**BEFORE THE ADJUDICATING OFFICER**
**SECURITIES AND EXCHANGE BOARD OF INDIA**

**[ADJUDICATION ORDER NO. Order/BM/DS/2024-25/31002]**

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

IN THE MATTER OF

**Raghunandan Capital Private Limited**
**PAN No.**: AADCR7430F
**SEBI Regn No.**: INZ000307234

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## FACTS OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") conducted thematic inspection jointly with the Exchanges, viz. NSE, BSE, MCX and NCDEX of M/s Raghunandan Capital Private Limited (hereinafter referred to as "**Noticee**" **/** "**Raghunandan**") from November 07-08, 2023 to look into various compliance requirements adhered by the Noticee with respect to the provisions of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as "**Stock Brokers Regulations, 1992**"), applicable SEBI Circulars and circulars of the stock exchanges. The inspection was conducted for the period beginning April 01, 2022 to September 30, 2023 (hereinafter referred to as "**inspection period**"). Noticee is registered as stock broker with SEBI registration no. INZ000307234.

2. The findings/ observations made during the course of thematic inspection were communicated to the Noticee by SEBI vide letter / email dated January 03, 2024. The Noticee did not submit its reply till February 16, 2024, even after providing extension of time to make its submissions. On the basis of findings of inspection, it was alleged that the Noticee has violated various provisions of Stock Brokers

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

**Table 1**

| Sr. No. | Alleged Violations | Regulatory Provisions |
|---|---|---|
| 1 | Incorrect reporting of balances in Client Assets Report | Clause 3.2 & 6.1.1 (j) of Annexure of SEBI Circular Ref No: SEBI/HO/MIRSD/MIRSD2/CIR/2016/95 dated September 26, 2016<br>BSE Notice No. 20220624-45 dated June 24, 2022. |
| 2 | Incorrect reporting of balances of clients' funds report | Clause 3.2 & 6.1.1 (j) of Annexure of SEBI Circular No: SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016 |
| 3 | Incorrect reporting of enhanced supervision data | Clause 3.2 & 6.1.1 (j) of Annexure of SEBI Circular No: SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Point No. 10 of Annexure-B of the NCDEX Circular dated October 31, 2017 - NCDEX/COMPLIANCE-020/2017/285 |
| 4 | Non-settlement of clients' funds and non-provision of documents | • Clause 12(e) of SEBI Circular MIRSD/SE/Cir-19/2009 dated December 03, 2009<br>• Clause 8.1.1 & 8.1.4 of Annexure to SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016,<br>• Clause 5.1 & 5.4 SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022<br>• Regulation 21(1), (2) and (3) of the SEBI (Stock Brokers) Regulations, 1992<br>• BSE Notice No. 20131029-15 dated October 29, 2013, 20200116-44 dated January 16, 2020, 20200210-47 dated February 10, 2020, 20220331-53 dated March 31, 2022. |
| 5 | Delay in issuance of Daily Margin statements | Clause 35 of Annexure-4 to Clause 3(iii) of CIR/MIRSD/16/2011 dated August 22, 2011. |

| Sr. No. | Alleged Violations | Regulatory Provisions |
|---|---|---|
| 6 | Passing of penalty to clients on account of short/non-collection of upfront margins | Clauses A (2) and A (5) as prescribed under Code of Conduct read with Regulation 9 of SEBI (Stock Brokers) Regulations, 1992 read with SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 and SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 read with NSE circular NSE/INSP/45191 dated July 31, 2020 and NSE/INSP/49929 dated October 12, 2021. |
| 7 | Pay-out of funds to clients in excess of their balances | Clause 1(C) of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993<br>Clause no. 2.4.2 of the Annexure to the SEBI circular Ref no. SEBI/HO/MIRSD/MIRSD2 /CIR/P/2016/95 dated September 26, 2016 |
| 8 | Non-maintenance of Client Order Placement Records | Clause III of the SEBI Circular no. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018 |

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

## APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer **(AO)** vide Order dated July 29, 2024 under Section 15-I of the SEBI Act, 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "**SEBI Adjudication Rules**"), to inquire into and adjudge under section 15HB of SEBI Act, 1992, the violations of aforesaid provisions alleged to have been committed by the Noticee.

## SHOW CAUSE NOTICE, REPLY OF THE NOTICEE AND HEARING

5. Show Cause Notice No. SEBI/EAD/BM/DS/26155/1/2024 dated August 19, 2024 (hereinafter referred to as **"SCN"**) was issued to the Noticee in terms of Section 15-I of the SEBI Act, 1992 and rule 4 of SEBI Adjudication Rules, to show cause as to why an inquiry should not be held against it and why penalty, if any, under section 15HB of SEBI Act, 1992 be not imposed on the Noticee.

6. The SCN was duly served on the Noticee through SPAD and digitally signed e-mail. Vide email dated August 27, 2024, the Noticee requested for certain information, which was provided to it vide email dated August 28, 2024. Vide email dated September 16, 2024, the Noticee informed that it had belatedly submitted its reply to the inspection findings by emails dated April 29, 2024, and it also requested for inspection / provision of certain documents. Vide email dated September 20, 2024, the Noticee was provided an opportunity of inspection of documents on September 23, 2024. Vide email dated September 23, 2024, the Noticee requested for rescheduling of the inspection of documents to September 30, 2024, which was acceded to. Vide email dated October 03, 2024, the Noticee was advised to submit its reply on or before October 15, 2024. Subsequently, vide letter dated October 05, 2024, the Noticee requested for extension of time by 3 weeks after October 15, 2024, to submit reply to the SCN. Vide email dated October 15, 2024, the Noticee was advised to submit its reply on or before October 29, 2024. The Noticee submitted its reply vide email dated October 29, 2024.

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

   *<u>Incorrect reporting of balances in Client Assets Report</u>*

   *7.1. The Noticee has considered the applicable guidelines, as prescribed while calculating the client asset report for the mentioned dates. Noticee provided copies of bank statements, back office generated list of credit balance clients,* *debit balance clients, proprietary margin obligation, list of margin obligation of credit balance clients and MG01 file received from the clearing received from NSE Clearing Limited.*

7.2. *Further, all the observed mismatches do not indicate misutilization of funds of the clients, as can be seen from the daily margin statements, submitted by the Noticee.*

7.3. *There has not been any client complaint in this regard.*

*Incorrect reporting of balances of clients' funds report*

7.4. *Mismatch value of ₹37 lakh of aggregate value of collateral deposited with Exchange in the form of Cash and Cash Equivalents was due to NSE Commodity Cash Collateral of ₹25 lakh, along with 50% of the value of the BG amount, i.e. ₹12.5 lakh, totalling to ₹37.50 lakh was not being considered by the Noticee earlier, as it was being considered for security deposit, against which no collateral is granted to the Noticee. However, after clarification from the NSE, it is being considered for cash collateral. Further, there has not been any misutilization of clients' funds.*

7.5. *Mismatch in aggregate value of collateral deposited with CM in form of cash and cash equivalents was due to the values computed by the inspection team was flat 50% of the BG value, whereas, the Noticee has computed values on the basis of funded part of BG containing FDRs, which comes to actual values and varies every month, thereby creating a difference. Noticee has submitted the workings of the Exchanges, in support of its submissions.*

7.6. *With respect to pro non-cash collateral, the Noticee had pledged certain quantity in 3 securities with the CM, however, the CM had not re-pledged the same. Noticee had considered the value of these securities while computing the pro non-cash collateral, under the assumption that the same have been re-pledged by the CM. Noticee has provided copies of securities in its proprietary* *account, identifying the difference for all four dates. However, even then, there is no violation of principle 2 and 3.*

7.7. *With respect to mismatches in aggregate value of non-funded part of BG across segment, the values computed by inspection team were based on flat 50% of the BG value, however, the Noticee has considered the actual values, due to which differences are there.*

