utilized and collateral status (available balance/due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities". Please note, we have a software to track the client's margin utilization status and send a system generated daily margin statement to the clients on their registered email IDs. Apart from that we are also sending Contract notes, Trade SMSs and Statements regularly.*
*It is also noteworthy to mention here that an indicative format of daily margin statement received in given formats does not provide any guideline or specification regarding display of Unclear Cheques details in DMS. However, we would like to inform you that post receipt of this observation, we coordinated with our vendor and initiated necessary changes in DMS as mentioned in the 'Post Inspection Analysis' report. So that uncleared cheque amount can be included in Daily Margin Statement.*
*Considering the above submissions, we humbly request your goodself to consider our reply and eliminate the observation made herewith.*

**F.** Observation on Margin Trading Funding Verification

1. Noticee had collected inadequate margin from clients under MTF facility for 2 clients in 2 instances. The amount of short collection observed was Rs.30,21,874/-
*Member Response:*

| Client Code | Member remark |
|---|---|
| F*******05 | For the instant case, we wish to state that Client has sold funded Position on 23rd August 2021, so the ledger balance as on date is Rs.-1,57,57,106.43/- instead of Rs.-1,91,09,463.03/- as EPI of securities sold has been done on same day. So funds available against Margin Obligation was Rs.1,02,32,540.72/- (2,59,89,647.15 – 1,57,57,106.43) and hence there was no Margin Shortfall. Please refer to the client's MTF ledger statement given in Exhibit-F1. |

| | |
|---|---|
| | *Furthermore, in the 'Post Inspection Analysis' Report, DPIEA has given comments that "Benefit of EPI Securities can be given in MTF, if MTF funded stock is sold and EPI of such funded securities is done". Hence, as per requirement raised in PIA and in support of our statements, hereby we are providing EPI file in Exhibit-F1.*<br><br>*In view of the above, it is evident that we have not violated any Regulatory guidelines. Thus, we humbly request your goodself to accept our response and oblige.* |
| G*********27 | *For the instant case, we wish to state that in the 'Post Inspection Analysis' Report, DPIEA has given comments that 'Benefit of Exposure amount of BSE for Rs.23,85,000 can be given'. Hence, as per requirement raised in PIA and in support of our submissions, hereby we are providing BSE MTF Reporting file marked as Exhibit - F2 which shows Rs. 23.85 lakh against the given client code.*<br><br>*After consideration of BSE Exposure amount, the total exposure amount is Rs.2,18,53,948.05 (1,94,68,948.05 of NSE + 23,85,000 of BSE) and sufficient funds were available against Margin Obligation.*<br><br>*From the above clarification and supportings, it is evident that there was no Margin shortfall and we have not violated the Clause 7 of Circular CIR/MRD/DP/54/2017 dated June 13, 2017 which states that "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".*<br><br>*In view of the above, we humbly wish to submit that we have not violated any Regulatory guidelines. Thus, we humbly request your goodself to accept our response and oblige.* |

2. *Noticee had considered securities other than Group I for margin collection under MTF facility for 5 clients on 56 instances.*
*Member Response:*
*For the given observation, we wish to state that SEBI has defined group 1 securities in their master circular (SEBI/HO/MRD/DP/CIR/P/2016/135 December 16, 2016). In point 1.1.3 of aforesaid SEBI Circular, SEBI has defined the securities shall be classified into three groups based on their liquidity where they have mentioned that the impact cost of group 1 securities should be less than 1. Accordingly, we are following Group-1 Securities for margin collection under the MTF facility mapped with the BSE segment, and also for the mentioned time period we have considered the securities for margin collection.*
*Please note, that the scrips mentioned in the observation belongs to Group 1 security based on the above criteria.*
*Enclosed herewith is the list of Group 1 securities of the BSE MTF segment for your ready reference. Please refer to the Exhibit - F3.*
*In view of the above, it is evident that we are not violating any regulations and complied with all respective Clauses 3, 4 & 5 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017.*

**3.** *Noticee had allowed exposure in securities other than Group I under MTF facility for 4 clients on 18 instances (Refer para 4.8 at page 39 & 40 of Inspection Report, (ii) Annexure G, G1 and G2 of the Inspection report, (iii) Reply submitted by Noticee vide letter dated – March 16, 2022).*
*Member Response:*
*For the given observation, we wish to state that SEBI has defined group 1 securities in their master circular (SEBI/HO/MRD/DP/CIR/P/2016/135 December 16, 2016). In point 1.1.3 SEBI has defined the securities shall be classified into three groups based on their liquidity where they have mentioned that impact cost of group 1 securities should be less than 1. Accordingly, we are following Group-1 Securities for margin collection under the MTF facility mapped with the BSE segment, and also for the mentioned time period we have allowed exposure to the securities that falls into Group -1 category only.*
*Please note, that the scrips mentioned in the observation belongs to Group 1 security based on the above criteria.*
*Enclosed herewith is the list of Group 1 securities of the BSE MTF segment for your ready reference. Please refer to the Exhibit - F3.*
*From the aforesaid submissions, it is evident that we as a responsible member have not violated any regulations and complied with all respective clauses 3,4,5 & 7 and of SEBI Circular bearing reference no. CIR/MRD/DP/54/2017 dated June 13, 2017, which states as under.*
*Securities Eligible for Margin Trading*
*Clause 3: Equity Shares that are classified as 'Group I security' as per SEBI Master circular No. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016, shall be eligible for margin trading facility.*
*Margin Requirement*
*Clause 4: In order to avail margin trading facility, initial margin required shall be as under;*

| *Category of Stock* | *Applicable margin* |
|---|---|
| *Group I stocks available for trading in the F & O Segment* | *VaR + 3 times of applicable ELM** |
| *Group I stocks other than F&O stocks* | *VaR + 5 times of applicable ELM** |

*For aforesaid purpose the applicable VaR and ELM shall be as in the cash segment for a particular stock*
*Clause 5: The initial margin payable by the client to the Stock Broker shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in SEBI Master circular no. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016.*
*Clause 7: 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.*

*In view of the above, we humbly request your goodself to accept our response and oblige and also we request you to allow the Members to consider the group-I securities available in either of the exchanges for MTF, which will also be beneficial in the interest of the investors.*

**G.** *Observation on unauthorised trading*

*On perusal of complaints, it was noticed that the trades were executed without the consent of the client (Unauthorized trade) in 28 instances. (Refer Para 4.10 at Page 42 & 43 of Inspection Report, Annexure H, H1 and H2 of the inspection report and Reply submitted vide letter dated - March 16, 2022 from the Noticee).*

1. *It was observed that the member has resolved 3 investor complaints beyond 30 days.*

*Member Response:*
*In response to the aforesaid observation, we hereby submit our response as under:*

| *Client Code* | *Member remark* |
|---|---|
| *K****40* | *In the instance case, we have received client complaint on March 07, 2020, accordingly, we initially responded to the client within 30 days i.e. on April 03, 2020, on same day the client has reverted us with similar concern thus our response remained unchanged for dated May 04, 2020. Please refer to the attached email correspondence held between client and the Member. Exhibit- G1 is the copy of emails for your kind reference. It is worth mentioning here that after our final response to the client, we have not received any further mail from the client nor client has raised any concern to the exchange/Regulatory.*<br><br>*We therefore request your goodself to consider our first response dated 03-04-2020 as the final resolution email, since the second communication received from the client was of a similar in nature and merely repeated our previous response and such similar response was delayed since we were working from home with limited access due to COVID-19 pandemic, as the relaxation given by the regulatory.* |
| *P*******20* | *In the instance case, the initial concern of the said client was raised at our escalation matrix on December 04, 2020. Consequently, we addressed his concern and replied on January 14, 2020, which was delayed since we were working from home with limited access due to the COVID-19 pandemic, during the period of relaxation given by the regulatory. The copy of email correspondence between the client and Member is annexed herewith as Exhibit - G2 for your reference.* |
| *F*******05* | *In the instance case, the initial concern of the said client was raised at our escalation matrix on January 07, 2021. Consequently, we addressed his concern and replied on February 08, 2021, which was delayed since our Authorised Person ("AP") attempted to contact this client at several occasions, but unfortunately the AP couldn't reach to the client.*<br><br>*However, as confirmed with AP, he has provided the required statement to the client in order to address the client grievance. Based, on AP's confirmation we have sent an email to the client and we haven't received any further query from the client hence we treated this grievance as closed. Our final communication to the client was delayed, since we were working from home with limited access due to the COVID-19 pandemic, as relaxation given by the regulatory. Please find the attached Exhibit - G3 is the copy of email sent to the client for your reference.* |

*In perpetuation to the above, we humbly wish to submit that, the aforesaid clients have raised their concern to us during the COVID-19 pandemic, where due to the COVID-19 pandemic, lockdown imposed by the Government, and hence our 80% of officials were working from home with limited access, which affected while redressing the aforesaid clients' grievances within the prescribed deadline. It is also pertinent to note here that, during this time regulatory issued circular vide reference number SEBI/HO/MIRSD/RTAMB/CIR/P/2020/59 dated April 13, 2020 & SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2022/26 dated February 25, 2022, wherein the Member has given the relaxation in resolving investors' grievances.*
*The extract of the said circular is as under:*

> *SEBI/HO/MIRSD/RTAMB/CIR/P/2020/59*
> *"3.In the event of further extension in the lock down period as directed by Government of India / State Governments, additional relaxation in prescribed timelines for equal number of extended days in lock down is also being given to intermediaries / market participants.*
> *SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2022/26*
>
> *3.Relaxation is hereby being given to intermediaries / market participants w.r.t. compliance with the prescribed timelines which has been extended to June 30, 2022 in view of the Covid-19 situation. The aforesaid relaxation shall be applicable for items No. 1-7 mentioned at para no. 2 above"*

| *Sr.no.* | *Particulars* |
|---|---|
| *6* | *Handling Investor Correspondence / Grievances/SCORES complaint* |

*In view of aforesaid guideline issued by the regulatory, the Members were provided the relaxation in resolving investors' grievances. We further wish to state that, there is no pending grievances for the said clients as on date.*
*Furthermore, we are pleased to note as per SEBI Post Inspection Analysis ("PIA") report that "With regards to investors complaints, the violations for delay in resolving complaints have been found in 3/1057 sample complaints. Further, the delay is of one, two, and eleven days respectively. As the violation has been found in very few instances in comparison to the sample, and the delay is not substantial, Member's reply may be accepted".*
*Thus, considering all above we humbly request your goodself to consider our response, obliged and do not proceed with any punitive action in this regard.*

2. *Also, it was observed that the member has executed trades without the consent of the client (Unauthorized trade) for 3 instances out of 35 instances.*

*Member Response:*
*In response to the aforesaid observation, we hereby submit our response as under:*

| Client Code | Member Remark |
|---|---|
| G******04 | In the instance case, we disagree with the observation of unauthorised trade. In fact, there was no unauthorised trade placed in the said client account, however on December 30, 2020, the erroneous trade resulted in the sale of 19 quantities of IRCTC shares in this client account. Upon realisation, we informed to the client and restored 19 shares of IRCTC to the client's account and credited his ledger with a difference of the loss amounting to Rs. 1264/-. The copy of correspondence between the client and Member is annexed herewith as Exhibit - G4 (also includes the client Ledger statement, evidencing the amount of Rs. 1264/- given to the client), for your reference.<br><br>It is also pertinent to mention here that, the aforementioned issue was also highlighted by the client in his email, indicating his awareness towards the aforesaid error in his account. |
| P*****07 | In the instance case, we disagree with the observation of unauthorised trade. On July 05, 2021, the erroneous trade was placed in the said client account due to a punching error. However, due to the lack of profit/loss in the said transaction only the brokerage amount of Rs. 185/- was credited to the client on July 07, 2021.<br>Our branch official sent all the aforesaid communication to the client, thereafter we sent final response to the client on July 07, 2021. The copy of correspondence between the client and Member is annexed herewith as Exhibit - G5 (also includes the client Ledger statement, evidencing the amount of Rs. 185/- given to the client), for your reference. |
| B*****18 | In the instance case, we disagree with the observation of unauthorised trade. In fact, there was no unauthorised trade placed in the said client account. The said client has his family accounts with us, one of for his own (client code: B*****18) and other for his sister's (Client code: B*****17). On July 15, 2021, as per his sister instruction, our dealer was supposed to place selling order in his sister's account, B*****17, however inadvertently due to punching error, dealer had placed order in the account of B*****18. The same was intimated to client via mail dated July 16, 2021.<br>Our branch official has informed the client that they may be able to restore the sold shares in the client's account (B*****18).<br><br>However, due to the fact that there was no loss to the client, the client denied their proposal and requested that they release the payout to him, consequently, the payout was released to the client. Furthermore, there has been no further escalation or correspondence from the client. A copy of correspondence between the client and Member is annexed herewith as Exhibit - G6 and Exhibit - G7 is the copy of Ledger statement for your reference. |

*We, would like to reiterate that, that none of the aforementioned instances fall under the unauthorized trade category. It is evident from the aforementioned facts that, the said clients' complaints were merely related to erroneous trades. Thus, we humbly request your goodself to consider our response, obliged, and do not proceed with any punitive action in this regard.*

