BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

ADJUDICATION ORDER No. Order/AN/RG/2023-24/30329

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF 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 SECURITIES CONTRACTS (REGULATION) (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 2005.

In respect of:

FRR Shares and Securities Limited

(PAN: AABCF5477E / SEBI Registration Number: INZ000279232)

In the matter of FRR Shares and Securities Limited

A. BRIEF BACKGROUND

1. Securities and Exchange Board of India (hereinafter also referred to as '**SEBI**') conducted an inspection of FRR Shares and Securities Limited (hereinafter also referred to as "**Noticee/ FRR/ Member/ FRR Shares/ TM/ Depository Participant/ DP"**), jointly with Exchanges and Depository during September 30, 2022 to October 12, 2022 for the Inspection period April 01, 2021 to August 31, 2022. The scope of the Inspection was to inter alia look into the Noticee's compliance with respect to KYC, PMLA, settlement of running account, segregation of client and own funds, client funding, Margin, Investor grievances handling mechanism, compliance of all SEBI circulars pertaining to stock brokers, cyber security and cyber resilience framework for stock broker etc.

2. The findings pursuant to the inspection were communicated to the Noticee by SEBI vide letter dated November 25, 2022 and comments / explanations of the Noticee

were sought on the same. Noticee vide its letter dated December 07, 2022, submitted its reply to the findings and observations of SEBI.

3. Based on the analysis of replies received and examination in the matter by SEBI, briefly stated, it was inter alia observed by SEBI that Noticee had allegedly violated various provisions of Securities Contracts (Regulation) Act, 1956 ("SCR Act" / "SCR Act, 1956"), Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 ("SEBI Stock Broker Regulations" / "SEBI Stock Broker Regulations, 1992"), Securities Contracts (Regulations) Rules, 1957 ("SCR Rules" / "SCR Rules, 1957") and Circulars issued by SEBI viz.,

I. Section 23D of SCRA 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.

II. Clause 5.1 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Clause 12(e) of Annexure-A to SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 8.1 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

III. Clause 2.3.3. of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

IV. Clause 4.1.2, 4.1.5 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/ 2020/146 dated July 31, 2020.

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

VI. Clause 5.6 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 1(i) of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011.

VII. Clause 2 (B) of SEBI Circular No. CIR/ MIRSD/15/2011 dated August 02, 2011.

VIII. Regulation 9(e) of SEBI (Stock Brokers) Regulations, 1992.

IX. Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and Annexure A to NSE Circular NSE/COMP/48895 dated July 10, 2021.

X. Clause 3.2 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

XI. Clause 7 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE Exchange circular NSE/ INSP/43486 dated February 10, 2020.

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

XIII. Clause 2 read with Clause 6.1.1. (g) of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Clause 4.3 of SEBI Circular No. CIR/HO/ MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.

XIV. Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.

XV. Clause A.5 of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/ INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.

XVI. Regulation 9(b) of SEBI(Stock Broker) Regulations, 1992 read with Regulation 4.2.2 of Part A of the Capital Market Regulations of NSE.

XVII. Clauses 2 and 36 of Annexure-1 to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018.

Accordingly, SEBI initiated adjudication proceedings against the Noticee under Section 15-I of SEBI Act, 1992 (hereinafter also referred as “SEBI Act”) and under Section 23 I of the SCR Act for the alleged violations of the provisions, as stated.

B. APPOINTMENT OF ADJUDICATING OFFICER

4. 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 read with Section 15 I of the SEBI Act, 1992 read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter also referred as ‘Adjudication Rules’), and under Section 23 I of the SCR Act, 1956 read with Rule 3 of the Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005, the Competent Authority appointed the undersigned as Adjudicating Officer (“AO”) vide order dated September 14, 2023 to inquire into and adjudicate under Section 15HB and Section 15C of the SEBI Act, 1992, and Section 23D and 23H of SCR Act, 1956, the aforesaid alleged violations by the Noticee. The said proceedings of appointment were communicated to the undersigned vide Communique dated September 15, 2023.

C. SHOW CAUSE NOTICE, REPLY OF THE NOTICEE AND PERSONAL HEARING

5. A Show Cause Notice No. SEBI/EAD-5/AN/RG/49100/1-3/2023 dated December 05, 2023 along with Annexures (“SCN”), was served upon the Noticee under Rule 4 of the Adjudication Rules and under Rule 4 of the SCR Rules, to show cause as to why an inquiry should not be held and penalty not be imposed against the Noticee under Section 15HB and Section 15C of the SEBI Act, 1992, and Section 23D and 23H of SCR Act, 1956, for the violations alleged to have been committed by the Noticee.