7.8. *With respect to mismatches in aggregate value of unutilized collateral lying with the Exchange, across Exchanges, the values computed by the Noticee were only based on the Exchange Clearing Corporation and Clearing Member files, and the data was taken from the supporting documents received from them. Thus, the Noticee's submissions are correct. Further, the values reported by the Noticee are less than those computed by the Exchanges, which shows that the Noticee was being conservative and has not misutilized the funds. Noticee has also submitted the Exchange and CC files and the detailed workings as annexures in support of its submissions.*

*<u>Incorrect reporting of enhanced supervision data</u>*

7.9. *The figures reported by the Noticee were based on supporting files as per the clearing corporation and clearing member, which have also been provided as annexures to the reply in support of its submissions.*

*<u>Non-settlement of clients' funds and non-provision of documents</u>*

7.10. *Following is submitted with respect to non-settlement of inactive clients' funds in 254 instances*

7.10.1. *77 instances – clients settled on due date, but funds returned due to incorrect IFSC. Consequently, funds were transferred to separate account, as per policy.*

7.10.2. *137 instances – clients were active*

*7.10.3. 37 instances – clients were duly settled as per policy*

*7.10.4. 2 instances – new account*

*7.10.5. 1 instance – Nil balance*

*7.11. The amount involved in the aforesaid instances was very small as compared to the overall operations and client base of the Noticee.*

*7.12. With respect to the observation of non-settlement of clients' funds in 560 instances, it is submitted that all the settlements are done through the back office software. As the circular prescribing settlement on first Friday of the quarter was very recent, the same was not configured in the back office system. However, settlements were being done considering the 90 days, as prescribed earlier. Thus, out of the 560 instances, settlement was already made in 281 instances, early settlement was made in 105 instances, settlement was done after considering the margin obligations of clients with various Exchanges in 172 instances and fresh funds were received in 2 instances. Noticee has provided instance wise response separately and sample ledger statements in support of its submissions.*

*7.13. With respect to non-submission of dispatch proofs for retention statements sent in 457 instances, it is submitted that the retention statements were submitted in 455 out of 457 instances after delivery through email had failed. Dispatch proofs of sample instances are provided along with the reply. In 2 instances, the delivery of retention statements had failed through both email and physical delivery, and the clients had requested for the retention statement, which was then sent to the client.*

*7.14. Noticee has duly sent SMS to the clients at the time of settlement of funds. Due to the new staff, the SMS logs could not be shared earlier.*

*Delay in issuance of Daily Margin statements*

7.15. *The Daily Margin Statements (DMS) are generated in the back office after processing trade and margin obligation liabilities of all the segments, i.e. NSE, BSE, NCDEX and MCX, which normally completes around 6 AM on next working day. Thereafter, DMS are generated and shared with the clients.*

7.16. *Inspection team has not considered holidays while calculating the delay. During holidays, the DMS was sent on the subsequent working day, to the clients.*

7.17. *Margin statements were updated daily on the Noticee's website and it was also always available over phone.*

7.18. *Due to large number of clients, the server sometimes takes time to send the DMS.*

7.19. *No grievance has been received from any of the clients.*

*Passing of penalty to clients on account of short/non-collection of upfront margins*

7.20. *Noticee had passed on the penalty to clients in 34 instances only when the margin was suddenly increased on open position of the client and where they failed to provide funds in due time, or when the clients had suffered sudden intra day loss due to volatility and failed to provide the funds.*

7.21. *The clients were also communicated regarding passing of the penalty, and no complaints have been received in this regard.*

*Pay-out of funds to clients in excess of their balances*

7.22. *All the pay-outs were done as per the balances available in the clients' accounts. Noticee has submitted instance wise response along with ledger statements with respect to the three clients.*

*<u>Non-maintenance of Client Order Placement Records</u>*

*7.23. As the deputed staff was present during the inspection, instead of the concerned staff, incomplete data with respect to order placement records were provided by the Noticee. The order placement sheets are enclosed with reply. Further, authorization letter with respect to the observation of trade confirmation received from a male person for the trade of a female client, is also provided along with the submissions.*

8. In the interest of natural justice, the Noticee was provided an opportunity of personal hearing. Vide hearing notice dated October 29, 2024, the Noticee was advised to appear before the undersigned on November 06, 2024. The Noticee appeared for the scheduled hearing through its authorized representative (**AR**). The AR reiterated submission made vide email dated October 29, 2024. During the hearing, the Noticee was advised to submit the following information / documents:
   8.1. Reasons for differences in values reported by the Noticee in Client Assets Report vis-à-vis values computed by the Inspection team / Exchanges.
   8.2. Reasons for differences in values reported by the Noticee in Enhanced Supervision Data vis-à-vis values computed by the Inspection team / Exchanges.
   8.3. Reasons, along with supporting documents, for passing on penalty to the clients. The amount and the time by which clients were required to pay the margin amount and the efforts made by the Noticee to intimate the clients / collect the shortfall amount, may also be indicated.

9. The AR requested time till November 18, 2024 to make additional submissions. The request was acceded to.

10. The additional submissions made by the Noticee vide letter dated November 16, 2024 are as summarized below:

*10.1. Noticee reiterated the submissions already made vide letter dated October 24, 2024.*

*10.2. Following documents were provided by the Noticee:*

*10.2.1. Copy of collateral file for September 22, 2023 containing the NSE Commodity Bank Guarantee*

*10.2.2. Copy of detailed working of margin obligation of credit balance clients as on September 22, 2023*

*10.2.3. Copy of collateral file for September 29, 2023 containing the NSE Commodity Bank Guarantee*

*10.2.4. Copy of instance wise response for differences with respect to Enhanced Supervision Data*

*10.2.5. Copy containing details of 34 instances where penalties were collected from the clients and details of delivery margin statement and SMS logs sent.*

11. Further, vide email dated November 26, 2024, the Noticee provided copies of bank sanction letters with respect to credit facilities availed by the Noticee.

**CONSIDERATION OF ISSUES AND FINDINGS**

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

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

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

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

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

***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;*

*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.*

***SCHEDULE II - CODE OF CONDUCT FOR STOCK BROKERS***

***A. General.***

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

*(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Boardand the Stock Exchange from time to time as may be applicable to him.*

***SEBI Circular Ref.:SMD/SED/CIR/93/23321 dated November 18, 1993***

***Regulation of transactions between clients and brokers***

*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] …*

*B] ...*

*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.*

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

***Running Account Authorization***

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

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

***SEBI Circular No. CIR/MIRSD/16/2011 dated August 22, 2011***

***Simplification and Rationalization of Trading Account Opening Process***

*3. SEBI has devised the uniform documentation to be followed by all the stock brokers / trading members; a copy thereof to be provided by them to the clients. The details of such documents are listed below:*

*i. …*

*ii. …*

*iii. Document stating the Rights & Obligations of stock broker, sub-broker and client for trading on exchanges (including additional rights & obligations in case of internet / wireless technology based trading) – Annexure–4.*

*Annexure – 4 - RIGHTS AND OBLIGATIONS OF STOCK BROKERS, SUB-BROKERS AND CLIENTS as prescribed by SEBI and Stock Exchanges*

*35. The stock broker shall send daily margin statements to the clients. Daily Margin statement should include, interalia, 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.*

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

*Annexure*

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

*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.*

*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*

*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*

*8.Running Account Settlement*
*8.1. In partial modification of circular on running account settlement, the stock broker shall ensure that;*
*8.1.1. There must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements.*
*8.1.4. Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled.*

***SEBI Circular No.: SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018***
*Prevention of Unauthorised Trading by Stock Brokers*
*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, which could be, inter alia, in the form of:*
*a. Physical record written & signed by client,*
*b. Telephone recording,*
*c. Email from authorized email id,*
*d. Log for internet transactions,*
*e. Record of messages through mobile phones,*
*f. Any other legally verifiable record.*
*When a dispute arises, the broker shall produce the above mentioned records for the disputed trades. However, for exceptional cases such as technical failure etc. where broker fails to produce order placing evidences, the broker shall justify with reasons for the same and depending upon merit of the same, other appropriate evidences like post trade confirmation by client, receipt/payment of funds/securities by client in respect of disputed trade, etc. shall also be considered.*