3. *It was also observed that, member has not provided supporting/order placement confirmation by the client for 10 instances.*

| Client Code | Member Remark |
|---|---|
| H*****17 | In the instance case, no unauthorised trade was placed/executed in the said client account. The said client opened his account with us on October 03, 2019, and last traded with us till May 2023. All the trades were executed in his account under his complete knowledge, and related trade confirmations were sent to him on his registered contact details with us. Additionally, the exchanges are also in the practice of sending SMS to all clients post their trades. Even after receipt of multiple trade confirmations from Member/Exchanges, the said client never raised any concern to us. Exhibit - G8 & G9 is the copy of sample SMS and ECN log for your reference.<br><br>It is noteworthy to mention here that, this client raised his initial concern to us only on February 04, 2021. Our branch official subsequently addressed the client's concern to his satisfaction. Accordingly, on February 11, 2021, we have sent him a final resolution email. Further, there was no more escalation or correspondence from the client, which demonstrates that, the complaint was vague/frivolous and does not have merit to uphold. The copy of email correspondence between the client and Member is annexed as Exhibit - G10 for your reference<br><br>Additionally, it is pertinent to highlight that, post resolution of aforesaid complaint, the client has deposited funds into his account and had been trading till 2023, which is evident that, the client never had concern related to unauthorised trade and instead only for service related issues, which was resolved post interaction and the aforesaid final resolution email. Exhibit - G11 is the copy of Ledger statement evidencing the clients trading, funds pay-in & pay-out activity for your kind perusal. |
| P******09<br>G*******17<br>G*******19<br>GK******05<br>P*****30<br>P*****03<br>P******01<br>G*******06 | In the instance cases, no unauthorised trade was placed/executed in the said clients account. The client G*******17 opened his account with us on November 01, 2019. Subsequently, due to satisfaction with our services, he also initiated accounts for his family members in 2019 & 2020 and also actively trading with us as on date.<br>On February 16, 2021 the aforesaid client raised his initial concern to us on February 16, 2021, towards his and his family accounts (P******09, G*******19, GK******05, P*****30, P*****03, P******01, G*******06). Upon, verification of the account details, we have observed that all the transactions were executed in these clients accounts under their complete knowledge and related trade confirmations were sent to them on their registered contact details with us. Additionally, the exchanges are also in the practice of sending SMS to all the clients post their trades. Even after receipt of multiple trade confirmations from Member/Exchanges, the said clients have never raised any concern to us. Exhibit - G12 is a copy of sample ECN, SMS log and copy of email communication between client and the member for your reference.<br><br>In fact, the said client raised concern to us, due to losses incurred in their accounts because of market volatility, which is beyond the Broker's capacity. Even after seeking the alleged trade details from the clients, they never provided us complete details of disputed trades and concrete evidence of their allegation, which substantiated that they were fully aware of about each trades of their accounts.<br><br>We hereby wish to highlight that, the said client is actively trading with us, which is clearly evident that there were no grievances whatsoever pending for the said clients as on date. |
| JP****16 | In the instance case, no unauthorised trade was placed/executed in the said client account. On June 18, 2020, the said client had short selling intraday position for 100 quantity of PRINCE PIPES AND FITTINGS LIMITED ("PRINCEPIPE") shares. The client was obligated to fulfil the pay-in of the said security by the end of the day. However, due to the buying circuit in "PRINCEPIPE" the shares could not be squared off on the same day. Consequently, the client held 44 shares of "PRINCEPIPE" in his demat account. On the basis of client's POA, the pay-in obligation was made from his demat account and for the remaining 56 shares the auction bill was posted in his ledger. Attached herewith Exhibit - G13 is the copy of the Auction bill and copy of email communication between client and the member for your reference.<br><br>Our branch official communicated the above scenario to the client and also sent him an email on June 25, 2021. Subsequently, we sent a final email to the client on June 29, 2021 confirming that no fraudulent trade was placed/executed in his account. Following our final reply, the client did not raise any concerns to us or to the exchange/ regulatory authorities and as on date there is no grievances whatsoever raised/pending for the said client, and as on date the said client is actively trading with us.<br><br>Further, we humbly submit that, we did not violated any regulatory norms. In fact, the client raised concern due to his lack of understanding on his part and not due to unauthorised trade, hence the same shall not be considered as unauthorised trade. |

*In continuation to the above, we hereby wish to submit that, the aforesaid 10 clients complaints are essentially not related to unauthorized trades, but merely related to basic services issues, due to volatility in the market etc. Thus, post receipt of our response, these clients have not raised their any concern to us nor to any exchanges/regulatory. Further, there are no pending grievances for the aforesaid clients as on date.*

*Furthermore, we humbly wish to submit that, all the aforesaid grievances are raised during the period of the COVID-19 pandemic, when the lockdown was imposed by the Government and hence our 80% of officials were working from home with limited access. It is also pertinent to mention here that, during this time regulatory issued vide reference number SEBI/HO/MIRSD/DOP/CIR/P/2020/61, dated April 16, 2020, to SEBI/HO/MIRSD/DOP/P/CIR/2021/607 July 30, 2021, given us relaxation for Maintaining call recordings of orders/instructions received from clients and also directed us to send a confirmation on the registered mobile number of the client immediately after execution of the order, which we have sent to all our clients appropriately.*

*The extract of the aforesaid circular is as under:*

"In view of the situation arising due to COVID-19 pandemic and extended lockdown period, based on representations received from Stock Exchanges, it has been decided to extend the due date for the following regulatory filings and compliance requirements by their trading members / clearing members:

……………………………………………………….. "However, the trading member and the Stock Exchange shall send a confirmation on the registered mobile number of the client immediately after execution of the order".

In perpetuation to above, we humbly wish to submit that, in addition to SMSs, we are in practice of

| SR no | Compliance | Due Date | Extended date | SEBI Circular Reference |
|---|---|---|---|---|
| XI. | Maintaining call recordings of orders/instructions received from clients. | - | 17-May-20 | SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018 |

sending ECN, weekly statements, quarterly statements, Daily Margin statements, etc., to all our clients including aforesaid clients, which we have already attached in aforesaid client wise response.

In light of the foregoing, we would like to reiterate that, none of the aforementioned instances fall under the unauthorized trade category. It is evident from the aforementioned facts that, the said clients complaints were merely related to losses due to volatility in the market, misinterpretation at the client level, etc. Besides, the above, there are no grievances whatsoever pending/received for the said clients as on date.

Therefore, we humbly request your goodself to consider our response, obliged, and do not proceed with any punitive action in this regard.

4. It may also be noted that the member has failed to provide details of the complaint and supporting documents to the inspection team despite multiple reminders, for 15 complaints.

Member Response:

In the instance cases, we humbly wish to submit that, these clients grievances were received during the COVID-19 pandemic, when the lockdown was imposed by the Government and hence our 80% of officials were working from home with limited access. The said cases were essentially not related to Unauthorised trades. As it is elucidated in our aforesaid submission under para 'G' and also as per the detailed Member remarks mentioned in the attached Exhibit - G14, it is clearly evident that, the concerns which were raised stating that unauthorized trades executed in their account, were found to be related to services issue, misinterpretation of clients, volatility in the market etc. In the observed 15 cases, the aforesaid situation arose, and hence we humbly request you not to consider these cases in the category of unauthorized trade. Attached herewith as Exhibit- G14 is the copy of email correspondence for these clients for your kind consideration along with the detailed remarks in an excel sheet named "15-clients UT complaint _with remarks", for your reference.

We further wish to submit that, we comply with and maintain our Grievance MIS as per the regulatory norms. Previously, the cases were getting updated in our grievance MIS based on the primary information received from the client. However, as per the NSE circular dated April 05, 2023, vide reference number NSE/ISC/56274, we have been provided with a specific format of complaint category. The extract of the circular is as under:

"In view of the above, the trading members are required to submit the details of the direct complaints received by them (through any channel) in the format enclosed as Annexure A, on monthly basis, through 'NICEPlus' application available on Member Portal."

Thus as per the aforesaid NSE circular, we are updating our grievance MIS as per the actual complaint category. It is pertinent to note that, as on date, there are no grievances whatsoever pending for the said clients.

Furthermore, we humbly wish to submit that, all the aforesaid grievances were raised during the period of the COVID-19 pandemic, when the lockdown imposed by the Government, and hence our 80% of officials were working from home with limited access. It is also pertinent to mention here that, during this time regulatory issued vide reference number SEBI/HO/MIRSD/DOP/CIR/P/2020/61, dated April 16, 2020, to SEBI/HO/MIRSD/DOP/P/CIR/2021/607 July 30, 2021, given us relaxation for Maintaining call recordings of orders/instructions received from clients and also directed us to send a confirmation on the registered mobile number of the client immediately after execution of the order, which we have sent to all our clients appropriately.

The extract of the aforesaid circular is as under:

"In view of the situation arising due to COVID-19 pandemic and extended lockdown period, based on representations received from Stock Exchanges, it has been decided to extend the due date for the following regulatory filings and compliance requirements by their trading members / clearing members:

……………………………………………………….. "However, the trading member and the Stock Exchange shall send a confirmation on the registered mobile number of the client immediately after execution of the order".

In perpetuation to above, we humbly wish to submit that, in addition to SMSs, we are in practice of

| SR no | Compliance | Due Date | Extended date | SEBI Circular Reference |
|---|---|---|---|---|
| XI. | Maintaining call recordings of orders/instructions received from clients. | - | 17-May-20 | SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018 |

sending ECN, weekly statements, quarterly statements, Daily Margin statements etc., to all our clients including aforesaid clients.

In light of the foregoing, we would like to reiterate that, none of the aforementioned instances fall under the unauthorized trade category. It is evident from the aforementioned facts that, the said clients complaints were merely related to losses due to volatility in the market, misinterpretation at client level etc. besides, the above, there are no grievances whatsoever pending/received for the said clients as on date.

We therefore humbly request you to consider our aforesaid response and we apologize for inconvenience caused to you due to improper complaint category updation in our MIS. We will ensure to *update our MIS appropriately to avoid such recurrence of allegation/observation from exchanges/regulatory.*

**H.** *Observation on client's Order Recording*

*Noticee did not keep appropriate evidences in respect of the orders placed by their clients in 6 out of the 21 sample instances. (Refer Para 4.11 at Page 43 of Inspection Report , Annexure I of the inspection report and Reply submitted vide letter dated March 16, 2022 from Noticee).*

*Member Response:*

*In the instance case, we hereby wish to state that, we are in the practice of maintaining the proof of order placement as per the circular SEBI circular SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, and hence we are pleased to note that, the order placement proof which was provided to the inspection officials on a sample basis, is considered as it is mentioned in the SEBI Post Inspection Analysis ("PIA") report.*

*However, with reference to the observation with respect to order placement proof for trade dated October 28, 2021, for 6 clients (D*******01, G******21, A**00, G*******03, D*******02, and MUM80K101). In response to the same, we humbly wish to submit that, in view of the situation that arose due to the COVID-19 pandemic, the lockdown was imposed by the Government and hence our 80% of officials were working from home with limited access. In these instances, clients have placed orders by giving instructions on dealers mobile/visiting our office, wherein maintaining the proof i.e. voice recording of order placement was not feasible. We as a broker are in the capacity as a market intermediary and have just executed the orders on the client's behalf with their consent in the exchange provided system in their unique client code allotted to them. Our dealer cannot reject their orders in such cases as the clients may otherwise raise a grievance against the member. We have given appropriate services to all our clients, even during the COVID-19 pandemic and hence, there are no grievances whatsoever pending for the aforesaid clients.*

*Furthermore, we hereby wish to submit that, during the aforesaid period due to the COVID-19 pandemic the regulatory vide its circular reference number SEBI/HO/MIRSD/DOP/CIR/P/2020/61, dated April 16, 2020, to SEBI/HO/MIRSD/DOP/P/CIR/2021/607 July 30, 2021, given us relaxation for Maintaining call recordings of orders/instructions received from clients and also directed us to send a confirmation on the registered mobile number of the client immediately after execution of the order, which we have sent to all our clients appropriately. Exhibit - H1 is a copy of the SMS log.*

*The extract of the aforesaid circular is as under:*

*"In view of the situation arising due to COVID-19 pandemic and extended lockdown period, based on representations received from Stock Exchanges, it has been decided to extend the due date for the following regulatory filings and compliance requirements by their trading members / clearing members:*

| *SR no* | *Compliance* | *Due Date* | *Extended date* | *SEBI Circular Reference* |
|---|---|---|---|---|
| *XI.* | *Maintaining call recordings of orders/instructions received from clients.* | *-* | *17-May-20* | *SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018* |

*………………………………………………….. "However, the trading member and the Stock Exchange shall send a confirmation on the registered mobile number of the client immediately after execution of the order".*

*In perpetuation to the above, we humbly wish to submit that, in addition to SMSs, we are in the practice of sending ECN, weekly statements, quarterly statements, Daily Margin statements, etc., to all our clients including aforesaid clients.*

*Thus, in view of all the above, we humbly wish to state that, we have not violated the regulatory norms as per clause 3 of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017, and CIR/HO/MIRSD/MIRSD2/CIR/P/2017/124 dated November 30, 2017 and SEBI/HO/MIRSD/DOPI/CIR/P/2018/54 dated March 22, 2018.*

*The extract of the said circular is as under:*

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

*a. Physical record written & signed by client,*
*b. Telephone recording,*
*c. Emailfrom authorized email id,*
*d. Log for internet transactions,*
*e. Record of SMS messages,*
*f. Any other legally verifiable record.*

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

*However, due to the COVID scenario and as per the relaxation provided by the exchanges/regulatory, we have been provided the available supporting's in our previous submission.*

*Therefore, we humbly request your goodself to consider our response, obliged and do not proceed with any punitive action in this regard.*

**I.** *Observation on Risk Based Supervision*

*Noticee did not correctly report the details of financial data (Total debit balance of all clients) under RBS to the tune of Rs. 10 lakhs.(Refer Para 4.18 at Page 46 & 47 of Inspection Report and Reply submitted vide letter dated March 16, 2022 from Noticee).*

| *Particulars* | *Data Reported by Trading Member (Rs.)* | *As per Exchange working (Rs.)* | *Difference (Rs.)* |
|---|---|---|---|
| *Total debit balance of all clients* | *1,05,84,04,072* | *1,05,94,25,430* | *1,021,357* |

*Member Response:*

*With reference to the given observation related to the difference in 'Total debit balance of all clients', we humbly wish to submit that all the respective circulars of SEBI and Exchange are considered with respect to adherence to all the due diligence. However, while reporting figures in the submission of RBS for the mentioned period, due to some*

system issue the BSE MFSS segment clients were not captured due to which difference arose to the tune of Rs. 10 Lakh.
However, it is pertinent to note that we have implemented necessary checks in the generation of data from the system and introduced a maker-checker mechanism in order to ensure error-free submission which further ensures that the aforesaid issue will not occur in the future. Hence, your goodself is requested to consider the above response in good faith and take a lenient approach while concluding its view on the said observation.

Reply on difference observed in Brokerage Income –

…

With reference to given observation related to difference in Brokerage Income, we hereby wish to state that as per RBS Circular, we had reported Gross brokerage income which includes Delivery Brokerage/Realised Brokerage of Rs.2,02,26,63,546/-. The figures mentioned in Exchange working include other Income which was not reported under RBS, as this is not Delivery Brokerage / Realised Brokerage as mentioned in the given tabular representation:-

…

It is noteworthy that, as mentioned in the 'Post Inspection Analysis' (PIA) Report, Regulatory has considered our responses wherein DPIEA has commented that the 'clarification provided may be accepted'. We are sincerely grateful for considering our response with remarks that 'Member's reply may be accepted'.