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

4. Findings and Observations by SEBI and alleged violations thereto in respect of the Noticee:

4.1. Finding A: Misuse of clients' funds, Verification of Proprietary MTM loss and Analysis of Enhanced supervision data (Weekly):

a) G negative – On 12 out of 38 sample instances, funds of credit balance clients mis-utilized for meeting the obligations of debit balance clients and/or for its own purpose. The average misutilised amount is Rs. 1.56 Crore. The amount of mis-utilization ranges from Rs.22.9 Lakh to Rs.3.74 Crore.

b) Further, value of 'J' is positive in 2 out of 38 sample instances, funds of clients mis-utilised towards margin obligations of debit balance clients and proprietary trading. The average misutilised amount is Rs. 6.26 Crore. The amount of misutilisation ranges from Rs. 98.75 Lakh to Rs. 11.54 Crore.

In this regard, following was inter alia observed and/or alleged by SEBI:

As per the calculation based on the submissions and supporting available, it was observed that out of 18 sample days, G was positive for 12 days and negative for 6 days. G was negative in the range of Rs. 54.08 lakh to Rs. 2.97 crore.

Further, it was observed that absolute value of G for the above mentioned 6 days is less than the absolute value of D, which implies that the member has possibly utilized a part of the funds of credit balance clients towards settlement obligation of debit balance clients to the extent of value of G.

The detailed calculations supporting the above observations are placed as Annexure 2B.

Verification of Proprietary MTM loss:

Total Amount of mis-utilization of client funds in FO segment are given below:

Sr. No.	Date	Misutilization of client funds (Principal – I)	Funds of clients used for Margin obligation of proprietary trading (Principal – II)
1	14-Feb-22	-90,52,602.06	-
2	25-Nov-21	-22,89,615.46	-
3	12-Apr-21	-3,73,57,642.62	-
4	24-Jan-22	-1,02,52,262.47	-

Details are placed as Annexure 13C.

In this regard, Member has submitted files which contains different creditor balances. However, SEBI noted that the creditor balances considered by NSE Inspection team are taken directly from Back office of Member at the time of Inspection.

Analysis of Enhanced supervision data (Weekly):

Principal 1 and Principal 3 have been violated as per below:

Date	***Principle I***	***Principle III***
03-Nov-2021	*Violation*	*No Violation*
02-Mar-2022	*Violation*	*No Violation*
17-Mar-2022	*No Violation*	*Violation*
25-Mar-2022	*No Violation*	*Violation*

…….

As regards Principle 1 Violation on 03-Nov-2021, the Member has submitted that the violation is due to FD of Rs 1,70,00,000 in transit. However, SEBI observed that as the FD is still in transit, it should not be considered for calculating G.

As regards the Principle 1 Violation on 02-Mar-2022, the Member submitted that they are unable to verify correctness of the observation and details provided by NSE are not matching with the data uploaded by member to Exchange. However, SEBI observed that the calculations are done on the basis of clear trial balance provided by Member at the time of Inspection and submitted the supportings.

No of Instances (G) : 12/38 (sample instances)

Average amount of mis-utilisation (G) : Rs. 1.56 Crore

Range of mis-utilisation (G): Rs. 22.9 Lakh to Rs. 3.74 Crore

No of Instances (J) : 2/38 (sample instances)

Average (J) : Rs. 6.26 Crore

Range of mis-utilisation (J): Rs. 98.75 Lakh to Rs. 11.54 Crore

In view thereof, Noticee is alleged to have violated Section 23D of SCRA 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.

4.2. Finding B: Monthly / Quarterly Settlement of Funds and Securities:

a) Non-settlement of funds of inactive clients with amount of non-settlement ranging from Rs. 7,750 (8 clients) to Rs 16.33 Lakh (339 clients) during the inspection period spanning 15 months.

b) Broker has not maintained separate bank account for keeping funds of Inactive clients.

c) SMS is not sent to clients on settlement

In this regard, following was inter alia observed and/or alleged by SEBI:

It is observed that the member has not settled the funds of unique 339 Inactive Clients as on August 31, 2022 amounting of Rs. 16,32,648 /- (Annexure-3E). Member has retained funds of clients towards administrative / operational purposes beyond August, 2021 and has not settled the funds of inactive clients.