***SEBI Circular No.: CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 - Collection and reporting of margins by Trading Member (TM) /Clearing Member (CM) in Cash Segment***
*https://www.sebi.gov.in/legal/circulars/nov-2019/collection-and-reporting-of-margins-by-trading-member-tm-clearing-member-cm-in-cash-segment_45011.html*

***SEBI Circular No.: SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020***
***Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments***
*https://www.sebi.gov.in/legal/circulars/jul-2020/framework-to-enable-verification-of-upfront-collection-of-margins-from-clients-in-cash-and-derivatives-segments_47101.html*

***SEBI Circular No.: SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021***
***Settlement of Running Account of Client's Funds lying with Trading Member (TM)***
*5. In partial modification of the aforementioned circulars dated December 03, 2009 and September 26, 2016 on settlement of running account, following has been decided:*

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

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

***SEBI Circular No.: SEBI/HO/MIRSD/DoP/P/CIR/2022/101 dated July 27, 2022***
***Settlement of Running Account of Client's Funds lying with Trading Member (TM)***
*4. Pursuant to extensive consultation with Stock Exchanges, in partial modification to the aforementioned circular dated June 16, 2021 and to ensure uniformity in settlement of running account, following has been decided:*
*4.1. The settlement of running account of funds of the client shall be done by the TM after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan–Mar) for all the clients i.e., the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on for all the clients. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.*

***BSE Notice No. 20131029-15 dated October 29, 2013 - Clarification on Actual Settlement of funds & Securities***
*https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20131029-15*

***BSE Notice No. 20200116-44 dated January 16, 2020 - Clarifications on Running Account settlement of funds***
*https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20200116-44*

***BSE Notice No. 20200210-47 dated February 10, 2020 - Treatment of Inactive Trading Account***
*https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20200210-47*

***BSE Notice No. 20220331-53 dated March 31, 2022 - Settlement of Running Account of Client's Funds lying with Trading Member (TM)***
*https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20220331-53*

***BSE Notice No. 20220624-45 dated June 24, 2022 - Submission of data towards monitoring of client funds under Enhanced Supervision and Client Level Cash & Cash Equivalent Balances***
*https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20220624-45*

***NCDEX Circular No : NCDEX/COMPLIANCE-020/2017/285 dated October 31, 2017 - Revised penalty structure***
*Annexure – B*

| Sr. No. | Area | Charges |
|---|---|---|
| 10. | Material wrong submission or incorrect submission of data towards enhanced supervision-Monitoring of client funds & upload of client funds & security balances. | Penalty may vary from warning to Rs. 1 lakh on case to case basis.<br><br>(The serious case shall be discussed separately in DAC, The Exchange may enhance the penalty as deemed fit) |

***NSE Circular No.: NSE/INSP/45191 dated July 31, 2020***
***Guidelines/clarifications on Margin collection & reporting***
*https://nsearchives.nseindia.com/content/circulars/INSP45191.zip*

***NSE Circular No.: NSE/INSP/49929 dated October 12, 2021***
***Guidelines/clarifications on Margin collection & reporting***
*https://nsearchives.nseindia.com/content/circulars/INSP49929.pdf*

14. The findings in each of the alleged violations against the Noticee in the SCN dated August 19, 2024 are given below.

15. **Incorrect reporting of balances in Client Assets Report –**

15.1. It was observed that the Noticee had reported incorrect balances in the Client Assets Reports for the weeks ended September 22, 2023 and September 29, 2023. Thus, it was alleged that the Noticee has violated the provisions of Clause 3.2 & 6.1.1(j) of Annexure of SEBI Circular Ref No: SEBI/HO/MIRSD/MIRSD2/ CIR/2016/95 dated September 26, 2016 and BSE Notice No. 20220624-45 dated June 24, 2022.

15.2. As per the provisions of Clause 3.2 and 6.1.1(j) of Annexure of SEBI Circular Ref No: SEBI/HO/MIRSD/MIRSD2/CIR/2016/95 dated September 26, 2016, a stock broker is required to submit data of bank balances and client level cash and cash equivalents, to the stock exchanges. Further, BSE Notice No. 20220624-45 dated June 24, 2022 clarifies the values which are to be considered for calculation of collaterals in the form of cash and cash equivalents, to be deposited with the clearing corporation / clearing member in the form of FD and BG (funded portion).

15.3. The observations with respect to client asset reporting on September 22, 2023, and Noticee's submissions are provided below.

**Table 2**

| Particulars | Reported By Member | As per Exchange Verification | Mismatch | Noticee's submissions |
|---|---|---|---|---|
| **Bank Balance (Client A/c + Settlement A/c)** | 4,44,440 | 4,17,140 | 27,300 | Values reported were as per bank statement and back office. Copy of bank statements has been enclosed. |
| **Collateral (Cash & Cash eqv) with CC/CM in form of FD & BG (Funded portion)** | 1,69,25,988 | 1,94,25,988 | -25,00,000 | Noticee has not considered Pro BG of NSE Commodity. It has provided the workings, along with supporting documents |
| **Aggregate value of Credit Balances across all Exchanges** | 37,70,52,286 | 37,70,52,542 | -256 | Values reported were as per back office software generated file. List of all credit balance clients has been provided. |
| **Aggregate value of Debit Balances across all Exchanges** | 1,15,26,490 | 1,17,23,682 | -1,97,191 | Values reported were as per back office software generated file. List of all debit balance clients has been provided. |
| **Own securities deposited with CC/CM** | 12,69,26,500 | 12,00,99,180 | 68,27,320 | CM might not have repledged the securities to CC, due to which difference was there. |
| **Non-Funded part of BG** | 47,61,00,000 | 47,86,00,000 | -25,00,000 | Noticee has not considered Pro BG of NSE Commodity. It has provided the workings, along with supporting documents |
| **Margin obligation of Pro position** | 31,46,07,420 | 31,47,12,787 | -1,05,367 | Values reported were as per back office software generated file. List of pro-margin obligation has been provided. |
| **Margin obligation of** | 13,79,67,139 | 16,30,75,564 | -2,51,08,425 | Values reported were as per back office software |

| Particulars | Reported By Member | As per Exchange Verification | Mismatch | Noticee's submissions |
|---|---|---|---|---|
| **Credit balance clients** | | | | generated file. List of margin obligation of credit balance clients has been provided. |
| **Unutilized value of collateral lying with CC/CM** | 1,45,15,497 | 6,19,36,604 | -4,74,21,107 | Values reported were as per MG01 file. The copy of MG01 file has been provided. |

15.4. The observations with respect to client asset reporting on September 29, 2023, and Noticee's submissions are provided below.