J. Observation on Demat Verification
Noticee had done incorrect reporting of tagging of demat accounts on 2 instances and had done incorrect reporting of status of demat accounts to NSE on 1 instance. (Refer Para 4.20.4 at Page 49 of Inspection Report and Reply submitted vide letter dated- March 16, 2022 from Noticee).
Member Response:
As regards to the said observation, we humbly wish to state that, as per clause 2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, which states that as under:

> "Uniform nomenclature to be followed by stock brokers for Naming/Tagging of Bank and Demat Accounts and the reporting of such accounts to the Stock Exchanges/Depositories.

In response to the above, we hereby wish to submit our point-wise response as under:

Following the foregoing, we hereby wish to reiterate that, the tagging and reporting were not carried out, solely due

| Sr no | Observation | Member Response |
|---|---|---|
| i | Incorrect reporting of tagging of Demat accounts ('11************41 & '11************79) to the Exchange | In the instance case, at the time of updation of the account number in the portal; the option of tagging the account number as "Early Pay-in Account" was not available, hence the same was tagged in "Any other" option. This is due to the fact that the option was not available on the Exchange system.<br><br>However, later on, the facility was made available by the exchange and we tagged it as "Early Pay-In Account", hence the said observation does not persist. The copy of the screenshot for tagging change on the online portal is attached herewith as Exhibit - J1 for your reference. |
| ii | Incorrect reporting of status of Demat account (12***********05) to the Exchange: | In the instance case, due to inactive ISIN, the account cannot be closed fully and the account was in "To be closed status" in CDSL till January 24, 2021, the said status was not updated at NSE because, at that time we had only option to report status as active or closed at NSE portal.<br>It is pertinent to mention here that, the aforesaid issue was also conveyed to NSE, vide our email dated September 11, 2020, for which we haven't received any revert from NSE till today. Exhibit - J2 is a copy of email communication to NSE, for your reference.<br>However, the stock has been transferred and the account is been fully closed, and the related status is also updated at the NSE portal. Attached Exhibit - J3 is the copy of NSE status for your reference.<br>From the above submissions, you can ascertain the fact that there were no discrepancies in reporting the account number, it was just due to the absence of Option at the time of reporting and non-receipt of clarification from NSE, hence the said was tagged under different status. |

to the non-availability of an option on the NSE online portal and the absence of clarification from NSE.
Further, we humbly wish to submit that, the aforesaid demat accounts are now tagged and reported appropriately and we are compiled as per clause 2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
Therefore, we humbly request your goodself to consider our response, obliged and do not proceed with any punitive action in this regard, as the said observation is venial in nature as associated at only reporting level and does not affect the monetary impact at the broker/exchange/regulatory/client level.

K. Observation on Non -cooperation with the inspection team
Noticee did not provide the complete data /information on timely basis. (Refer Para 4.20.4 at Page 48 of Inspection Report and Annexure J of Inspection report.)
Member Response:
We referred to the Para 4.20 at page no. 48 of Inspection Report (point 4.20.4 mentioned in SEBI letter pertains to Observation on Demat Verification) along with supporting given as Annexure J, wherein exchanges had mentioned regarding the failure of Member in submitting complete data at the initial stage of the Inspection. In response to this

*and the events that occurred during the whole Inspection period, we wish to mention that an intimation letter of Inspection was received on 3rd August, 2021 to us, asking to provide the information along with supportings. On receipt of the intimation, we immediately started working upon the submission of data and initiated submitting data by the given deadline of 24th August, 2021 and submitted the remaining data in subsequent days.*

*We hereby bring to your notice that, during the inspection period on continuous basis we were receiving data requirement requests/queries (related to Client accounts, Dormant Clients, MRR, Margin files, Holding Reconciliation, Enhanced Supervision, etc.) from multiple regulatory bodies and we were continuously working upon the requests raised in order to furnish the requisites within the deadline to maintain the smooth functioning of the daily course of action as well.*

*Enclosed herewith is the summary of events related to data submission along with sample email correspondence with regulatory marked as Exhibit - K1. The details presented in this Exhibit reflects that we were continuously fulfilling the requests and resolving queries on timely basis as per the requests received. We would like to bring into your notice that the quantum of data requirement was huge and there were occasions where the system was not having readily available tools/reports in the back office system to meet the requirement raised so, such data generation, compilation, and verification needed sufficient time in order to provide error-free data to the regulatory bodies.*

*It is noteworthy that, due to the COVID-19 pandemic we were working with limited staff strength wherein we also had to ensure the smooth functioning of our Operational activities and Client Servicing too. Apart from this, during the Inspection period we were in process of several new implementations in order to comply with guidelines issued by regulatory bodies.*

*Furthermore, with reference to Annexure J, Regulatory has commented that based on our additional submission, re-verification was done and earlier observations stand modified/closed.*

*In view of the above, it is apparent that there was no intention of any kind of Non-Cooperation from our end in submission of data for the Inspection and we extended our full co-operation which led to satisfactory closure of observations.*

*Thus, we further confirm that we have not violated Regulation 21 of the Securities and Exchange Board of India (Stock Brokers) Regulation, 1992 which states as under.*

*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 stockbroker.*

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

*We would like to express our sincere apology for any unintentional inconvenience caused to the regulatory bodies during the initial proceedings. We as responsible member, will continue to extend our support and full cooperation in the future as well.*

*…'*

## Additional Submissions dated March 07, 2024:

'…

***A.*** *Observation on misuse of clients' funds*

*(ii)* *During the course of the inspection, it was observed that value of G was negative on 6 out of 43 sample instances, thereby indicating funds of credit balance clients was misutilized by Noticee for meeting the obligations of debit balance clients and/or for its own purpose. The amount of misutilization ranged from Rs.22.07 lakhs to Rs. 16.36 crore. (Refer Para 4.1.1 at Page 28, 29 and 30 of Inspection Report). Details of 6 instances is as under:*

*…*

*Member's Additional Response:*

*With respect to the said observation, we hereby humbly wish to reiterate our earlier reply dated November 25, 2023 to SEBI; and attached herewith the copy of SAT Appeal as Annexure - A1, in order to substantiate our stand as per para A- (i) (g) of the aforesaid earlier reply.*

*Thus, considering our above reply and previous submission dated November 25, 2023; we wish to state that, we have not misutilized clients' funds as stated in the aforesaid SEBI observation. Also, kindly note that instances of G Negative was observed only for the 6 dates of September 2020. Thereafter, neither such observation have been found nor we have been penalised for a similar nature of observation till date.*

*Therefore, we humbly request your goodself to consider our response, obliged and do not proceed with any punitive action in this regard.*

*(iii)* *It was also observed that value of J was positive on 1 out of 43 sample instances, thereby indicating funds of credit balance clients was mis-utilized by Noticee towards margin obligations of debit balance clients and proprietary margin obligations. The amount of misutilization was Rs. 90.75 crore. (Refer Para 4.1.1 at Page 28 ,29 and 30 of Inspection Report).*

*…*

*Member's Additional Response:*

*In response to the aforesaid observation, we hereby humbly wish to reiterate our earlier reply dated November 25, 2023 to SEBI; and also wish to submit the additional response as below:*

*We have received similar type of observation previously for the first time on April 22, 2021; from NSE official Mr. Nitin Goyal (for regular inspection period September 01, 2019 to August 31, 2020) and accordingly we have* *communicated the difference regarding the MG11 file to the NSE official during such preliminary observation. Later, we received below attached (Annexure – A2) reply from NSCCL-Risk Team in response to our email dated May 17, 2021, which was also submitted in our earlier reply dated November 25, 2023.*

*…*

*Post receipt of aforesaid response from Mr. …. (NSCCL), we have been asked for the revised data by Mr. Nitin Goyal (email attached as Annexure – A3) in order to conclude final observation during the regular inspection, wherein we have submitted additional data to NSE. Based on our submission, no adverse observation found by NSE.*

*It is also worth to mention here that, during the aforesaid inspection, we have been also asked for the data for additional period from November 2020 to April 2021. Even during this period we have not received any adverse observation w.r.t. 'G negative and J positive'.*

*Furtherance to above regular inspection, we have received similar observation in this SEBI inspection (covering period April 01, 2020 to October 31, 2021), wherein we have submitted our detailed replies vide letter dated March 16, 2022 & June 22, 2022. After analyzing the observation in SEBI Post Inspection Analysis (PIA) report received on November 09, 2023; we found that 'J positive' was concluded based on the revised MG11 figures given by NSCCL. Accordingly, we have sought for the revised MG11 figures and its related calculation from NSCCL and SEBI in order to submit our suitable response. In this regard, we have received the revised valuation from NSCCL vide email dated February 28, 2024; where NSCCL (Ms. Swati Kalkarni) has confirmed that, Member has unutilized collateral to the tune of Rs. 208 crore on September 04, 2020 (date of 'J positive' as alleged in SEBI Inspection report).*

*Based on the revised valuation given by NSCCL it is evident that there was no 'J positive' for amounted Rs. 90 crore on September 04, 2020 as given in the said observation. Attached as Annexure – A4 is the copy of email communication with NSCCL & SEBI for your ready reference.*

*Thus we reiterate that, there was no misuse of clients' funds, and there was certainly no 'J positive' as on September 04, 2020.*

*Thus, considering the above it would not be justifiable to determine that, the Member has violated Section 23D of SC(R)A, read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.*

***B.*** *Observation on Non- Maintenance of Daily reconciliation statement:*

*During the course of inspection, it was observed that Noticee had not maintained the daily - reconciliation statement for transfer of funds between client account/Settlement account and own account during the inspection period.(Refer Para 4.1.2 at page no. 33 and 34 of inspection report , Annexure D of the Inspection Report.")*

*Member's Additional Response:*

*With respect to the said observation, we hereby wish to reiterate our earlier reply dated November 25, 2023 to SEBI; and attached is the list of sequence of communication related to data submission by Member to SEBI & NCDEX as "Annexure - B1" in order to prove that the reconciliation of transactions carried out between clients/settlement and own bank accounts were appropriate.*

*After quite deliberation and thorough checking done by NCDEX and SEBI jointly, it was concluded in the SEBI inspection report that, "no observation has been found w.r.t. transfer of excess fund from the client/settlement account to own account. Extract of SEBI Inspection report (page no. 33 & 34) attached herewith as Annexure – B2 for your ready reference.*

*It is worth to mention here that, since we have substantiated the appropriate reconciliation of transactions carried out between client/settlement accounts and own account and we have provided all the required clarification and data to SEBI & NCDEX, the said observation is also dropped from the Post Inspection Analysis ("PIA") report of SEBI.*

*Thus, considering the above we have not violated Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. The extract of the circular is as under:*

> *2.4.2.Transfer of funds between "Name of Stock Broker -Client Account" and "Name of Stock Broker -Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker -Client Account" to "Name of Stock Broker -Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred."*

*We further wish to state that as per regulatory requirement, we are properly maintaining Daily reconciliation of transactions carried out between client/settlement accounts and own account. Enclosed herewith sample of latest daily reconciliation marked as Annexure – B3 for your reference.*

*Thus, in view of above we humbly request your goodself to consider our response, obliged and do not proceed with any punitive action in this regard.*

***C.*** *Observation on Settlement of client funds and securities*

*It was observed that Noticee had not exercised due diligence in following up with untraceable clients for settlement of fund (Refer Para 4.5 at page no. 35, 36, 37 & 38 of inspection report)*

*Member's Additional Response:*

*In addition to our earlier response dated 25th November, 2023 to SEBI; wherein we had stated that the said 69 clients had incorrect Bank details with us, therefore we were unable to transfer the funds as per settlement norms and later with our efforts we could successfully settled accounts of 34 clients. We further wish to state that we continued our best efforts as a part of due diligence related to settlement process and settled 36 clients' accounts from total 69 clients out of which 34 clients are having NIL ledger balance as on date of this submission. To substantiate our statement hereby we are sharing the updated Ledger statements of the clients as Annexure – C1.*

*We further wish to state that the remaining 33 client accounts wherein Settlement cheques got undelivered are presently in dormant/inactive status. Enclosed herewith Annexure – C2 displaying the dormant/inactive status of clients. We would like to bring into your notice that since we were unable to settle the client accounts due to non-availability of client's bank accounts and non-traceability of client we had reported the funds under 'Unclaimed/Unsettled Client Funds' column in Cash and Cash Equivalent reporting as per guidelines given in NSE Circular bearing reference number NSE/INSP/50592, dated 13th December, 2021. Accordingly we had set aside the funds in 'Separate Client Bank account' no. 92**********73 as per NSE Circular bearing reference number NSE/INSP/43488 dated February 10, 2020 and NSE/INSP/50592, dated 13th December, 2021; from which it is evident that we have not misutilized any clients' funds for another client. Enclosed herewith is aforesaid circulars marked as Annexure – C3 and extract of Cash & Cash Equivalent reporting file dated 26th December, 2022 marked as Annexure – C4, Bank statement displaying the set aside funds in aforesaid Bank Account marked as Annexure – C5. It is noteworthy that the funds were set aside in the form of FD and submitted to the exchange itself for which FD details were shared in our previous submission. For your reference we hereby sharing the FD letter herewith marked as Annexure – C6.*

*Based on our previous submission, in SEBI "PIA report, DPIEA has stated" that "As the member has set aside requisite funds, and has submitted to have taken corrective measures, Member's reply may be accepted". Copy of PIA Report page no. 2 stating aforesaid remarks, attached herewith as Annexure – C7.*
*In view of all the above submission, it is evident that we had taken all the necessary measures and adhered to the regulatory guidelines. Thus, we humbly request your goodself to accept our response and oblige.*
*Thus, based on the remarks mentioned in PIA repot and our submissions it is ascertain that we have not violated Regulation 9 read with Clause A (2) under Schedule II on Code of Conduct for Stock Brokers of SEBI (Stock Brokers) Regulations, 1992.*
*Thus, in view of the aforesaid facts and evidence, we humbly request your goodself to consider our aforesaid response and do not proceed with any punitive action.*

***D.*** *Observation on Reporting and short collection of Margin*
*It was observed that Noticee had done incorrect reporting of margin collection to NSE amounting to Rs. 20.45 lakhs in 9 instances out of 300 sample instances. (Refer para 4.6 at Page 38 of Inspection Report; Annexure-E of inspection report; Reply submitted by Noticee vide letter dated - March 16, 2022 and June 22, 2022)*
*Instances in Final Observations:*
*…*
*Member's Additional response:*
*With reference to our earlier submission dated 25th November 2023 to SEBI; we hereby sharing the relevant circulars marked as Annexures - D1. Further we are enclosing herewith extracted page numbers 5,6,7,8 of Post Inspection Analysis (PIA) report marked as Annexure - D2 wherein for 5 instances "DPIEA" has commented that the 'observation can be dropped'*
*Thus, based on the remark mentioned in PIA repot and our submissions it is ascertain that we have not violated Regulation Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.*