**Table 3**

| Particulars | Reported By Member | As per Exchange Verification | Mismatch | Noticee's submissions |
|---|---|---|---|---|
| **Collateral (Cash & Cash eqv) with CC/CM in form** of **FD & BG (Funded portion)** | 5,04,75,988 | 5,29,75,988 | -25,00,000 | Noticee has not considered Pro BG of NSE Commodity. It has provided the workings, along with supporting documents |
| **Aggregate value of Credit Balances across all Exchanges** | 42,77,97,695 | 42,78,03,279 | -5,584 | Values reported were as per back office software generated file. List of all credit balance clients has been provided. |
| **Aggregate value of Debit Balances across all Exchanges** | 79,61,776 | 82,19,562 | -2,57,785 | Values reported were as per back office software generated file. List of all debit balance clients has been provided. |
| **Own securities deposited with CC/CM** | 12,60,77,980 | 5,37,39,944 | 7,23,38,036 | CM might not have repledged the securities to CC, due to which difference was there. |
| **Non-Funded part of BG** | 26,10,00,000 | 26,35,00,000 | -25,00,000 | Noticee has not considered Pro BG of NSE Commodity. It has provided the workings, |

| Particulars | Reported By Member | As per Exchange Verification | Mismatch | Notice e's submissions |
|---|---|---|---|---|
| | | | | along with supporting documents |
| **Margin obligation of Pro position** | 30,72,40,799 | 32,54,13,640 | -1,81,72,840 | Values reported were as per back office software generated file. List of pro-margin obligation has been provided. |
| **Margin obligation of Credit balance clients** | 14,27,64,797 | 16,53,89,294 | -2,26,24,496 | Values reported were as per back office software generated file. List of margin obligation of credit balance clients has been provided. |
| **Unutilized value of collateral lying with CC/CM** | 2,87,35,324 | 8,61,73,098 | -5,74,37,774 | Values reported were as per MG01 file. The copy of MG01 file has been provided. |
| **Unutilized value of collateral lying with CC/CM** | 70,29,44,689 | 92,16,85,971 | -21,87,41,282 | Values reported were as per Clearing Member file. The copy of said file has been provided. |

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

15.5.1. With respect to bank balance as on September 22, 2023, there were uncleared cheques of ₹27000 and ₹300, which should not have been considered by the Noticee. Thus, there was over-reporting of bank balance by ₹27,300.

15.5.2. With respect to collateral with CC/CM in form of FD and BG, the Noticee had submitted that it had not considered pro BG of NSE Commodity Collateral. However, from the COLLDTLS file received from the CC, it was observed that after removing the BG values, the collateral amounted to ₹1,94,25,988 on September 22, 2023 and ₹5,29,75,988 on September 29, 2023, as calculated by the inspection team and provided in Table 2 and

Table 3 respectively. Thus, there was under-reporting of the balances of collateral (C&CE) by the Noticee on September 22, 2023 and September 29, 2023.

15.5.3. With respect to aggregate values of debit and credit balances across all Exchanges on September 22, 2023 and September 29, 2023, it is observed that the values reported by the Noticee, as per the ledgers was different from the cash and cash equivalent reporting made by the Noticee to the Exchanges. Considering the figures reported by the Noticee to the Exchanges, there was under-reporting of aggregate values of debit and credit balances across all Exchanges on September 22, 2023 and September 29, 2023.

15.5.4. With respect to own securities deposited with CC / CM, Noticee has submitted that CM might not have re-pledged the securities with CC. From the files received from MCX and NSE Clearing, it is observed that the Noticee has over-reported the value of own securities deposited with CC / CM as on September 22, 2023 and September 29, 2023. The Noticee should have reconciled / confirmed the balances with CC / CM files for reporting these values.

15.5.5. As on September 22, 2023, total BG deposited with CC/CM ₹478600000 (51000000/- with CC and 427600000/- with CM); as on September 29, 2023, Total BG deposited with CC/CM ₹263500000 (51000000/- with CC and 212500000/- with CM). Further the supporting document (containing collateral details) provided by the Noticee does not support its submissions. Thus, it is observed that the Noticee had under-reported non-funded part of BG.

15.5.6. With respect to margin obligation of pro position and credit balance clients on September 22, 2023 and September 29, 2023, the Noticee has submitted that the values were taken from its back office software, which were correct. It is noted that the source of the back office software is the files received from the CC, according to which the values come to the following:

| **Particulars** | **22/09/2023** | **29/09/2023** |
|---|---|---|
| Margin obligation of Pro Position | ₹31,47,12,787 | ₹32,54,13,640 |
| Margin obligation of Credit Balance Clients | ₹16,30,75,564 | ₹16,53,89,294 |

15.5.6.1. Thus, the Noticee has under-reported the aforesaid figures.

15.5.7. With respect to unutilized value of collateral lying with CC, the Noticee has submitted that it has correctly considered the figures from MG01 file. However, the Noticee should have considered MG01, CC01 and MG11 file to calculate unutilized collateral pertaining to pro, client and unallocated balance. As only MG01 file was considered, only unutilized collateral for pro was considered by the Noticee. Thus, there was under-reporting of unutilized value of collateral lying with CC as on September 22, 2023 and September 29, 2023.

15.5.8. With respect to unutilized value of collateral lying with CM as on September 29, 2023, the Noticee submitted that it had reported the values as per CM file. However, upon considering the CM files, as provided by the Noticee, it is observed that the unutilized value was ₹ 61,72,34,317.52. The calculation of this amount is provided below.

**Table 4**

| | **GCML** | **Globe Comm** | **GDSL** | **Total** |
|---|---|---|---|---|
| Cash | 10,81,06,183.38 | 22,40,406.94 | 49,80,88,194.24 | 60,84,34,784.56 |
| FDR/BG | 28,50,00,000.00 | | | 28,50,00,000.00 |
| Shares | 17,64,47,733.29 | | 8,57,11,345.56 | 26,21,59,078.85 |
| Other | 35,00,000.00 | | 5,00,000.00 | 40,00,000.00 |
| Total Deposit | 57,30,53,916.67 | 22,40,406.94 | 58,42,99,539.80 | 1,15,95,93,863.41 |
| Used | 28,44,91,163.71 | | 25,78,68,382.18 | 54,23,59,545.89 |
| **Free** | **28,85,62,752.96** | **22,40,406.94** | **32,64,31,157.62** | **61,72,34,317.52** |

15.5.9. Thus, the Noticee has reported incorrect value of unutilized collateral lying with the CM.

15.6. In view of the foregoing, the allegation of violation of provisions of Clause 3.2 & 6.1.1(j) of Annexure of SEBI Circular Ref No: SEBI/HO/MIRSD/MIRSD2/ CIR/2016/95 dated September 26, 2016 and BSE Notice No. 20220624-45 dated June 24, 2022 against the Noticee stands established.

16. **Incorrect reporting of balances of clients' funds report**

16.1. It was observed that the Noticee had reported incorrect balances in the clients' funds reports for the weeks ended on April 06, 2023, April 13, 2023, April 21, 2023 and April 28, 2023, with respect to the following.

16.1.1. Aggregate value of collateral deposited with Exchange in form of Cash and Cash Equivalents: Mismatch Value Rs.37 Lakhs on each of the four sample dates (as mentioned above).

16.1.2. Aggregate value of collateral deposited with CM in form of Cash and Cash Equivalents; Mismatch Value ranging from Rs. 1.2 to 3.4 crores on 3 of the four sample dates.

16.1.3. Aggregate value of pro non-cash collateral i.e. securities which have been deposited with CM: Mismatch Value ranging from Rs.9 lakhs to 10 lakhs on each of the four sample dates.

16.1.4. Aggregate value of non-funded part of BG Across segment: Mismatch value of Rs.1 crores on 3 of the four sample dates.

16.1.5. Aggregate value of unutilized collateral lying with the Exchange across exchange: Mismatch value to the tune of Rs.4 crores on each of the four sample dates.

16.2. In view of the above, it was alleged that the Noticee has violated the provisions of Clause 3.2 & 6.1.1 (j) of Annexure of SEBI Circular Ref No: SEBI/HO/MIRSD/MIRSD2/CIR/2016/95 dated September 26, 2016.

16.3. As per the provisions of Clause 3.2 and 6.1.1(j) of Annexure of SEBI Circular Ref No: SEBI/HO/MIRSD/MIRSD2/CIR/2016/95 dated September 26, 2016, a stock broker is required to submit data prescribed in para 3.2, to the stock exchanges, and shall ensure the correctness of the same.

16.4. The observations with respect to Aggregate value of collateral deposited with Exchange in form of Cash and Cash Equivalents and the Noticee's submissions are provided in the table below.

**Table 5**

| Date | Reported by Member | Values computed by Exchange | Difference | Noticee's submissions |
|---|---|---|---|---|
| 06-04-2023 | 3,02,50000 | 3,40,00000 | -37,50,000 | NSE Commodity Cash Collateral of ₹25 lakh, along with 50% of the value of the BG amount, i.e. ₹12.5 lakh, totalling to ₹37.50 lakh was not being considered by the Noticee earlier, as it was being considered for security deposit, against which no collateral is granted to the Noticee. However, after clarification from the NSE, it is being considered for cash collateral. |
| 13-04-2023 | 3,02,50000 | 3,40,00000 | -37,50,000 | |
| 21-04-2023 | 3,02,50000 | 3,40,00000 | -37,50,000 | |
| 28-04-2023 | 3,02,50000 | 3,40,00000 | -37,50,000 | |

16.4.1. From the table above, it is observed that the Noticee has provided explanation of the difference, while admitting that NSE Commodity Cash Collateral and 50% of the BG values was not considered by it in the aforesaid reporting. Thus, the Noticee has reported incorrect figures for Aggregate value of collateral deposited with Exchange in form of Cash and Cash Equivalents as on aforementioned dates.

16.5. The observations with respect to Aggregate value of collateral deposited with CM in form of Cash and Cash Equivalents and the Noticee's submissions are provided in the table below.

**Table 6**

| Date | Reported by Member | Values computed by Exchange | Difference | Noticee's submissions |
|---|---|---|---|---|
| 06-04-2023 | 33,37,88,663 | 33,86,52,530.89 | -48,63,868.89 | The values computed by the inspection team was flat 50% of the BG value, whereas, the Noticee has computed values on the basis of funded part |
| 13-04-2023 | 36,88,81,576 | 38,12,45,443.67 | -1,23,63,867.67 | |

| Date | Reported by Member | Values computed by Exchange | Difference | Noticee’s submissions |
|---|---|---|---|---|
| 21-04-2023 | 38,39,27,949 | 41,81,21,769.35 | -3,41,93,820.35 | of BG containing FDRs, which comes to actual values and varies every month, thereby creating a difference. Noticee has submitted the workings of the Exchanges, in support of its submissions. |
| 28-04-2023 | 39,687,6731 | 40,92,40,598.97 | -1,23,63,867.98 | |

16.5.1. The Noticee has submitted that the inspection team has computed flat 50% of the BG values to arrive at the figures, whereas, the Noticee has considered the actual funded part of the BG in form of FDRs. Noticee has also provided its computations, explaining that the reasons for the difference is due to the actual funded part of the BG being less than 50% of the BG amount. However, Noticee has not provided any documentary evidence in support of its submissions. Vide email dated November 26, 2024, the Noticee has provided copies of bank sanction letters for its credit facilities. However, the Noticee’s explanation cannot be verified from these documents. In view of the same, the Noticee’s submissions cannot be accepted. Thus, it is observed that the Noticee has incorrectly reported Aggregate value of collateral deposited with CM in form of Cash and Cash Equivalents for the aforementioned dates.

16.6. The observations with respect to Aggregate value of non-funded part of BG Across segment, and the Noticee’s submissions are provided in the table below.

**Table 7**

| Date | Reported by Member | Values computed by Exchange | Difference | Noticee's submissions |
|---|---|---|---|---|
| 06-04-2023 | 22,54,13,868 | 22,18,00,000 | 36,13,868 | The values computed by inspection team were based on flat 50% of the BG value, however, the Noticee has considered the actual values, due to which differences are there. |
| 13-04-2023 | 24,04,13,868 | 22,93,00,000 | 1,11,13,868 | |
| 21-04-2023 | 24,04,13,868 | 22,93,00,000 | 1,11,13,868 | |
| 28-04-2023 | 24,04,13,868 | 22,93,00,000 | 1,11,13,868 | |

16.6.1. The Noticee has submitted that the inspection team has computed flat 50% of the BG values to arrive at the figures, whereas, the Noticee has considered the actual unfunded part of the BG. Noticee has also provided its computations, explaining that the reasons for the difference is due to the actual funded part of the BG being less than 50% of the BG amount. However, Noticee has not provided any documentary evidence in support of its submissions. Vide email dated November 26, 2024, the Noticee has provided copies of bank sanction letters for its credit facilities. However, the Noticee's explanation cannot be verified from these documents. In view of the same, the Noticee's submissions cannot be accepted. Thus, it is observed that the Noticee has incorrectly reported Aggregate value of non-funded part of BG Across segments.

16.7. The observations with respect to pro non-cash collateral i.e., securities which have been deposited with CM, and the Noticee's submissions are provided in the table below.

**Table 8**

| Date | Reported by Member | Values computed by Exchange | Difference | Noticee's submissions |
|---|---|---|---|---|
| 06-04-2023 | 13,67,99,323 | 13,58,45,122.97 | 9,54,200 | The Noticee had pledged certain quantity in 3 securities with the CM, however, the CM had not re-pledged the same. Noticee had considered the value of these securities while computing the pro non-cash collateral, under the assumption that the same have been re-pledged by the CM. Noticee has provided copies of securities in its proprietary account, identifying the difference for all four dates. |
| 13-04-2023 | 13,91,24,411 | 13,81,44,421.36 | 9,79,989.64 | |
| 21-04-2023 | 12,25,11,942 | 12,15,34,981.91 | 9,76,960.09 | |
| 28-04-2023 | 12,48,71,406 | 12,38,43,496.91 | 10,27,909,09 | |

16.7.1. Noticee should have reconciled the balances with CC/CM while reporting the aforementioned figures. However, the same has not been done, and this has resulted in incorrect reporting of pro non-cash collateral deposited with CM. In view of the same, Noticee's submissions cannot be accepted.

16.8. The observations with respect to Aggregate value of unutilized collateral lying with the Exchange across exchange and the Noticee's submissions are provided in the table below.

**Table 9**

| Date | Reported by Member | Values computed by Exchange | Difference | Noticee's submissions |
|---|---|---|---|---|
| 06-04-2023 | 1,35,42,591.59 | 6,03,98,026.09 | -4,68,55,434.5 | The values computed by the Noticee were only based on the |

| Date | Reported by Member | Values computed by Exchange | Difference | Noticee's submissions |
|---|---|---|---|---|
| 13-04-2023 | 1,37,80,692 | 5,77,44,945.87 | -4,39,64,253.87 | Exchange Clearing Corporation and Clearing Member files, and the data was taken from the supporting documents received from them. Further, the values reported by the Noticee are less than those computed by the Exchanges, which shows that the Noticee was being conservative and has not misutilized the funds. |
| 21-04-2023 | 1,30,67,847 | 5,89,41,629.24 | -4,58,73,782.24 | |
| 28-04-2023 | 1,17,30,136 | 5,69,44,415.59 | -4,52,14,279.59 | |

16.8.1. The Noticee has submitted that it has correctly considered the figures from MG01 file. However, the Noticee should have considered MG01, CC01 and MG11 file to calculate unutilized collateral pertaining to pro, client and unallocated balance. As only MG01 file was considered, only unutilized collateral for pro was considered by the Noticee. Thus, the Noticee has made incorrect reporting with respect to Aggregate value of unutilized collateral lying with the Exchange across exchange.

16.9. In view of the foregoing, it is observed that the allegation of violation of provisions of Clause 3.2 & 6.1.1 (j) of Annexure of SEBI Circular Ref No: SEBI/HO/MIRSD/MIRSD2/CIR/2016/95 dated September 26, 2016 against the Noticee stand established.

17. **Incorrect reporting of enhanced supervision data**

17.1. With respect to Enhanced Supervision submission for the weeks ended on September 01, 2023, September 08, 2023, and September 15, 2023, it was observed that the Noticee had not reported the unutilized collaterals lying with the clearing corporation and considered only those lying with the clearing member. Difference in aggregate value of unutilized (Free) collateral lying with the Clearing Corporation/ Exchange across Stock Exchanges and reported by the Noticee is provided below.