***E.*** *Observation on Verification of Daily Margin Statements*
*Ledger balance mismatch in daily margin statement was found for 5 out of 20 sample instances. Further, total margin mismatch was found in one out of 20 sample instances. (Refer Para 4.7 at Page 39 of Inspection Report and Annexure F of the inspection report; Reply submitted vide letter dated - March 16, 2022 and June 22, 2022 from Noticee)*
*Final instances of Ledger balance mismatch in Daily Margin Statement*
*….*
*Instance of Total Margin mismatch in Daily Margin Statement*
*…*
*Member's Additional Response:*
*In addition to our earlier response submitted on November 25, 2023 to SEBI; we hereby providing the relevant circulars as Annexure – E1.*
*Further we are enclosing herewith extracted pages of Annexure-1 of 'Post Inspection Analysis' (PIA) report marked as Annexure – E2 wherein for the 1 instance; DPIEA has commented that the 'observation can be dropped'.*
*In view of the above it is ascertain that we have not violated Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008.*
*Thus, in view of the aforesaid facts and evidence, we humbly request your goodself to consider our aforesaid response and do not proceed with any punitive action.*

***F.*** *Observation on Margin Trading Funding Verification:*

1. *Noticee had collected inadequate margin from clients under MTF facility for 2 clients in 2 instances. The amount of short collection observed was Rs.30,21,874/-*
2. *Noticee had considered securities other than Group I for margin collection under MTF facility for 5 clients on 56 instances.*
3. *Noticee had allowed exposure in securities other than Group I under MTF facility for 4 clients on 18 instances (Refer para 4.8 at page 39 & 40 of Inspection Report, (ii) Annexure G, G1 and G2 of the Inspection report, (iii) Reply submitted by Noticee vide letter dated – March 16, 2022).*

*Member's Additional Response:*
*In addition to our earlier response dated 25th November, 2023 to SEBI; for point no. 1 of this observation related to Collection of Margin, we wish to state that with regards to 1st instance (client code – F*******05) in PIA report, DPIEA has commented that "Benefit of EPI securities can be given in MTF, if MTF funded stock is sold and EPI of such funded securities is done". And with regards to 2nd Instance (client code – G*********27) in PIA report, DPIEA has commented that Benefit of Exposure amount of BSE for Rs. 23.85,000 can be given'. Accordingly, we had provided required EPI file and BSE MTF Reporting file in our earlier submission dated 25th November, 2023. Enclosed herewith is the extract of PIA page no. 9 & 10 marked as Annexure - F1.*
*For observation made in Point no. 2 & 3 related to 'consideration of other than Group-1 securities' and in addition to our earlier response dated 25th November, 2023 to SEBI, we wish to state that after submission of our aforesaid response, we received one final action letter from NSE towards our earlier regular Inspection for CM, F&O, CD and COM Segments which was conducted during January, 2023 for the inspection period November, 2021 to September, 2022.*
*During said regular inspection, we had received similar observation point wherein NSE had stated that we had considered securities other than Group-1 in Margin Trading Facility. In response to the said observation point we had submitted our detailed response along with relevant SEBI Circular bearing reference no. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016. In point 1.1.3 of aforesaid SEBI Circular, SEBI has defined the securities shall be classified into three groups based on their liquidity where they have mentioned that the impact cost of group 1 securities should be less than 1. Accordingly, we are following Group-1 Securities for margin collection under the MTF facility mapped with the BSE segment. The aforesaid SEBI Circular was referred in our earlier submission to SEBI for dated November 25, 2023. For your ready reference, we hereby enclosing the said Circular marked as Annexure – F2.*
*We are pleased to inform you that post our submission, NSE has accepted our contention and commented in final action letter under their findings that "there is no violation" in this regard. Given below is the extract of NSE's findings*
*Point no. V - "For 04 instances, members have stated that they are rightly following the guidelines given as the 'classification of Group-I Securities only for margin collection under MTF facility mapped with BSE. It is pertinent to note that, in the Circular no specific guideline or reference is given regarding consideration of NSE Approved scrip only for Margin Trading Facility by the member. In the mentioned*

*circular, SEBI has classified Groups of all the applicable securities and accordingly Anand Rathi are adhering to the said guidelines by considering NSE or BSE approved scrips both and they have been referring BSE Group 1 securities list for the mentioned instances. Anand Rathi's contention is acceptable hence there is no violation in this regard"*

*We hereby providing you the relevant extract of NSE Action letter, herewith marked as Annexure – F3.*

*From point no. 4.8 of Chapter II given on page no. 39 of SEBI Inspection Report, we found that the said observation point was raised by NSE and as stated herein above in earlier regular inspection also said observation was received from NSE for which they have issued final action letter stating that NSE has accepted our contention and there is no violation.*

*In view of the above, it is evident that we have not violated Clause 7 of Circular CIR/MRD/DP/54/2017 dated June 13, 2017 & Clause 3 of Circular CIR/MRD/DP/54/2017 dated June 13, 2017.*

*In view of the above, since we are not violating any regulations and complied with all respective Clauses of Regulatory guidelines given in applicable circulars, we humbly request your goodself to accept our response and oblige and do not proceed with any punitive action in this regard.*

***G.*** *Observation on unauthorised trading:*

*On perusal of complaints, it was noticed that the trades were executed without the consent of the client (Unauthorized trade) in 28 instances. (Refer Para 4.10 at Page 42 & 43 of Inspection Report, Annexure H, H1 and H2 of the inspection report and Reply submitted vide letter dated - March 16, 2022 from the Noticee).*

*AND*

***H.*** *Observation on client's Order Recording:*

*Noticee did not keep appropriate evidences in respect of the orders placed by their clients in 6 out of the 21 sample instances. (Refer Para 4.11 at Page 43 of Inspection Report , Annexure I of the inspection report and Reply submitted vide letter dated March 16, 2022 from Noticee).*

*Member's Additional Response for both the above observation points:*

*In addition to our earlier response submitted on November 25, 2023 to SEBI; we hereby wish to state that, COVID-19 not only killed people through virus incursion but also due to economic and mental collapse, where developing countries suffered from unemployment and hunger. India enforced four-phased-lockdown starting from March 24, 2020 to deal with COVID-19 pandemic.*

*Life in India includes urban and rural and they both got impacted by COVID-19. The disease in transmission was previously epicenter in all the major metro and capital cities of Indian states. However, both people from rural and urban sectors faced a real traumatized situation. COVID-19 has created a negative impact on human life also. First to tame the COVID- 19 transmission, locked down and social distancing measure was taken. From 24th March, 2020; 1.3 billion people were in lockdown situations in India. Social distancing advised in India is difficult to follow for the urban poor who lives in slums or closed and small places. Mumbai the capital of Maharashtra state also known as the business centre of India is renowned for its large number of slums. It is estimated that 9 million people live in Mumbai slums where houses are fairly 10 ft by 10 ft and under such conditions obeying social distancing is a questionable issue. In reality, social distancing is an oxymoron in such India's scenario.*

*Additionally, sudden lockdown enforcement forced millions of migrant workers to undergo an uncertain future without family, food, and job. Usually, more than 50 million people migrated from Assam, Bihar, Madhya Pradesh, Odisha, Punjab, Rajasthan, Uttar Pradesh, and West Bengal to Maharashtra and Delhi for work. Due to lockdown, these people were forced to move out of their cities and return to their homes in the countryside In the absence of transport facilities, workers with infants, pregnant women, and the elderly were forced to walk on foot. Hence, India experienced the second-largest reverse mass in its history after the Partition of India in 1947. Prominent psychosocial issues are expected among migrants for pandemic COVID-19 and lockdown.*

*Due to COVID-19 induced lockdowns, scores of people's income sources had been shattered leading to numerous socio-psychological and political problems and many people died. It was observed that the short-term economic costs of COVID-19 for ordinary people had been enormous. Lockdowns and social distancing measures meant that people were losing jobs and livelihood sources, becoming unable to pay for housing and food. Notably, the blow was more severe for low-income families because schools were closed and livelihood sources destroyed, leading to worse poverty. Women at all socio-economic levels dropped out of the labour force and returned to the increased house chores instead. The poverty levels also increased rapidly. COVID-19 induced stern measures in many countries, leading poverty to spike by almost 100 million in 2020 to 745 million without offsetting efforts.*

*Nevertheless, to manage the COVID-19 cases, colleges, hotels, railway train coaches, were converted into quarantine facilities while stadiums were converted into isolation wards. Isolation, fear, uncertainty, economic turmoil is namely a few issues that can greatly cause psychological distress among humans due to COVID-19. In India poverty, starvation, hunger is still an issue and that escalated during COVID-19 pandemic. Mass unemployment created frustration and drove people to chronic stress, anxiety, depression, alcohol dependence, and self-harm.*

*Additional directives for workplaces like work from home (WFH) were advised in India which is however suitable only for urban upper- and middle-class people and is challenging for the rural agriculture-based population. Also, India still lacks places with the facility of computers and the internet, and hence these WFH is a challenge. The Indian IT industry with primarily call-centres and knowledge process outsourcing were not ready for the lockdown and WFH situation.*

*Considering aforesaid circumstances, there were practical challenges faced in order to serve the clients and ensure the applicable due diligence as most of our employees were working from home. Understanding all the issues faced by general public, private and public sectors; State and Central government and also regulatory bodies had issued guidelines on time to time for smooth functioning and management of Covid-19 problems. SEBI had also issued such guidelines and one of them was related to Relaxation in adherence to prescribed timelines issued by SEBI due to Covid-19 vide circular bearing reference no. SEBI/HO/MIRSD/RTAMB/CIR/P/2020/59 dated April 13, 2020 (for handling of grievances) & SEBI/HO/MIRSD/DOP/CIR/P/2020/61 dated April 16, 2020 (for maintaining call recordings of order). SEBI and other Regulatory bodies kept issuing further circular/notices related to relaxation at various occasions during Covid Pandemic. Enclosed herewith some Circulars related to Relaxation marked as Annexure - G1.*

*We would like to highlight the fact that, though the Regulatory had given the Relaxation for Handling of Investor Grievances and Maintaining Call recordings of Order as stated herein above, we kept ourselves compliant through our best efforts due to which the discrepancies found only in 3 instances by regulatory out of total 1057 sample instances. As a practice of due diligence, we have sent various communications*

*like SMS, ECN, Weekly & Quarterly Statements, Daily Margin Statements etc. on client's registered contact details with us.*
*Thus, we wish to state that we have not violated Clause 3 of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.*
*Considering the above scenario and since this inspection period (April 2020 to Oct 2021) falls under Covid-19 period we humbly request your good self to accept our response and do not proceed with any punitive action in this regard.*

*I. Observation on Risk Based Supervision:*
*Noticee did not correctly report the details of financial data (Total debit balance of all clients) under RBS to the tune of Rs. 10 lakhs.(Refer Para 4.18 at Page 46 & 47 of Inspection Report and Reply submitted vide letter dated March 16, 2022 from Noticee).*
*…*
*Difference observed in Brokerage Income –*

…

*Member's Additional Response:*
*In addition to our earlier response submitted on November 25, 2023 to SEBI; we hereby wish to state that, we have given clarification in our earlier submission for non-reporting of BSE MFSS segment. However, apart from that data we had submitted all the required data for the half yearly Risk Based Supervision within the time specified by Stock Exchange.*
*Post receipt of our detailed clarification related to 'Brokerage Income', BSE comment has been mentioned in the 'Post Inspection Report', as "the clarification provided may be accepted".*
*As mentioned in the 'Post Inspection Analysis' (PIA) Report, DPIEA has commented that the "Member's reply may be accepted". Enclosed herewith relevant extract of PIA report page no. 17 marked as Annexure – I 1.*
*Based on the remark mentioned in PIA repot and our submissions it is ascertain that we have not violated Regulation Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.*

*Thus, in view of the aforesaid facts and evidence, we humbly request your goodself to consider our aforesaid response and do not proceed with any punitive action.*

*J. Observation on Demat Verification*
*Noticee had done incorrect reporting of tagging of demat accounts on 2 instances and had done incorrect reporting of status of demat accounts to NSE on 1 instance. (Refer Para 4.20.4 at Page 49 of Inspection Report and Reply submitted vide letter dated- March 16, 2022 from Noticee).*
*Member's Additional Response:*
*In addition to our earlier response submitted on November 25, 2023 to SEBI we hereby providing the relevant circular as Annexure – J1 to substantiate our earlier statements. Please refer to attached annexures for your consideration.*
*Following the foregoing, we hereby wish to reiterate that the tagging and reporting were not carried out, solely due to the non-availability of an option on the NSE online portal and the absence of clarification from NSE and there was no role of member to play since it was out of our control.*
*Since, the aforesaid demat accounts are now already tagged and reported appropriately, we are complied as per clause 2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.*
*Therefore, we humbly request your goodself to consider our response, obliged and do not proceed with any punitive action in this regard, as the said observation is venial in nature as associated at only reporting level and does not affect the monetary impact at the broker/exchange/regulatory/client level.*

*K. Observation on Non -cooperation with the inspection team*
*Noticee did not provide the complete data /information on timely basis. (Refer Para 4.20.4 at Page 48 of Inspection Report and Annexure J of Inspection report.)*
*Member's Additional Response:*
*In addition to our earlier response dated November 25, 2023 to SEBI we wish to submit that, during the inspection period on continuous basis we were receiving data requirement requests/queries from multiple regulatory bodies. Total data requirement/queries raised by all the Exchanges/depositories & SEBI was approx 250+ count, out of which only 3 type of data were escalated in the category of non-cooperation from Member's end. Enclosed herewith is the additional summary of events related to data submission along with sample email correspondence with regulatory marked as Annexure - K1. The details presented in this Annexure reflects that we were continuously fulfilling the requests and resolving queries on timely basis as per the requests received from Regulatories.*
*It is also noteworthy that, due to the COVID-19 pandemic we were working with limited staff strength wherein we also had to ensure the smooth functioning of our Operational activities and Client Servicing too. Apart from this, during the Inspection period we were in process of several new implementations in order to comply with guidelines issued by regulatory bodies.*
*We humbly wish to submit that, the said SEBI inspection was conducted by NSE, BSE, CDSL, NSDL, MCX & NCDEX. However, the non-cooperation related concern was raised only by BSE, NSE & NCDEX, as the delay was happened just because we were dealing with all the exchanges/depositories & SEBI simultaneously for data submission and queries clarification.*
*As and when we received data request and queries from the SEBI/exchanges/depositories, we provided our extended support & cooperation to all the regulatory resulted in removal of many primary observation and acceptance of our submission and the responses. Same can be evident from the SEBI inspection report which includes basic information related data and findings of exchanges. Hence, considering the same it is non-justifiable to determine that we have non-cooperated during the inspection period otherwise it will lead to genuine hardship on regulatory compliant Member.*
*In light of the foregoing and in furtherance to our reply dated November 25, 2023, we humbly wish to submit that, we as a Member has adequately followed and adopted all the circulars as and when published by the regulatory bodies. It is worth to mention here that, the member has provided large number of data to all the authorities during the course of inspection. Based on which exchanges/ depositories have submitted their findings to SEBI. It is painful truth that, due to customise software provided by the vendor, all stock brokers have data in distinct format, due to which it is quite difficult to fulfil the requirement of each auditor in accordance with their expectation, resulting in the outcome of such observations*
**….'**

## D. CONSIDERATION OF ISSUES AND FINDINGS:

11. The following issue arises for consideration in the instant matter:

**Issue No. I:** Whether the Noticee has violated the provisions of Securities Contracts (Regulation) Act, 1956, SEBI (Stock Brokers) Regulations, 1992 and SEBI Circulars, as alleged?