**Table 10**

| Reporting Date | Reported by member | Values computed by exchange | Difference (not considered while calculating Enhance principles |
|---|---|---|---|
| 01-09-2023 | 87,15,973 | 5,84,63,442.59 | 4,97,47,469.59 |
| 08-09-2023 | 86,29,597 | 6,06,19,315.87 | 5,19,89,718.87 |
| 15-09-2023 | 1,21,81,932 | 6,30,46,943.60 | 5,08,65,011.60 |

17.2. In view of the above, it was alleged that the Noticee has violated the provisions of Clause 3.2 & 6.1.1(j) of Annexure of SEBI Circular No: SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Point No. 10 of Annexure-B of the NCDEX Circular dated October 31, 2017 - NCDEX/COMPLIANCE-020/2017/285.

17.3. As per Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, a stock broker is required to submit data prescribed in para 3.2, to the stock exchanges, and shall ensure that the correctness of the same. Point No. 10 of Annexure-B of the NCDEX Circular dated October 31, 2017 - NCDEX/COMPLIANCE-020/2017/285 prescribes the penalty for material wrong / incorrect submission of data towards enhanced supervision.

17.4. In this regard, the Noticee has submitted that it had reported the figures as per NSE CM MG01 file as its system was not configured to compute the figures as per NSE CM CC01 file. However, there has been no violation of principles of enhanced supervision.

17.5. It is noted that the Noticee has considered NSE CM MG01 file, which provides the amount of collaterals lying with the clearing member. However, the Noticee was also required to consider NSE CM CC01 file, which provides details of the client level collateral that trading members pledge or repledge with the clearing corporation / NSE Clearing. As the Noticee has not considered NSE CM CC01 file, it has resulted in under-reporting of the figures of aggregate value of unutilized (Free) collateral lying with the Clearing Corporation/ Exchange across Stock Exchanges. Although there has not been violation of any principles of the enhanced supervision circular, the aforesaid values were under-reported by the Noticee.

17.6. In view of the foregoing, it is observed that the Noticee has violated the provisions of Clause 3.2 & 6.1.1(j) of Annexure of SEBI Circular No: SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Point No. 10 of Annexure-B of the NCDEX Circular dated October 31, 2017 - NCDEX/COMPLIANCE-020/2017/285.

18. **<u>Non-settlement of clients’ funds and non-provision of documents –</u>**

18.1. With respect to verification of running account settlement of funds for inactive clients, it was observed that the Noticee had not made settlement of inactive clients on 254 instances out of total 10563 instances verified for clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction.

18.2. With respect to verification of settlements done on 1st Friday of the quarter, it was observed that the Noticee had not done settlement of client's funds in 560 instances out of total 4411 (520+929+890+1201+871) instances verified, where the Noticee had retained funds of client in excess of permissible obligations.

18.3. During verification of logs for sending retention statement to clients, it was observed that the email of retention statement was bounced as per logs and no dispatch proof was provided by the Noticee for the bounced emails for sending retention statement to clients within 5 working days of settlement.

18.4. The Noticee was advised to provide the logs for sending SMS to clients at the time of settlement. However, despite repeated reminders, orally and through email, the Noticee did not provide the required data.

18.5. Thus, it was alleged that the Noticee has violated the provisions of Clause 12(e) of SEBI Circular MIRSD/SE/Cir-19/2009 dated December 03, 2009; Clause 8.1.1 & 8.1.4 of Annexure to SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; Clause 5.1 & 5.4 SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022; Regulation 21(1), (2) and (3) of the SEBI (Stock Brokers) Regulations, 1992; BSE Notice No. 20131029-15 dated October 29, 2013, 20200116-44 dated January 16, 2020, 20200210-47 dated February 10, 2020, 20220331-53 dated March 31, 2022.

18.6. As per the provisions of Clause 12 (e) of SEBI Circular MIRSD/SE/Cir-19/2009 dated December 03, 2009, the settlement of funds / securities shall be done within 24 hours of the payout, unless otherwise specifically agreed to by a client. In such a case, the actual settlement shall be done at least once in a calendar quarter or month, depending on client's preference. While settling the account, the broker shall send a statement of accounts to the client, providing the details as outlined in the aforementioned circular. As per the provisions of Clause 8.1.1 & 8.1.4 of Annexure to SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, the maximum gap between two running account settlements should not exceed 90/30 days, and the statement of accounts shall be sent within five days from the date when the account is considered to be settled. As per Clause 5.1 & 5.4 SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, the quarterly/ monthly settlement shall be done after considering the end of the day (EOD) obligation of funds as on the date of settlement across the Exchanges, and for the clients having credit balances, who have not done transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the clients within next three working days irrespective of the date when the running account was previously settled. As per Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/ 101 dated July 27, 2022, the settlement of running account of funds shall be done after considering the EOD obligation of funds as on the date of settlement on the first Friday of the Quarter for all the clients. BSE Notice No. 20131029-15 dated October 29, 2013, 20200116-44 dated January 16, 2020, BSE Notice No. 20220331-53 dated March 31, 2022, and BSE Notice No. 20200210-47 dated February 10, 2020 provide clarifications with respect to actual settlement of fund and securities and running account settlement of funds, and guidelines with respect to transaction in inactive trading accounts, return of clients assets, reporting of clients funds and securities.

18.7. As per the provisions of Regulation 21(1), (2) and (3) of the Stock Brokers Regulations, 1992, the stock brokers are obligated to produce documents / records / information in their custody or control to the inspecting authority, and allow them reasonable access to their premises.

18.8. Noticee's submissions in this regard are summarized at paragraphs 7.10 to 7.14 above.

18.9. Following is observed from the submissions of the Noticee and the inspection findings:

18.9.1. Noticee has provided supporting documents for verification of financial ledgers of clients. After verification of financial ledgers, reply of the stock broker may be accepted in 101 instances out of total 254 instance. In the remaining instances, Noticee's submissions cannot be accepted for the reasons provided below.

18.9.1.1. In 77 instances, the Noticee had submitted that client was duly settled on due date, but due to incorrect IFSC, the amount was returned and was transferred to a separate bank account. However, it is observed that the Noticee had not marked these accounts as untraceable in its Exchange Reporting.

18.9.1.2. In 28 instances, the Noticee had submitted that the client was duly settled as per the policy. However, it was observed that more than 30 days had elapsed since the last transaction of those clients, but their balances were not settled with subsequent three working days.

18.9.1.3. In 46 instances, the Noticee had submitted that the clients were active. However, it was observed that more than 30 days had elapsed since the last transaction of those clients. thus, their credit balances were required to be settled in next three working days. However, the same were not settled by the Noticee.

18.9.2. Out of the 560 instances where the Noticee was alleged to have retained funds of client in excess of permissible obligations, it was observed that the Noticee had made submissions without providing any supporting documents. Only in two instances, it is observed that the funds were transferred on the same day, and thus acceptable. In the remaining instances, Noticee’s submissions cannot be accepted for the reasons provided below.

18.9.2.1. In 281 instances, margin was incorrectly calculated, due to which excess funds were retained by the Noticee.

18.9.2.2. In 105 instances, funds were not settled on the first Friday of the quarter, in terms of Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022.

18.9.2.3. In 172 instances, it was observed that the excess funds after all margin obligations were not settled by the Noticee.

18.9.3. The Noticee had submitted that it had dispatched physical retention statement to 455 clients out of 457 clients. However, it has provided only 11 instances of dispatch proof out of total 457 instances. In this regard, it is noted that the Noticee has not provided dispatch register to substantiate proof of dispatch of retention statement physically to all 457 clients on a timely manner. Therefore, the reply of the Noticee is not tenable.

18.9.4. With respect to sending SMS logs at the time of settlement of funds, the Noticee submitted that the logs could not be submitted earlier, as the concerned staff was new and was in follow up with back office vendor. However, it is observed that the Noticee has not provided the SMS logs at the time of inspection and even subsequently, during the present proceedings. Therefore, Noticee's submissions are not tenable.

18.10. In view of the foregoing, the allegation of violation of provisions of Clause 12(e) of SEBI Circular MIRSD/SE/Cir-19/2009 dated December 03, 2009; Clause 8.1.1 & 8.1.4 of Annexure to SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; Clause 5.1 & 5.4 SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022; Regulation 21(1), (2) and (3) of the SEBI (Stock Brokers) Regulations, 1992; BSE Notice No. 20131029-15 dated October 29, 2013, 20200116-44 dated January 16, 2020, 20200210-47 dated February 10, 2020, 20220331-53 dated March 31, 2022 against the Noticee stands established.

19. **Delay in issuance of Daily Margin statements –**

19.1. It was observed that the Noticee had not issued Daily Margin Statements (DMS) to the clients on the T-day itself. There was a delay in the range of 1-14 days in sending Daily Margin Statements to clients. The summary of the observations is provided below.

**Table 11**

| Total instance of issuing DMS for 370 Trade Days | Instance of alleged delayed issuance of DMS | % of instances of alleged delay |
|---|---|---|
| 2,28,888 | 2,28,888 | 100% |

19.2. Thus, the Noticee was alleged to have violated the provisions of Clause 35 of Annexure-4 to Clause 3 (iii) of CIR/MIRSD/16/2011 dated August 22, 2011.

19.3. As per the provisions of Clause 35 of Annexure-4 to Clause 3 (iii) of CIR/MIRSD/16/2011 dated August 22, 2011, a stock broker shall send daily margin statements to the clients.

19.4. Noticee has submitted that it is sending daily margin statements (DMS) to all clients in compliance of the master circular. The DMS are generated in the back office after processing trade and margin obligation liabilities of all the segments, i.e. NSE, BSE, NCDEX and MCX, which normally completes around 6 AM on next working day. Thereafter, DMS are generated and shared with the clients. The inspection team has not considered holidays while calculating the delay. During holidays, the DMS was sent on the subsequent working day, to the clients. Margin statements were updated daily on the Noticee's website and it was also always available over phone. Due to large number of clients, the server sometimes takes time to send the DMS. No grievance has been received from any of the clients.

19.5. It is observed that in 88.50% of the total instances, i.e. 2,28,888, the Noticee had issued the DMS on the subsequent day. However, trading members are required to issue the daily margin statements the same day, i.e. the T-day itself. It is also observed that in 4% of the instances, the DMS was issued after two days, mainly due to the intervening holidays. In rest of the instances, the DMS was issued after three or more days. In some of these instances, there was a delay in issuance of DMS even when there were no intervening holidays or weekend. Noticee has submitted that in various cases, the DMS was issued again based on the request of the clients. However, no supporting documentary evidence in terms of separate request of the clients and proof of the DMS being already issued, is present on record. Noticee's submissions that due to large number of clients, sometimes there was delay in issuance of DMS is also not tenable, as Noticee, being a SEBI registered stock broker is required to maintain its systems commensurate to the size of its business, so as to be in compliance of all applicable regulatory provisions and also to act in the best interests of the clients.

19.6. In view of the foregoing, it is observed that the Noticee has violated the provisions of Clause 35 of Annexure-4 to Clause 3 (iii) of CIR/MIRSD/16/2011 dated August 22, 2011, by delaying in issuance of daily margin statements to its clients.

20. **Passing of penalty to clients on account of short/non-collection of upfront margins –**

20.1. Upon verification of client fund ledger and penalty ledger provided by the Stock Broker on sample basis, it was observed that the Noticee had passed on penalty for short collection of upfront margin (peak margin shortfall) to clients in 34 instances.

20.2. Thus, it was alleged that the Noticee has violated the provisions of Clauses A (2) and A (5) as prescribed under Code of Conduct read with Regulation 9 of SEBI (Stock Brokers) Regulations, 1992 read with SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 and SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 read with NSE circular NSE/INSP/45191 dated July 31, 2020 and NSE/INSP/49929 dated October 12, 2021.

20.3. SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 provides guidelines with respect to Collection and reporting of margins by Trading Member (TM) /Clearing Member (CM) in Cash Segment. SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 reiterates that applicable upfront margins are required to be collected from the clients in advance of the trade. NSE circular NSE/INSP/45191 dated July 31, 2020 and NSE/INSP/49929 dated October 12, 2021 provides Guidelines/clarifications on Margin collection and reporting, and clarify that that the members cannot pass on the penalty w.r.t short collection of upfront margin to client. As per the provisions of Clauses A (2) and A (5) as prescribed under Code of Conduct read with Regulation 9 of SEBI (Stock Brokers) Regulations, 1992, a stock broker shall always act with due skill, care and diligence, and abide by all the provisions of the SEBI Act, 1992, and the rules, regulations issued by the Government, SEBI and the stock exchange from time to time, as applicable to it.

20.4. The Noticee has submitted that it had passed on the penalty to clients in 34 instances only when the margin was suddenly increased on open position of the client and where they failed to provide funds in due time, or when the clients had suffered sudden intra-day loss due to volatility and failed to provide the funds. The clients were also communicated regarding passing of the penalty, and no complaints have been received in this regard. The Noticee also submitted details of 34 instances where penalties were collected from the clients and details of daily margin statement and SMS logs sent.

20.5. Upon perusal of the daily margin statements with respect to the aforesaid 34 instances, as submitted by the Noticee, it is observed that in 17 instances, there was short collection of upfront margin, and in remaining 17 instances, there was shortfall of peak margin but no shortfall in upfront and MTM margin. In terms of the extant NSE Circulars, the Noticee was not allowed to pass on the penalty to clients for short collection of upfront margins. Thus, the Noticee was allowed to pass on the penalty to the clients only in 17 instances where there was no shortfall in upfront margin. However, the Noticee has passed on the penalty to clients in all 34 instances, out of which the penalty should not have been passed on in 17 instances where there was shortfall in upfront margin.

20.6. Thus, it is observed that the Noticee has violated the provisions of Clauses A (2) and A (5) as prescribed under Code of Conduct read with Regulation 9 of SEBI (Stock Brokers) Regulations, 1992 read with SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 and SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 read with NSE circular NSE/INSP/45191 dated July 31, 2020 and NSE/INSP/49929 dated October 12, 2021.

21. **<u>Pay-out of funds to clients in excess of their balances</u>** –

21.1. It was observed upon verification of client ledgers that the Noticee had made excess pay-out of ₹24.61 lakhs to 3 clients of their credit running balance. Thus, it was alleged that the Noticee has violated the provisions of Clause 1(C) of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause no. 2.4.2 of the Annexure to the SEBI circular Ref no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

21.2. As per the provisions of Clause 1(C) of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993, no money shall be paid to clients other than money held or received on account of clients; such money belonging to the Member, as may be necessary for opening or maintaining the account; money for replacement of any sum which may by mistake or accident have been drawn from the client's account; a cheque or draft received by the Member, representing in part money belonging to the client and in part due to the member. Clause no. 2.4.2 of the Annexure to the SEBI circular Ref no. SEBI/HO/MIRSD/MIRSD2/CIR/P/ 2016/95 dated September 26, 2016, reiterates the aforesaid requirement and provides that for such transfers, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.

21.3. The Noticee has submitted that all the pay-outs were done as per the balances available in the clients' accounts. Noticee has submitted instance wise response along with ledger statements with respect to the three clients.

21.4. Following is observed upon perusal of the client ledgers submitted by the Noticee.

**Table 12**

| UCC | Date | Transaction Type | Payment | Running Balance before payout as per Inspection team | Alleged Excess Payout | Running Balance before payout as per Client ledgers provided by Noticee |
|---|---|---|---|---|---|---|
| RAG06 | 10-Mar-2023 | PAYMENT | 65,00,000 | 42,48,295 | 22,51,705 | 4,57,82,599 |
| DBS6937 | 21-Jan-2023 | PAYMENT | 10,000 | (2,650) | 12,650 | 13,518 |
| DBS5318 | 13-Jan-2023 | PAYMENT | 13,00,000 | 11,02,646 | 1,97,354 | 15,10,126 |

21.5. From the above table, it is observed that there was no excess payout made to any of the clients. To verify the client balances further, the Noticee was advised to provide screenshots from its back office software showing the outstanding balances at the end of the day, for all the instances. From the screenshots provided by the Noticee, it is observed that the balances as per screenshots are same as balances as per the ledger statements submitted by the Noticee. In view of the same, Noticee's submissions are acceptable.