**Issue No. II:** If yes, whether the violations on the part of the Noticee would attract monetary penalty under Section 23D of SC(R) Act, 1956, 15A(a) and 15HB of the SEBI Act, 1992 ?

**Issue No. III:** If yes, what should be the monetary penalty that can be imposed upon the Noticee?

**<u>A – Mis-Utilisation of Funds:</u>**

12. In this regard, SEBI inter alia observed and alleged that:

12.1. G negative – On 6 out of 43 sample instances, funds of credit balance clients were mis -utilized for meeting the obligations of debit balance clients and/or for its own purpose. The amount of misutilization ranged from Rs.22.07 lakhs to Rs. 16.36 crore

12.2. J positive - On 1 out of 43 sample instances, funds of credit balance clients were mis-utilized towards margin obligations of debit balance clients and proprietary margin obligations. The amount of misutilization is Rs. 90.75 Crore.

In view thereof, it was alleged that Noticee had violated provisions of Section 23D of SC(R) Act, 1956 read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of

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

12.3. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Section 23D of SC(R) Act, 1956:

'…

*121[Penalty for failure to segregate securities or moneys of client or clients.*
*23D. If any person, who is registered under section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) as a stock broker or sub-broker, fails to segregate securities or moneys of the client or clients or uses the securities or moneys of a client or clients for self or for any other client, he shall be [122][liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.]*

…'

Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993:

'…

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

*A] Member Broker to keep Accounts: Every member broker shall keep such books of accounts, as will be necessary, to show and distinguish in connection with his business as a member -*
*i. Moneys received from or on account of each of his clients and,*
*ii. the moneys received and the moneys paid on Member's own account.*

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

*C] What moneys to be paid into "clients account". No money shall be paid into clients account other than -*
*i. money held or received on account of clients;*
*ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;*
*iii. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para D given below;*
*iv. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.*

*D] What moneys to be withdrawn from "clients account". No money shall be drawn from clients account other than -*
*i. money properly required for payment to or on behalf of clients or for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;*
*ii. such money belonging to the Member as may have been paid into the client account under para 1 C [ii] or 1 C [iv] given above;*
*iii. money which may by mistake or accident have been paid into such account in contravention of para C above.*

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

'…

Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016:

'…

*3. Monitoring of Clients' Funds lying with the Stock Broker by the Stock Exchanges*

*…*

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

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

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

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

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

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

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

*P-Aggregate value of Proprietary Margin Obligation across Stock Exchanges*

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

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

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

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

*Principle:*

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

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

*If difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of G may indicate utilization of clients' funds for other purposes i.e. funds of credit balance clients are being utilized either for settlement obligations of debit balance clients or for the stock brokers' own purposes. The negative value of G acts as an alert to the Stock Exchanges. Thereafter, the absolute value of G shall be compared with debit balance of all clients as per client ledger D as follows:*

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

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

$$H= |G| -|D|$$

*…*

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

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

*Principle:*

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

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

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

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

*In such cases, (C-A)is compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/clearing member. The value of J, which is clients' funds utilised*

*towards margin obligations of debit balance clients and proprietary margin obligations, is calculated as under:*
*J = (C -A) -(MC + MF)*
*The value of J, if positive, indicates the extent of clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations. This value of J acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' funds towards margin obligations of debit balance clients and proprietary margin obligations.*

…'

12.4. In this regard, I note from material available on record that pursuant to the analysis of data submitted by the Noticee to SEBI during the Inspection, SEBI had observed the following:

12.4.1. It was observed that the member had considered the following items under the head 'Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across stock exchanges' ('A') for the month of September 2020 (22 trading days):

- FD balances held in member's own bank account and not placed with Clearing corporation/Clearing member.
- OD negative balance

12.4.2. It was observed that the member had considered the following items under the head 'Aggregate value of collateral deposited with clearing corporations and/or clearing member' ('B') for all sample dates.

- 'Trade Guarantee Fund 'in BSE collateral file.
- 'Minimum Liquid Net Worth' where no margin exposure is provided to the member, in MSEI collateral file.

12.4.3. In this regard, after deducting the figures mentioned in points above and also adjusting the figures in head 'A' by considering only the value date transactions in HDFC bank Client and Settlement bank accounts, it was observed that the value of G was negative for 6 sample dates. Based on the comparison of absolute value of 'G' with the debit balances of the clients, it was observed that the member had possibly utilized the funds of credit balance clients towards settlement obligations of debit balance clients ranging from Rs. 22,07,365 to Rs. 16,36,17,124 on 6 sample dates.

12.5. In this regard, as regards value of G, I note from material available on record that the details of the 6 instances where G was negative, were as under:

| Sr. No. | Date | Total Fund balance in all client bank accounts, including the settlement account | Collateral deposited with clearing corporation / Clearing Member | Total Credit balances of all clients as obtained from trial balance across stock exchanges | Total Debits balances of all clients as obtained from trial balance across stock exchanges | Value of proprietary non-cash collaterals | Non-funded portion of Bank Guarantee across all the stock exchanges | Proprietary Margin obligation across exchanges | Margin utilized positions of credit balance clients across all Stock exchanges | Unutilized collateral lying with the clearing corporations /or Clearing member | A+B-C | P-(G+E+F) | If G is –ve : B – (MC + MF) If G is +ve : (C-A)-(MC+MF) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 01/09/2020 | 26,76,77,213 | 4,29,20,78,305 | 4,57,11,40,532 | 2,00,13,92,860 | 0 | 2,54,05,62,500 | 0 | 2,23,94,40,771 | 19,68,96,41,846 | -1,13,85,015 | -2,54,05,62,500 | -17,63,70,04,312 |
| 2 | 15/09/2020 | 7,64,91,242 | 4,37,64,20,962 | 4,45,51,19,570 | 1,62,70,70,850 | 0 | 2,79,15,62,500 | 0 | 2,23,53,40,109 | 3,41,77,63,667 | -22,07,365 | -2,79,15,62,500 | -1,27,66,82,813 |
| 3 | 16/09/2020 | 12,20,59,804 | 4,33,63,90,337 | 4,48,93,69,098 | 1,58,85,78,648 | 0 | 2,79,15,62,500 | 0 | 2,26,79,79,707 | 3,43,22,29,948 | -3,09,18,957 | -2,79,15,62,500 | -1,36,38,19,317 |
| 4 | 17/09/2020 | 7,43,59,444 | 4,33,61,59,712 | 4,56,16,28,477 | 1,56,84,98,906 | 0 | 2,79,15,62,500 | 0 | 2,22,74,23,706 | 5,48,39,09,403 | -15,11,09,320 | -2,79,15,62,500 | -3,37,51,73,396 |
| 5 | 18/09/2020 | 12,37,64,818 | 4,38,58,17,237 | 4,67,31,99,180 | 1,55,41,16,188 | 0 | 2,79,15,62,500 | 0 | 2,30,89,68,396 | 3,78,23,34,025 | -16,36,17,125 | -2,79,15,62,500 | -1,70,54,85,184 |
| 6 | 21/09/2020 | 28,64,04,394 | 4,54,56,48,385 | 4,83,92,30,033 | 1,65,97,65,445 | 0 | 2,79,15,62,500 | 0 | 2,50,52,79,881 | 3,80,30,59,077 | -71,77,253 | -2,79,15,62,500 | -1,76,26,90,573 |

12.6. In this regard, Noticee, as part of its replies to SCN dated November 25, 2023 and March 07, 2024, had inter alia contended that *'…the Anand Rathi Shares and Stock Brokers Ltd ("ARSSBL") was a Trading Member and ICICI bank was a clearing Member during the period May, 2019 to March 2020, then later from March 02, 2020 the ARSSBL became a self-clearing member…throughout the month of September 2020, the Member had an additional free Fixed Deposit ("FD") amounting to Rs. 50 Crores, which we had considered at the time of 'Enhance reporting'. However, the same was not submitted to the Clearing Corporation due to a change in the clearing member/operational issue. If, the aforesaid FD is taken into account, there was no shortfall at all, and in fact there was a surplus fund available with the ARSSBL…If there had been no change in the Clearing Member, then there would have been no such allegations or issues and the said free FD of Rs. 50 crores would have been accepted and considered…'.*

In this regard, I note that the Noticee has neither denied nor disputed the calculation of value of G, instead the Noticee is contending to consider the free fixed deposit of 50 crores in the calculation. In this regard, as observed by SEBI, the same was excluded for the calculation of value of G because it was not placed with the clearing corporation. I note that the submissions of the Noticee are in the nature of admission in so far as the Noticee has submitted that '…*Member had an additional free Fixed Deposit ("FD") amounting to Rs.*

*50 Crores, which we had considered at the time of 'Enhance reporting'. However, the same was not submitted to the Clearing Corporation due to a change in the clearing member/operational issue…'* and that *'…If there had been no change in the Clearing Member, then there would have been no such allegations or issues and the said free FD of Rs. 50 crores would have been accepted and considered..'.*

12.7. Further in this regard, as regards value of J, I note from material available on record that the details of one instance where J was positive, were as under:

| Sr. No. | Date | Total Fund balance in all client bank accounts, including the settlement account | Collateral deposited with clearing corporation / Clearing Member | Total Credit balances of all clients as obtained from trial balance across stock exchanges | Total Debits balances of all clients as obtained from trial balance across stock exchanges | Value of proprietary non-cash collaterals | Non-funded portion of Bank Guarantee across all the stock exchanges | Proprietary Margin obligation across exchanges | Margin utilized positions of credit balance clients across all Stock exchanges | Unutilized collateral lying with the clearing corporations /or Clearing member | A+B-C | P-(G+E+F) | If G is –ve : B – (MC + MF) If G is +ve : (C-A)-(MC+MF) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | A | B | C | D | E | F | P | MC | MF | G | I | J |
| 1 | 04/09/2020 | 12,49,28,408 | 4,51,88,69,535 | 4,32,29,16,892 | 1,86,77,86,349 | 0 | 2,79,15,62,500 | 0 | 2,13,36,74,567 | 1,15,67,64,251 | 32,08,81,050 | -3,11,24,43,550 | 90,75,49,667 |

12.8. In this regard, Noticee, as part of its replies dated November 25, 2023 and March 07, 2024, had inter alia contended that *'…we have received the revised valuation from NSCCL vide email dated February 28, 2024; where NSCCL…has confirmed that, Member has unutilized collateral to the tune of Rs. 208 crore on September 04, 2020 (date of 'J positive' as alleged in SEBI Inspection report)….Based on the revised valuation given by NSCCL it is evident that there was no 'J positive' for amounted Rs. 90 crore on September 04, 2020 as given in the said observation…'*

In this regard, having regard to the submission of the Noticee, I am inclined to allow benefit of doubt to the Noticee.

12.9. In view thereof, I find that the allegation that G was negative on 6 out of 43 sample instances, funds of credit balance clients were mis-utilized for meeting the obligations of debit balance clients and/or for its own purpose. The amount of misutilization ranged from Rs.22.07 lakhs to Rs. 16.36 crore, stands established. Therefore, I hold that Noticee had violated provisions of Section 23D of SC(R) Act, 1956 read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of

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

**<u>B – Non –Maintenance of Daily reconciliation statement:</u>**

13. In this regard, SEBI inter alia observed and alleged that Member has not maintained the daily reconciliation statement during the inspection period.

In view thereof, it was alleged that Noticee had violated Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

13.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016:

*'…*
*2.4.2. Transfer of funds between "Name of Stock Broker -Client Account" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker -Client Account" to "Name of Stock Broker -Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. <u>For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.</u>*
*…'* *(emphasis supplied)*

13.2. In this regard, I note from material available on record that SEBI had inter alia observed that during the inspection period, trading member had transferred Rs. 14,019.11 crores from own account to client/ settlement account and Rs. 14, 019.11 crores from client / settlement account to own account. In this regard, SEBI had observed that broker was not maintaining the daily reconciliation during the inspection period.

13.3. In this regard, Noticee as part of its replies dated November 25, 2023 and March 07, 2024, had inter alia contended that *'…..there is no adverse observation* *found w.r.t. transfer of excess fund from client/settlement account to own account as per SEBI inspection report.Thus, considering the above we have not violated Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016….' And that '…Enclosed herewith sample of latest daily reconciliation marked as Annexure – B3 for your reference….'*

In this regard, I note that the contentions of the Noticee are out of context in so far as the Noticee had submitted that '…*there is no adverse observation found w.r.t. transfer of excess fund from client/settlement account to own account …'* whereas the allegation is with respect to Noticee not having maintained the daily reconciliation statement during the inspection period. Further in this regard, I note that in terms of Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Noticee was required to maintain daily reconciliation statement clearly indicating the amount of funds transferred. I note that the Noticee had not demonstrated with relevant details and documents that it had maintained daily reconciliation statement for the transfers of Rs. Rs. 14, 019.11 crores. In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

13.4. In view thereof, I find that the allegation that Noticee had not maintained the daily reconciliation statement during the inspection period, stands established. Therefore, I hold that Noticee had violated Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

**<u>C– Settlement of client funds and securities:</u>**

14. In this regard, SEBI inter alia observed and alleged that Member had not exercised due diligence in following up with untraceable clients for settlement of fund.

In view thereof, it was alleged that Noticee had violated Regulation 9 read with clause A (2) under Schedule II on Code of Conduct for Stock Brokers of SEBI (Stock Brokers) Regulations, 1992.

14.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Regulation 9 read with clause A (2) under Schedule II on Code of Conduct for Stock Brokers of SEBI (Stock Brokers) Regulations, 1992:

'…
*Conditions of registration.*
*9.Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,-*
…
*(f) he shall at all times abide by the Code of Conduct as specified in Schedule II; and*
…
*SCHEDULE II*
*Securities and Exchange Board of India (Stock Brokers 104[***])Regulations, 1992*
*CODE OF CONDUCT FOR STOCK BROKERS*
*[Regulation 9]*
*A. General.*
…
*(2) Exercise of due skill and care : A stock-broker shall act with due skill, care anddiligence in the conduct of all his business.*
…'

14.2. In this regard, I note from material available on record that with regard to the clients who were non-traceable and whose funds were deposited in the above mentioned account at (a) above, or whose securities were frozen in the demat accounts mentioned at (b) above, member was asked to submit details of follow up with 193 clients.

14.3. In respect to the same, member had provided evidence of follow up with 106 clients out of details of follow up sought for 193 clients and for the remaining 87 clients, member had provided the details of cheque issued and not cleared where electronic payments had failed. Further out of these 87 clients, the member had provided the details of follow up done again for 69 clients on May 26, 2022,14 clients details were verified and found to be settled, 3 clients were still active and not settled and 1 client was on hold due to legal matter.

14.4. In this regard, the Noticee as part of its replies dated November 25, 2023 and March 07, 2024, had inter alia contended that *'…as it is stated in the SEBI "PIA" report, "As the member has set aside requisite funds, and has submitted to have taken corrective measures, Member's reply may be accepted"….all the 69 clients had incorrect Bank details with us so we were not able to transfer funds as per settlement norms. Further, we have issued cheques to the clients which have been reversed on account of the non-availability of client details, the same has been reflected in the client ledger. We have transferred /set aside the requisite funds in form of FD and submitted them to the exchange itself. Out of 69 clients, we have successfully settled 34 clients by releasing the payment…'*

In this regard, I note from material available on record and as also contended by Noticee that SEBI had accepted the submission of the Noticee in this regard.

14.5. In view thereof, I find that the allegation that Noticee had not exercised due diligence in following up with untraceable clients for settlement of fund, does not stand established.

**D – Reporting and short collection of Margin:**

15. In this regard, SEBI inter alia observed and alleged that there was incorrect reporting of margin collection to the exchange (NSE) amounting to Rs. 20.45 lakhs in 9 instances out of 300 sample instances.

In view thereof, it was alleged that Noticee had violated Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

15.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

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

*'…*
*6.Standard Operating Procedures for Stock Brokers/Depository Participants -Actions to be contemplated by Stock Exchanges/Depositories for any event based discrepancies*
*6.1.As per existing norms, Stock Exchanges/Depositories are required to monitor their members/depository participants. It has been decided that the Stock Exchanges and Depositories shall frame various event based monitoring criteria based on market dynamics and market intelligence. An illustrative list of such monitoring criterias are given below:*
*6.1.1.Monitoring criteria for Stock Brokers*
*…*
*j. In case stock broker shares incomplete/wrong data or fails to submit data on time*
*…'*

15.2. In this regard, I note from material available on record that SEBI had inter alia observed that:

15.2.1. CM Segment - 2 clients; 2 instances, amount of wrong reporting – Rs. 12,25,619

15.2.2. FO Segment - 1 client; 1 instance, amount of wrong reporting – Rs. 6,475

15.2.3. CD Segment - 2 clients; 2 instances, amount of Short Collection – Rs. 11,082, amount of wrong reporting – Rs. 2,26,088

15.2.4. CO Segment - 4 clients; 4 instances, amount of Wrong Reporting – Rs. 5,86,313

15.3. In this regard, after taking into consideration the comments of NSE vis-à-vis broker, the final observations of SEBI, as noted from material available on record, were as under:

| S No | Segment | Client Code | Wrong Reporting (in Rs.) |
|---|---|---|---|
| 1 | FO | G****98 | 6,475 |
| 2 | CO | S*****21 | 19,664 |
| 3 | CO | H***38 | 276,446 |

15.4. In this regard, Noticee as part of its replies dated November 25, 2023 and March 07, 2024 in respect of client code G****98 had inter alia contended that *'…NSE has taken rate/bhav from AMFI database. In response to this, we wish to state that we had taken rate/bhav as per the NAV file received from Stockholding Corporation of India Limited.*

In this regard, I note that Noticee had neither denied nor disputed the valuation of securities as calculated by NSE based on the rate/Bhav taken from AMFI database. I note that the Noticee had submitted that it had taken the rate/Bhav from Stockholding Corporation of India Limited and hence the difference. In this regard, I am of the view that when there is any variance in the data available from diverse sources, in such instances, generally speaking, primary source ought to be relied upon unless the provision itself allows for an exception. In the instant case, the Noticee has failed to demonstrate that the NAV was taken from primary source for the purpose of valuation of securities in this regard. In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

15.5. In this regard, as regards client code S*****21, the submissions of the Noticee as part of its replies dated November 25, 2023 and March 07, 2024 are in the nature of admission in so far as the Noticee had submitted that *'…With regards to the balance amount of Rs.19,664/-, we wish to state that it was incorrectly reported as collected due to a technical issue at the time of final reporting...'.*

15.6. In this regard, as regards client code H***38, the submissions of the Noticee as part of its replies dated November 25, 2023 and March 07, 2024 are in the nature of admission in so far as the Noticee had submitted that *'…we have considered closing rate (T-1 Day) for CASTOR Rs.6957.6/- instead of Rs.6657.6/- as there was a typographical error in updating number 9 instead of 6. Due to which there was increase in the valuation by Rs. 2,89,926/-….We wish to state that the aforesaid issue happened due to inadvertent human clerical error…'.*

15.7. In view thereof, I find that the allegation that there was incorrect reporting of margin collection to the exchange as brought out above, stands established. Therefore, I hold that Noticee had violated Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

## E – Verification of Daily Margin Statements:

16. In this regard, SEBI inter alia observed and alleged that Ledger balance mismatch in daily margin statement were observed for 5 out of 20 sample instances. Further, total margin mismatch was observed in one out of 20 sample instance.

In view thereof, it was alleged that Noticee had violated Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008.

16.1. Here it would be relevant to refer to the text of the aforesaid provisions alleged to have been violated, which inter alia reads as under:

Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008:

*'…*

*2.4 Brokers should 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.*

*…'*

16.2. In this regard, the following is noted from material available on record:

**Final instances of Ledger balance mismatch in Daily Margin Statement**

| Sr. No. | Date | Client Code | Ledger Balance as per Backoffice | Ledger Balance as per Daily Margin Statement | Difference |
|---|---|---|---|---|---|
| 1 | 03/09/2021 | A***00 | 4,30,13,603.81 | 95,13,603.81 | 3,35,00,000.00 |
| 2 | 28/10/2021 | H***43 | 1,79,71,644.65 | 1,45,49,644.65 | 34,22,000.00 |
| 3 | 29/10/2021 | H***38 | 19,54,306.02 | 13,83,306.02 | 5,71,000.00 |
| 4 | 28/07/2020 | H***21 | 75,99,375.92 | 77,78,175.92 | -1,78,800.00 |

**Instance of Total Margin mismatch in Daily Margin Statement**

| Sr. No. | Date | Client Code | Total Margin as per MG13 | Total Margin as per Daily Margin Statement | Difference |
|---|---|---|---|---|---|
| 1 | 28/07/2020 | H***21 | 1,14,17,288.18 | 1,15,20,978.18 | -1,03,690.00 |

16.3. In this regard, Noticee, as part of its replies dated November 25, 2023 and March 07, 2024, had inter alia contended as regards client code A***00, H***43 and H***38 that *'…we wish to state regarding Cheque entry dated 2nd September, 2021 for Rs.1,75,00,000 that, after receipt of Cheque from the client we entered the same in back office system on same day i.e on 2nd September 2021. On 3rd September, 2021 the cheque was presented in our bank which got cleared on same day. As per process, we reconciled the cheque in back office after receiving the clearing file from our bank on 4th September, 2021 in morning and the cheque was marked as cleared in back office system for the date 3rd September, 2021. As per process, the Daily Margin Statement was generated on 3rd September, 2021 and since the aforesaid cheque was* *uncleared, the amount was not considered in DMS. As, we are displaying clear ledger balances in DMS…Regarding other cheque entry dated 3rd September 2021 for amount Rs. 1,60,00,000, please note the cheque got cleared on 4th September 2021 hence it was not considered for the date 3rd September 2021 and same is showing in provided Ledger statement….' and that '…With reference to display of unclear cheque entry of Rs. 34,22,000 in DMS, please note; we are displaying clear ledger balances in DMS. With regards to NSE Circular NSE/INSP/36786 dated January 19, 2018 and NSE/INSP/45191 dated July 31, 2020,…we considered only Clear Balances in DMS sent to clients…' and that '…With regards to display of unclear cheque entry of Rs. 5,71,000 in DMS, please note; we are displaying clear ledger balances in DMS. … If we include unclear cheque as Margin available in DMS and if the Cheque gets dishonored or do not get cleared till final margin reporting day then client will be in shortfall…'*

In this regard, having regard to the submission of the Noticee, I am inclined to allow benefit of doubt to the Noticee.

16.4. As regards ledger balance mismatch of client code H***21, I note that the submissions of the Noticee dated November 25, 2023 and March 07, 2024 are in the nature of admission in so far as the Noticee had submitted that '…*for MCX, we were sending Daily Activity Statement (DAS) to the clients. This statement was showing Opening Balance, for the day M2M/Premium bill/Other Dr/Cr and Closing Balance and in Margin Summary section as per Closing balance it was calculating the Excess / Deficit margin amount of the client. Therefore MTM of futures for Rs. 178,800 was displayed in DAS under cash summary section along with opening and closing balance for the day. …'*.

In this regard, I also note from material available on record that NSE had observed that member had considered MCX bill of Rs. 1,78,800 even though it was an unsettled bill on T-day.

16.5. Further in this regard, as regards total margin mismatch of client code H***21, I note that the submissions of the Noticee dated November 25, 2023 and March 07, 2024 are in the nature of admission in so far as the Noticee had submitted that *'…due to some issue in Individual segment Margin Statement for NSE Commodity, the exposure margin calculated twice….'*

16.6. In view thereof, I find that the allegation that Ledger balance mismatch in daily margin statement were observed and that total margin mismatch were observed, as brought out above, stands established. Therefore, I hold that Noticee had violated Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.

**F – Margin Trading Funding Verification:**

17. In this regard, SEBI inter alia observed and alleged that:

i. Member had collected inadequate margin from clients under MTF facility viz., 2 clients; 2 instances, amount of short collection - Rs. 30,21,874/-.

ii. Member had considered securities other than Group I for margin collection under MTF facility – 5 clients; 56 instances.

iii. Member had allowed exposure in securities other than Group I under MTF facility – 4 clients; 18 instances.

In view thereof, it was alleged that Noticee had violated Clause 3 and Clause 7 of Circular CIR/MRD/DP/54/2017 dated June 13, 2017.

17.1. Here it would be relevant to refer to the text of the aforesaid provisions alleged to have been violated, which inter alia reads as under:

Clause 3 and Clause 7 of Circular CIR/MRD/DP/54/2017 dated June 13, 2017:

*'…*
*Securities Eligible for Margin Trading*
*3. Equity Shares that are classified as 'Group I security' as per SEBI Master circular No. SEBI/HO/MRD/DP/CIR/P/2016/135dated December 16, 2016, shall be eligible for margin trading facility.*

*7. 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.*
*…'*

17.2. In this regard, I note from material available on record that SEBI had observed following instances of inadequate margin collection from clients under MTF facility (2 clients; 2 instances, amount of short collection - Rs. 30,21,874/-):

| Sr. No. | Date | Client Code | Margin Obligation as on Date | Exposure Amount | Ledger Balance as on date | Clear Balance | Securities value as on date | Clear Bal + Value of Sec | Margin Shortfall |
|---|---|---|---|---|---|---|---|---|---|

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 24/08/2021 | F*******05 | 88,72,154.73 | 2,59,89,647.15 | -1,91,09,463.03 | 68,80,184.12 | - | 68,80,184.12 | 19,91,970.61 |
| 2 | 24/08/2021 | G*********27 | 72,95,014.83 | 1,94,68,948.05 | -1,32,03,836.54 | 62,65,111.51 | - | 62,65,111.51 | 10,29,903.32 |

17.3. In this regard, Noticee, as part of its replies dated November 25, 2023 and March 07, 2024, had inter alia contended that *'…Client has sold funded Position on 23rd August 2021, so the ledger balance as on date is Rs.-1,57,57,106.43/- instead of Rs.-1,91,09,463.03/- as EPI of securities sold has been done on same day. So funds available against Margin Obligation was Rs.1,02,32,540.72/- (2,59,89,647.15 – 1,57,57,106.43) and hence there was no Margin Shortfall….we are providing BSE MTF Reporting file .. which shows Rs. 23.85 lakh against the given client code. After consideration of BSE Exposure amount, the total exposure amount is Rs.2,18,53,948.05 (1,94,68,948.05 of NSE + 23,85,000 of BSE) and sufficient funds were available against Margin Obligation….'*

In this regard, having regard to the submissions of the Noticee, I am inclined to allow benefit of doubt to the Noticee.