21.6. In view of the foregoing observations, the allegation of violation of provisions of Clause 1(C) of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause no. 2.4.2 of the Annexure to the SEBI circular Ref no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 does not stand established.

22. **Non-maintenance of Client Order Placement Records** –

22.1. Upon examination of order placement records maintained by the Noticee on a sample basis, it was observed that the Noticee had not maintained order placement records in 9 instances for the trades executed on September 29, 2023. The summary of the instances is provided below.

**Table 13**

| Name of client | Trade | SEBI Observations |
|---|---|---|
| Anshul Ashri | Purchase of shares of Chennai Petro | Only post trade confirmation available. No confirmation obtained prior to placing order. |
| Brij Bhushan Agarwal | Purchase of shares of Oswal Chemicals | Voice Recording/Order placing sheet for placement of orders not provided by the Noticee |
| Madan Gupta | Purchase shares of Bharti Infratel | Voice Recording/Order placing sheet for placement of orders not provided by the Noticee |
| Madhu Varshney | Purchase of shares of SBI | Despite being a female client, trade conformation received from a male without providing any authorization. |
| Nadim Sabbirbhai Shaikh | Purchase of shares of Himadri Chemicals | Only post trade confirmation available. No confirmation obtained prior to placing order. |

| Name of client | Trade | SEBI Observations |
|---|---|---|
| Nidhi | Purchase of shares of Shyam Cement | Despite being a female client, trade conformation received from a male without providing any authorization. |
| Rashmi Agarwal | Purchase of shares of Union Bank | Voice Recording/Order placing sheet for placement of orders not provided by the Noticee |
| Shivani Jain | Sale of shares of Indus Tower | Despite being a female client, trade conformation received from a male without providing any authorization. |
| Sunita Sharma | Trade in the shares of VEDL | Despite being a female client, trade conformation received from a male without providing any authorization. |

22.2. As the Noticee was not able to provide the order placement records in several instances, it has been alleged that the Noticee has violated the provisions of Clause III of the SEBI Circular no. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018.

22.3. As per the provisions of Clause III of the SEBI Circular no**.** SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, all brokers shall execute trades of clients only after keeping evidence of the client placing such order, in the form of physical record – written and signed by the client, telephone recording, email from authorized email ID, log for internet transactions, record of messages through mobile phones or any other legally verifiable record.

22.4. The Noticee has submitted that as the deputed staff was present during the inspection, instead of the concerned staff, incomplete data with respect to order placement records were provided by the Noticee. The order placement sheets were submitted by the Noticee. Further, authorization letter with respect to the observation of trade confirmation received from a male person for the trade of a female client, is also provided along with the submissions.

22.5. It is noted that the Noticee has provided order placing sheets for all the 9 instances listed above. The Noticee has also provided the authorisation letters signed by the four female clients, where trades were being placed on their behalf by their husbands. It is further observed that the same documents were also submitted by the Noticee vide its reply dated April 19, 2024 to the findings of inspection. Thus, Noticee's submissions are accepted. In view of the same, it is observed that the allegation of violation of provisions of Clause III of the SEBI Circular no**.** SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018 against the Noticee does not stand established.

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

23.1. Clause 3.2 & 6.1.1 (j) of Annexure of SEBI Circular Ref No: SEBI/HO/MIRSD/MIRSD2/CIR/2016/95 dated September 26, 2016

23.2. BSE Notice No. 20220624-45 dated June 24, 2022.

23.3. Clause 3.2 & 6.1.1 (j) of Annexure of SEBI Circular No: SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Point No. 10 of Annexure-B of the NCDEX Circular dated October 31, 2017 - NCDEX/COMPLIANCE-020/2017/285

23.4. Clause 12(e) of SEBI Circular MIRSD/SE/Cir-19/2009 dated December 03, 2009

23.5. Clause 8.1.1 & 8.1.4 of Annexure to SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016,

23.6. Clause 5.1 & 5.4 SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022

23.7. Regulation 21(1), (2) and (3) of the SEBI (Stock Brokers) Regulations, 1992

23.8. BSE Notice No. 20131029-15 dated October 29, 2013, 20200116-44 dated January 16, 2020, 20200210-47 dated February 10, 2020, 20220331-53 dated March 31, 2022

23.9. Clause 35 of Annexure-4 to Clause 3(iii) of CIR/MIRSD/16/2011 dated August 22, 2011

23.10. Clauses A (2) and A (5) as prescribed under Code of Conduct read with Regulation 9 of SEBI (Stock Brokers) Regulations, 1992 read with SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 and SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 read with NSE circular NSE/INSP/45191 dated July 31, 2020 and NSE/INSP/49929 dated October 12, 2021

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

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

***SEBI Act, 1992***

***Penalty for contravention where no separate penalty has been provided.***

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

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

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

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

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

    ***SEBI Act, 1992***

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

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

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

    *(c) the repetitive nature of the default.*

27. In the present matter, it is noted that no quantifiable figures are available to assess the disproportionate gain or unfair advantage made as a result of the defaults by Noticee. Further, from the material available on record, it may not be possible to ascertain the exact monetary loss to the clients on account of default by Noticee. Further, as per the available records, it is observed that Noticee has been penalised earlier for not settling the running account balances of its clients. As a SEBI registered intermediary, Noticee was under statutory obligation to comply with the applicable circulars, rules and regulations. The very purpose of the said regulations

is to deter wrong doing and promote ethical conduct in the securities market. Therefore, such non-compliance deserves and attracts imposition of suitable penalty.

**ORDER**

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

| **Name of Noticee** | **Violation provisions** | **Penal Provisions** | **Penalty** |
|---|---|---|---|
| Raghunandan Capital Private Limited (PAN: AADCR7430F) | • Clause 3.2 & 6.1.1 (j) of Annexure of SEBI Circular Ref No: SEBI/HO/MIRSD/MIRSD2/CIR/2016/95 dated September 26, 2016<br>• BSE Notice No. 20220624-45 dated June 24, 2022.<br>• Clause 3.2 & 6.1.1 (j) of Annexure of SEBI Circular No: SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Point No. 10 of Annexure-B of the NCDEX Circular dated October 31, 2017 - NCDEX/COMPLIANCE-020/2017/285<br>• Clause 12(e) of SEBI Circular MIRSD/SE/Cir-19/2009 dated December 03, 2009 | Section 15HB of SEBI Act, 1992 | ₹8,00,000/- (Rupees Eight Lakh Only) |

| Name of Noticee | Violation provisions | Penal Provisions | Penalty |
|---|---|---|---|
| | • Clause 8.1.1 & 8.1.4 of Annexure to SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016,<br>• Clause 5.1 & 5.4 SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022<br>• Regulation 21(1), (2) and (3) of the SEBI (Stock Brokers) Regulations, 1992<br>• BSE Notice No. 20131029-15 dated October 29, 2013, 20200116-44 dated January 16, 2020, 20200210-47 dated February 10, 2020, 20220331-53 dated March 31, 2022<br>• Clause 35 of Annexure-4 to Clause 3(iii) of CIR/MIRSD/16/2011 dated August 22, 2011<br>• Clauses A (2) and A (5) as prescribed under Code of Conduct read with Regulation 9 of SEBI (Stock Brokers) Regulations, 1992 read with SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 and SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 read with NSE circular NSE/INSP/45191 dated July 31, 2020 and NSE/INSP/49929 dated October 12, 2021 | | |

29. The said penalty is commensurate with the lapse/omission on the part of the Noticee.

30. 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.**

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

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

| | |
|---|---|
| **DATE: NOVEMBER 27, 2024** | **BARNALI MUKHERJEE** |
| **PLACE: MUMBAI** | **ADJUDICATING OFFICER** |