17.4. Further in this regard, I note from material available on record that SEBI had observed following instances where Member had considered securities other than Group I for margin collection under MTF facility (5 clients; 56 instances):

| Sr. No. | Date | Client Code | Scrip Code | Quantity | Value | Security Category |
|---|---|---|---|---|---|---|
| 1 | 08/04/2020 | G******80 | BLS | 3662 | 18,170.81 | 2 |
| 2 | 08/04/2020 | G******80 | CGPOWER | 3000 | 14,785.87 | 2 |
| 3 | 08/04/2020 | G******80 | DHFL | 2000 | 15,952.40 | 2 |
| 4 | 08/04/2020 | G******80 | IBREALEST | 1000 | 36,593.70 | 2 |
| 5 | 08/04/2020 | G******80 | PPL | 312 | 1,380.04 | 2 |
| 6 | 08/04/2020 | G******80 | SHEMAROO | 854 | 7,963.01 | 2 |
| 7 | 16/06/2020 | G*****20 | ADANIGREEN | 1866 | 4,93,221.38 | 2 |
| 8 | 16/06/2020 | G*****20 | ALPHAGEO | 50 | 7,590.35 | 2 |
| 9 | 16/06/2020 | G*****20 | ARCHIDPLY | 2000 | 29,452.80 | 2 |
| 10 | 16/06/2020 | G*****20 | ARCOTECH | 200 | - | 2 |
| 11 | 16/06/2020 | G*****20 | DEEPIND | 700 | 36,442.60 | 2 |
| 12 | 16/06/2020 | G*****20 | ELECTHERM | 60 | 4,937.82 | 2 |
| 13 | 16/06/2020 | G*****20 | EROSMEDIA | 200 | 2,687.90 | 2 |
| 14 | 16/06/2020 | G*****20 | ESTER | 400 | 11,627.72 | 2 |
| 15 | 16/06/2020 | G*****20 | FCONSUMER | 500 | 4,548.97 | 2 |
| 16 | 16/06/2020 | G*****20 | FEL | 550 | 4,849.19 | 2 |
| 17 | 16/06/2020 | G*****20 | FMNL | 1056 | 15,342.78 | 2 |
| 18 | 16/06/2020 | G*****20 | GANDHITUBE | 100 | 15,495.90 | 2 |
| 19 | 16/06/2020 | G*****20 | GANESHHOUC | 500 | 8,733.86 | 2 |
| 20 | 16/06/2020 | G*****20 | GINNIFILA | 700 | 4,472.54 | 2 |
| 21 | 16/06/2020 | G*****20 | HCL-INSYS | 2800 | 15,871.13 | 2 |
| 22 | 16/06/2020 | G*****20 | HDIL | 100 | - | 2 |
| 23 | 16/06/2020 | G*****20 | HERCULES | 200 | 10,636.75 | 2 |
| 24 | 16/06/2020 | G*****20 | HLVLTD | 4000 | 15,057.04 | 2 |
| 25 | 16/06/2020 | G*****20 | JINDRILL | 650 | 35,247.37 | 2 |
| 26 | 16/06/2020 | G*****20 | JPASSOCIAT | 12500 | 16,344.75 | 2 |
| 27 | 16/06/2020 | G*****20 | JPPOWER | 100 | 88.53 | 2 |
| 28 | 16/06/2020 | G*****20 | JUBLINDS | 1100 | 1,00,511.40 | 2 |
| 29 | 16/06/2020 | G*****20 | KABRAEXTRU | 100 | 4,203.68 | 2 |
| 30 | 16/06/2020 | G*****20 | KAMDHENU | 690 | 40,009.19 | 2 |
| 31 | 16/06/2020 | G*****20 | KOHINOOR | 500 | - | 2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 32 | 16/06/2020 | G*****20 | NAGAFERT | 660 | 3,391.05 | 2 |
| 33 | 16/06/2020 | G*****20 | PPL | 125 | 4,586.51 | 2 |
| 34 | 16/06/2020 | G*****20 | RELINFRA | 15 | 209.43 | 2 |
| 35 | 16/06/2020 | G*****20 | ROLTA | 600 | 2,137.84 | 2 |
| 36 | 16/06/2020 | G*****20 | RPOWER | 300 | 515.08 | 2 |
| 37 | 16/06/2020 | G*****20 | SANWARIA | 1000 | - | 2 |
| 38 | 16/06/2020 | G*****20 | SETCO | 500 | 3,820.46 | 2 |
| 39 | 16/06/2020 | G*****20 | SINTEX | 2000 | - | 2 |
| 40 | 16/06/2020 | G*****20 | SPECIALITY | 100 | 2,513.13 | 2 |
| 41 | 16/06/2020 | G*****20 | SWELECTES | 270 | 18,807.58 | 2 |
| 42 | 16/06/2020 | G*****20 | TEJASNET | 200 | 6,960.08 | 2 |
| 43 | 16/06/2020 | G*****20 | TVSELECT | 1700 | 1,27,385.76 | 2 |
| 44 | 16/06/2020 | G*****20 | VETO | 200 | 6,411.83 | 2 |
| 45 | 16/06/2020 | G*****20 | VLSFINANCE | 3000 | 99,145.50 | 2 |
| 46 | 24/02/2021 | P****76 | JISLJALEQS | 1000 | 13,817.05 | 2 |
| 47 | 24/02/2021 | P****76 | KRIDHANINF | 750 | 1,963.76 | 2 |
| 48 | 24/12/2020 | H*****37 | JISLJALEQS | 25000 | 3,21,933.25 | 2 |
| 49 | 24/12/2020 | H*****37 | RNAVAL | 15000 | 31,996.80 | 2 |
| 50 | 26/06/2020 | T****88 | ELECON | 40074 | 7,75,946.45 | 2 |
| 51 | 26/06/2020 | T****88 | ISFT | 10 | - | 2 |
| 52 | 26/06/2020 | T****88 | MENONBE | 10000 | 2,63,412.20 | 2 |
| 53 | 26/06/2020 | T****88 | SPTL | 25000 | - | 2 |
| 54 | 26/06/2020 | T****88 | TBZ | 15123 | 3,34,954.79 | 2 |
| 55 | 26/06/2020 | T****88 | TEJASNET | 10716 | - | 2 |
| 56 | 26/06/2020 | T****88 | VIDHIING | 57485 | 33,33,046.41 | 2 |

17.5. Further in this regard, I note from material available on record that SEBI had observed following instances where Member had allowed exposure in securities other than Group I under MTF facility (4 clients; 18 instances):

| Sr. No. | Date | Client Code | Client Name | ISIN | Quantity | Exposure Amount | Security Category |
|---|---|---|---|---|---|---|---|
| 1 | 08/04/2020 | G******80 | ARISSAN INFRASTRUCTURES PRIVATE LIMITED | IBREALEST | 4000 | 1,63,975.23 | 2 |
| 2 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | ADANIGREEN | 300 | 58,050.00 | 2 |
| 3 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | BAJAJHIND | 1500 | 10,075.00 | 2 |
| 4 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | ELECTHERM | 100 | 29,931.95 | 2 |
| 5 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | FCONSUMER | 1000 | 9,750.00 | 2 |
| 6 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | FMNL | 3000 | 1,56,867.20 | 2 |
| 7 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | GANDHITUBE | 300 | 52,473.42 | 2 |
| 8 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | HDIL | 5000 | 1,64,614.44 | 2 |
| 9 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | IBVENTURES | 500 | 1,03,825.00 | 2 |
| 10 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | JUBLINDS | 500 | 79,450.00 | 2 |
| 11 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | KCPSUGIND | 7000 | 1,51,937.46 | 2 |
| 12 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | RELCAPITAL | 1000 | 1,67,591.03 | 2 |
| 13 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | TRIL | 3000 | 24,355.40 | 2 |
| 14 | 16/06/2020 | G*****20 | VAIBHAV GOLCHHA | TVSELECT | 200 | 22,000.00 | 2 |
| 15 | 24/12/2020 | H*****37 | DEEPA HEMANT JHAVERI | DISHTV | 55000 | 8,92,000.00 | 2 |
| 16 | 26/06/2020 | T****88 | SNEHAL SANTOSH RATHI | IBVENTURES | 10000 | 21,35,029.00 | 2 |
| 17 | 26/06/2020 | T****88 | SNEHAL SANTOSH RATHI | TBZ | 10000 | 5,95,931.03 | 2 |
| 18 | 26/06/2020 | T****88 | SNEHAL SANTOSH RATHI | VIDHIING | 66917 | 53,76,232.38 | 2 |

17.6. In this regard, Noticee as part of its replies dated November 25, 2023 and March 07, 2024 had inter alia contended that *'…we are following Group-1 Securities for margin collection under the MTF facility mapped with the BSE segment, and also for the mentioned time period we have allowed exposure to the securities that falls into Group -1 category only. Please note, that the scrips mentioned in the observation belongs to Group 1 security based on the above criteria. …'*

In this regard, having regard to the submission of the Noticee, I am inclined to allow benefit of doubt to the Noticee.

17.7. In view thereof, I find that the allegation that Member had collected inadequate margin from clients under MTF facility, Member had considered securities other than Group I for margin collection under MTF facility, Member had allowed exposure in securities other than Group I under MTF, does not stand established.

**G – Unauthorized trading:**

18. In this regard, on perusal of complaints, SEBI inter alia observed and alleged that trades were executed without the consent of the client (Unauthorized trade) in 28 instances.

In view thereof, it was alleged that Noticee had violated Clause 3 of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.

18.1. Here it would be relevant to refer to the text of the aforesaid provisions alleged to have been violated, which inter alia reads as under:

*Clause 3 of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017:*

*'…*

*III.To further strengthen regulatory provisions against un-authorized trades and also to harmonise the requirements across markets, it has now been decided that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, it could be, inter alia, in the form of*
*:a.Physical record written & signed by client,*
*b.Telephone recording,*
*c.Emailfrom authorized email id,*
*d.Log for internet transactions,*
*e.Record of SMS messages,*
*f.Any other legally verifiable record. When dispute arises, the burden of proof will be on the broker to produce the above records for the disputed trades.*

*…'*

18.2. In this regard, I note from material available on record that SEBI had observed the following in respect of the 28 instances:

18.2.1. Member had executed trades without the consent of the client (Unauthorized trade) for 3 instances.

18.2.2. Member had not provided supporting / order placement confirmation by the clients for 10 instances.

18.2.3. Member had failed to provide details of the complaint and supporting documents to the inspection team despite multiple reminders, for 15 complaints.

18.3. In this regard, I note that the submissions of the Noticee as regards allegation that trades were executed without the consent of the client (Unauthorized trade) for 3 instances are in the nature of admissions in so far as the Noticee has submitted vide its replies dated November 25, 2023 and March 07, 2024 that *'…on December 30, 2020, the erroneous trade resulted in the sale of 19 quantities of IRCTC shares in this client account…On July 05, 2021, the erroneous trade was placed in the said client account due to a punching error…On July 15, 2021, as per his sister instruction, our dealer was supposed to place selling order in his sister's account, B*****17, however inadvertently due to punching error, dealer had placed order in the account of …the said clients' complaints were merely related to erroneous trades… '.*

18.4. In this regard, as regards allegation that member had not provided supporting / order placement confirmation by the clients for 10 instances, Noticee as part of its reply dated November 25, 2023 and March 07, 2024, had inter alia contended that *'…complaints are essentially not related to unauthorized trades, but merely related to basic services issues, due to volatility in the market etc…during this time regulatory issued vide reference number SEBI/HO/MIRSD/DOP/CIR/P/2020/61, dated April 16, 2020, to SEBI/HO/MIRSD/DOP/P/CIR/2021/607 July 30, 2021, given us relaxation for Maintaining call recordings of orders/instructions received from clients and also directed us to send a confirmation on the registered mobile number of the client immediately after execution of the order, which we have sent to all our clients appropriately…'.*

In this regard, I note that the contentions of the Noticee are out of context in so far as the Noticee had submitted that the complaints were essentially not related to unauthorised trades whereas the allegation in this regard is not about type of compliant but that Noticee had not provided supporting/ order placement confirmation for 10 instances. In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

18.5. In this regard, as regards allegation that Member had failed to provide details of the complaint and supporting documents to the inspection team despite multiple reminders, for 15 complaints, Noticee as part of its reply dated November 25, 2023 and March 07, 2024, had inter alia contended that *'…during this time regulatory issued vide reference number SEBI/HO/MIRSD/DOP/CIR/P/2020/61, dated April 16, 2020, to SEBI/HO/MIRSD/DOP/P/CIR/2021/607 July 30, 2021, given us relaxation for Maintaining call recordings of orders/instructions received from clients and also directed us to send a confirmation on the registered mobile number of the client immediately after execution of the order, which we have sent to all our clients appropriately…'*

In this regard, reference is drawn to relevant text of the SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/61, dated April 16, 2020, which inter alia reads as under:

'…

| S.No. | Compliance | Due Date | Extended date | SEBI Circular Reference |
|---|---|---|---|---|
| XI. | Maintaining call recordings of orders/instructions received from clients | - | 17-May-2020 | SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018. |

…

*The relaxation in compliance requirement at S. No. XI will be effective from March 23, 2020 till May 17, 2020 with respect to trading members working from designated alternate locations. However, the trading member and the Stock Exchange shall send a confirmation on the registered mobile number of the client immediately after execution of the order*
…'

Further in this regard, reference is also drawn to the relevant text of SEBI/HO/MIRSD/DOP/P/CIR/2021/607 dated July 30, 2021 which inter alia reads as under:

'…

*it has been decided to extend the timelines for compliance with the following regulatory requirements by the Trading Members / Clearing Members / KYC Registration Agencies, as under:*

| S.No. | Submission/Compliance | Current timeline Period of exclusion | Extended timeline / Period of exclusion |
|---|---|---|---|
| | … | … | … |
| 7. | Maintaining call recordings of orders/instructions received from clients | Till July 31, 2021 | Till September 30, 2021 |

*…'*

In this regard, as brought out above, I note that the relaxation for maintaining call recordings for orders/ instructions received from the clients, owing to covid, was available only March 23, 2020 till September 30, 2021. I note that as per the SMS logs and ECN logs submitted by the Noticee in this regard, in the alleged instances, the trades were executed prior to the exemption period as well. I note that the Noticee had neither submitted order placement recordings of such trades during to the Inspection to the Inspection Team nor during the instant Adjudication proceedings. In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

18.6. In view thereof, I find that the allegation that trades were executed without the consent of the client (Unauthorized trade) in 28 instances, stands established. Therefore, I hold that the Noticee had violated Clause 3 of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.

**<u>H – Client order recording:</u>**

19. In this regard, SEBI inter alia observed and alleged in respect of the Noticee that member had not kept appropriate evidences in respect of the orders placed by their clients in 6 out of the 21 sample instances.

In view thereof, it was alleged that Noticee had violated Clause 3 of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.

19.1. Here it would be relevant to refer to the text of the aforesaid provisions alleged to have been violated, which inter alia reads as under:

Clause 3 of SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017:

> *'…*
>
> *III.To further strengthen regulatory provisions against un-authorized trades and also to harmonise the requirements across markets, it has now been decided that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, it could be, inter alia, in the form of*
> *:a.Physical record written & signed by client,*
> *b.Telephone recording,*
> *c.Emailfrom authorized email id,*
> *d.Log for internet transactions,*
> *e.Record of SMS messages,*
> *f.Any other legally verifiable record. When dispute arises, the burden of proof will be on the broker to produce the above records for the disputed trades.*
> *…'*

19.2. In this regard, I note from material available on record that for 6 Client Codes viz., DI******01, GD*****21, A**00, GB******03, DI******02, MU*****01, Noticee had not provided any supporting order placement recordings with respect to trade date October 28, 2021. I note that this has neither been denied nor disputed by the Noticee.

19.3. In this regard, the Noticee as part of its reply dated November 25, 2024, had inter alia contended that *'…due to the COVID-19 pandemic,..80% of officials were working from home with limited access,… clients have placed orders by giving instructions on dealers mobile/visiting our office, wherein maintaining the proof i.e. voice recording of order placement was not feasible…during the aforesaid period due to the COVID-19 pandemic the regulatory vide its circular reference number SEBI/HO/MIRSD/DOP/CIR/P/2020/61, dated April 16, 2020, to SEBI/HO/MIRSD/DOP/P/CIR/2021/607 July 30, 2021, given us relaxation for Maintaining call recordings of orders/instructions received from clients…'.*

Further in this regard, Noticee as part of its reply dated March 07, 2024 had inter alia submitted that *'…we kept ourselves compliant through our best efforts due to which the discrepancies found only in 3 instances by regulatory out of total 1057 sample instances. As a practice of due diligence, we have sent various communications like SMS, ECN, Weekly & Quarterly Statements, Daily Margin Statements etc. on client's registered contact details with us….'*

19.4. In this regard, I note that the instant allegation is with respect to 6 clients out of 21 sample instances and not with respect to 3 instances out of 1057 as contended by the Noticee.

Further, as regards contention relating to relaxation owing to Covid, reference is drawn to relevant text of the SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/61, dated April 16, 2020, which inter alia reads as under:

*'…*

| *S.No.* | *Compliance* | *Due Date* | *Extended date* | *SEBI Circular Reference* |
|---|---|---|---|---|
| *XI.* | *Maintaining call recordings of orders/instructions received from clients* | *-* | *17-May-2020* | *SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018.* |

…

*The relaxation in compliance requirement at S. No. XI will be effective from March 23, 2020till May 17, 2020with respect to trading members working from designated alternate locations. However, the trading member and the Stock Exchange shall send a confirmation on the registered mobile number of the client immediately after execution of the order*
*…'*

Further in this regard, reference is also drawn to the relevant text of SEBI/HO/MIRSD/DOP/P/CIR/2021/607 dated July 30, 2021 which inter alia reads as under:

*'…*
*it has been decided to extend the timelines for compliance with the following regulatory requirements by the Trading Members / Clearing Members / KYC Registration Agencies, as under:*

| *S.No.* | *Submission/Compliance* | *Current timeline Period of exclusion* | *Extended timeline / Period of exclusion* |
|---|---|---|---|
| | | | |
| *7.* | *Maintaining call recordings of orders/instructions received from clients* | *Till July 31, 2021* | *Till September 30, 2021* |

*…'*

19.5. In this regard, as brought out above, the relaxation for maintaining call recordings of orders/ instructions received from the clients were only available till September 30, 2021, whereas the instant allegation is with respect to trade date October 28, 2021. I note that the Noticee has not demonstrated with relevant details and documents that the relaxation was available beyond September 30, 2021 i.e. for trades on October 28, 2021. In view thereof, the contentions of the Noticee in this regard, are devoid of merit and hence not acceptable.

19.6. In view thereof, I find that the allegation that the member had not kept appropriate evidences in respect of the orders placed by its clients in 6 out of the 21 sample instances, stands established. Therefore, I hold that the Noticee had violated Clause 3 of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017.

**I – Risk Based Supervision:**

20. In this regard, SEBI inter alia observed and alleged in respect of the Noticee that trading Member had not correctly reported the details of financial data (total debit balance of all clients) under Risk Based Supervision ('RBS') to the tune of Rs. 10 lakhs.

In view thereof, it was alleged that Noticee had violated Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

20.1. Here it would be relevant to refer to the text of the aforesaid provisions alleged to have been violated, which inter alia reads as under:

Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016:

*'…*

*6.1.1.*
*Monitoring criteria for Stock Brokers*
*e. Failure to submit data for the half yearly Risk Based Supervision within the time specified by Stock Exchange.*

*…'*

20.2. In this regard, I note from material available on record that SEBI had inter alia observed that Trading Member had not correctly reported the following details of total available collaterals from all debit balance clients:

| Particulars | Data Reported by Trading Member (Rs.) | As per Exchange working (Rs.) | Difference (Rs.) |
|---|---|---|---|
| Total debit balance of all clients | 1,05,84,04,072.7 | 1,05,94,25,430.35 | 1,021,357 |

20.3. In this regard, I note that the submission of the Noticee as part of its reply dated November 25, 2023, are inter alia in the nature of admission in so far as the Noticee had submitted that *'…while reporting figures in the submission of RBS for the mentioned period, due to some system issue the BSE MFSS segment clients were not captured due to which difference arose to the tune of Rs. 10 Lakh…'*.

20.4. In view thereof, I find that the allegation that trading Member had not correctly reported the details of financial data (total debit balance of all clients) under Risk Based Supervision ('RBS') to the tune of Rs. 10 lakhs, stands established. Therefore, I hold that the Noticee had violated Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

**J – Demat Verification:**

21. In this regard, SEBI inter alia observed and alleged that there was incorrect reporting of tagging of demat accounts in 2 instances and incorrect reporting of status of demat accounts to Exchange (NSE) in one Instance.

In view thereof, it was alleged that Noticee had violated Clause 2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

21.1. In this regard, I note from material available on record that SEBI had observed the following:

Incorrect Reporting of Tagging of Demat Accounts to Exchange (NSE):

| Sr. No. | Account Number | DP Name | Tagging as per Exchange Records | Tagging as per DP Statement |
|---|---|---|---|---|
| 1 | 11************41 | National Securities Clearing Corporation of India Limited | Any Other | Early Pay-In Account |
| 2 | 11************79 | Indian Clearing Corporation Limited | Any Other | Early Pay-In Account |

Incorrect Reporting of Status of Demat Accounts to Exchange (NSE):

| Sr. No. | Account Number | DP Name | Status as per Exchange Records | Status as per DP Statement |
|---|---|---|---|---|
| 1 | 12************05 | Anand Rathi Share and Stock Brokers Limited | Active | Closed |

21.2. In this regard, Noticee as part of its reply dated November 25, 2023, had inter alia contended that *'…at the time of updation of the account number in the portal; the option of tagging the account number as "Early Pay-in Account" was not available, hence the same was tagged in "Any other" option..'* and that *'…at that time we had only option to report status as active or closed at NSE portal….the aforesaid issue was also conveyed to NSE, vide our email dated September 11, 2020, for which we haven't received any revert from NSE till today…the tagging and reporting were not carried out, solely due to the non-availability of an option on the NSE online portal and the absence of clarification from NSE…'*

21.3. Further in this regard, Noticee as part of its reply dated March 07, 2024 had inter alia contended that *'…we hereby providing the relevant circular as Annexure – J1 to substantiate our earlier statements..'*

21.4. In this regard, having regard to the submissions of the Noticee, I am inclined to allow benefit of doubt to the Noticee. In view thereof, I find that the allegation that there was incorrect reporting of tagging of demat accounts in 2 instances and incorrect reporting of status of demat accounts to Exchange in one Instance, does not stand established.

**<u>K – Non-cooperation with the inspection team:</u>**

22. In this regard, SEBI inter alia observed and alleged in respect of the Noticee that Member had not provided the complete data /information on timely basis. In view thereof, it was alleged that Noticee had violated Regulation 21 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

22.1. Here it would be relevant to refer to the text of the aforesaid provisions alleged to have been violated, which inter alia reads as under:

'…

***Obligations of stock-broker on inspection by the Board.***

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

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

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

…'

22.2. In this regard, I note from material available on record that instances when the member had not provided the complete data /information on timely basis, were as under:

22.2.1. Vide email dated November 14, 2022, NSE had inter alia stated that *'... Exchange had observed the major violation in the area of Reporting and short collection of Margin…data pertaining to the said area was sought from member and thereafter three reminders were also sent….member failed to provide the complete response…member did not initially provide the complete data/information on timely basis which led to additional working/efforts...'.*

22.2.2. Vide email dated November 18, 2022, BSE had inter alia stated that *'…Trading member had not submitted all the required data / information pertaining to non-settlement of inactive clients before submission of the initial report by the Exchange to SEBI. The member has provided requisite details only after SEBI directive after submission of initial report…'.*

22.2.3. Vide email dated November 14, 2022, NCDEX had inter alia stated that *'…Member had not cooperated at the time of initial onsite inspection, constraining the Exchange…'.* Further, in the letter dated November 14, 2022, NCDEX inter alia informed that *'…one of the areas allocated to NCDEX was 'segregation of clients' funds'. ..during the onsite visit conducted for the said member, it failed to submit complete details pertaining to aforesaid area allocated to NCDEX…*

22.3. In this regard, the Noticee, as part of its reply dated November 25, 2023, had inter alia submitted that *'…an intimation letter of Inspection was received on 3rd*

*August, 2021 to us, asking to provide the information along with supportings. On receipt of the intimation, we immediately started working upon the submission of data and initiated submitting data by the given deadline of 24th August, 2021 and submitted the remaining data in subsequent days… the quantum of data requirement was huge and there were occasions where the system was not having readily available tools/reports in the back office system to meet the requirement raised so, such data generation, compilation, and verification needed sufficient time in order to provide error-free data to the regulatory bodies…due to the COVID-19 pandemic we were working with limited staff …'*

22.4. Further in this regard, Noticee as part of its reply dated March 07, 2024 inter alia contended that *'…Total data requirement/queries raised by all the Exchanges/depositories & SEBI was approx 250+ count, out of which only 3 type of data were escalated in the category of non-cooperation from Member's end….SEBI inspection was conducted by NSE, BSE, CDSL, NSDL, MCX & NCDEX. However, the non-cooperation related concern was raised only by BSE, NSE & NCDEX, as the delay was happened just because we were dealing with all the exchanges/depositories & SEBI simultaneously for data submission and queries clarification…'*

In this regard, having regard to the submission of the Noticee, I am inclined to allow benefit of doubt to the Noticee.

22.5. In view thereof, I find that the allegation that Noticee had violated Regulation 21 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992, does not stand established.

**Issue No. II:** If yes, whether the violations on the part of the Noticee would attract monetary penalty under Section 23D of SC(R) Act, 1956, and Section 15HB of the SEBI Act, 1992?

23. It has been established in the foregoing paragraphs that Noticee had violated provisions of SC(R) Act, 1956 and SEBI Circulars.

24. In this regard, it is noted that the Hon'ble Supreme Court of India in the matter of SEBI v/s Shri Ram Mutual Fund [2006] 68 SCL 216(SC) inter alia held that:

*"…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....."*

25. Therefore, for the established violation, as brought out in the foregoing paragraphs, I find that Noticee is liable for monetary penalty under Section 23D of SC(R) Act, 1956, Section 15HB of the SEBI Act, 1992 which inter alia reads as under:

Securities Contracts (Regulation) Act, 1956:

*"…*
***Penalty for failure to segregate securities or moneys of client or clients.***
*23D. If any person, who is registered under section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) as a stock broker or sub-broker, fails to segregate securities or moneys of the client or clients or uses the securities or moneys of a client or clients for self or for any other client, he shall be 121[liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*
*…"*

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.*
*….'*

*Note: for detailed/ complete text of the provisions, relevant Acts etc., may please be referred.*

**Issue No. III**: If yes, what should be the monetary penalty that can be imposed upon the Noticee?

26. While determining the quantum of penalty under 23D of the Securities Contracts (Regulation) Act, 1956, and under Section 15HB of the SEBI Act, it is important to consider the factors as stipulated in Section 23J of Securities Contracts (Regulation) Act, 1956 and Section 15J of the SEBI Act, which reads as under: -

**SC(R) Act, 1956:**

*'...*

***136[ 137[Factors to be taken into account while adjudging quantum of penalty.]***

***23J.*** *While adjudging the quantum of penalty under 138[section 12A or section 23-I], the 139[ the Securities and Exchange Board of India or 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.]*

*140[Explanation.—For the removal of doubts, it is clarified that the power of an adjudicating officer to adjudge the quantum of penalty under sections 23A to 23C shall be and shall always be deemed to have exercised under the provisions of this section.*

*…'*

**SEBI Act, 1992**

*'…*

***Factors to be taken into account while adjudging quantum of penalty.***

***15J****. While adjudging quantum of penalty under 15- I or section 11 or section 11B, the Board or 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.*

*Explanation.—For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.*

*…."*

27. In the instant case, I note that the material available on record does not quantify any disproportionate gain or unfair advantage or consequent loss caused to investors or profit made by the Noticee as a result of the violations committed by the Noticee. Further, as regards repetitive nature of default, I note from SEBI website that Adjudication Orders dated Sep 30, 2024, Aug 23, 2024, Jun 14, 2022, Nov 27, 2018, Feb 07, 2011, Nov 30, 2011, May 04, 2009, were passed in respect of Noticee imposing monetary penalty. I note that Noticee, being a SEBI registered intermediary, was required to comply with the extant applicable provisions of laws, which SEBI is duty bound to enforce. The Noticee failed to comply with the provisions of law, as brought out in the foregoing, and such failure and/or non-compliances accordingly needs to be dealt with suitable penalty.

## E. ORDER:

28. After taking into consideration the facts and circumstances of the case, material available on record, submissions made by the Noticee and also the factors mentioned in the preceding paragraphs, in exercise of the powers conferred upon me under Section 23-I of the SC(R) Act, 1956 and under Section 15-I of the SEBI Act, 1992 r/w Rule 5 of the Securities Contracts (Regulations) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, I hereby impose following penalty, as per details in Table below, upon the Noticee, for the aforementioned violations, as brought out in this order. In my view, the said penalty will be commensurate with the violations committed by the Noticee in this case:

| Name of the Noticee | Penalty Under Section | Penalty Amount (Rs.) |
|---|---|---|
| **Anand Rathi Share & Stockbrokers Ltd.** | 15HB of SEBI Act, 1992 | Rs. 4,00,000/- (Rupees Four Lakhs Only) |
| | 23D of SC(R) Act, 1956 | Rs. 1,00,000/- (Rupees One Lakh Only) |

29. 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**

30. 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 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

31. In terms of the provisions of Rule 6 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and Rule 6 of the Securities Contracts

(Regulations) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

**DATE: JANUARY 30, 2025**
**PLACE: MUMBAI**

**AMAR NAVLANI**
**ADJUDICATING OFFICER**