Month	Count of Clients	Amount unsettled
Jun-2021	8	7,750.00
Jul-2021	24	23,933.85
Aug-2021	107	3,95,251.84
Sep-2021	111	3,98,476.87
Oct-2021	119	4,05,478.97
Nov-2021	124	4,09,597.00
Dec-2021	130	4,14,826.99
Jan-2022	135	4,19,984.82
Feb-2022	145	4,29,293.12
Mar-2022	168	4,49,311.01
Apr-2022	199	4,82,468.62
May-2022	232	5,13,800.47
Jun-2022	256	5,31,385.67
Jul-2022	270	5,44,071.76
Aug-2022	339	16,32,648.01

In this regard, the Noticee submitted that they have settled 1 client with credit balance of Rs. 10.11 Lakh as on 31.08.2022 on 01.09.2022, due to 31.08.2022 being a public holiday. However, the same is not provided as an exception in any of SEBI Circulars.

Member submitted that one NRI Client is unsettled for Rs. 2.85 Lakh on 31.08.2022 due to client's bank account turning dormant and they are following up with Bank. However, the Noticee have submitted no evidence substantiating the same.

Pertaining to 28 clients having unsettled amount of Rs. 0.39 Lakh, Member submitted that they have transacted subsequently and turned active. However, this does not absolve the member from the liability of non-settlement as and when the settlement is due.

• The Noticee has not maintained separate bank account for keeping funds of Inactive clients (Annexure – 4F).

In this regard, as per SEBI the Noticee has inter alia accepted the violation in response to findings of inspection.

• SMS is not sent to clients on settlement.

In view thereof, Noticee is alleged to have violated Clause 5.1 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Clause 12(e) of Annexure-A to SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 8.1 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

4.3. Finding C: Segregation of clients' funds and own funds:

Broker has not reported 3 bank accounts to exchanges.

In this regard, following was inter alia observed and/or alleged by SEBI:

It is observed that stock broker has not reported following 3 bank accounts to exchanges (BSE/ NSE):

Sr. No.	***Bank Name***	***Account Number***	***Current Status/Account Closed***	***Not reported to exchange (BSE/ NSE)***
1	*HDFC- MF NSE SETL A/C*	*990610013684*	*Dormant*	*Not reported (BSE/ NSE)*
2	*SIB PMS FEES A/C 0194.73.1651*	*194073000001651*	*27.05.2022*	*Not reported (BSE/ NSE)*
3	*AXIS BANK - NSEIL A/C*	*918040081099072*	*Active*	*Not reported (BSE/ NSE)*

As regards HDFC-MF NSE Setl A/c, Member submitted that it pertains to dormant account. However, SEBI observed that the Member is required to submit details of all existing bank accounts to the Stock Exchanges.

As regards SIB PMS Fees A/c, Member submitted that they have closed the account on 27.05.2022. However, SEBI observed that this does not absolve the Member from non-reporting of bank account to Exchange prior to closing of account.

As regards Axis Bank-NSEIL A/c, the Member submitted that this is not a bank account, but a FD account. However, SEBI observed that the Member has not submitted any evidence to substantiate his response.

In view thereof, Noticee is alleged to have violated Clause 2.3.3. of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

4.4. Finding D: Reporting and short collection of Margin:

Broker has done wrong reporting of End of Day Margin ("EOD margin") in 1 instance amounting to Rs. 2.22 Lakh.

In this regard, following was inter alia observed and/or alleged by SEBI:

Particulars	*Amount of Short Collection (Rs.)*	*Amount of Wrong Reporting*	*Clients/ instances*
EOD margin	*Nil*	*2,22,513.76*	*1 client 1 instance*

Details are placed as Annexure 9G.

In this regard, Member has submitted that shares transferred to client demat account is considered as margin, however as per NSE Circular "Securities which are sold in cash market and available in TM's account i.e. POOL/EPI will not be considered as margin collected for any other trade/position." Thus, SEBI observed that the Member's reply was not acceptable.

In view thereof, Noticee is alleged to have violated Clause 4.1.2, 4.1.5 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/ 2020/146 dated July 31, 2020.

4.5. Finding E: Stock reconciliation:

Data uploaded by the Member w.r.t Holding Statement on a weekly basis is incorrect:

- *DP Holding vs Weekly Holding submission.*

-Excess quantity as per de-mat statement in 1 ISIN and value of mismatch Rs. 9870/-

- *Back office vs Weekly holding submission.*

-Excess quantity as per weekly holding submission in 1 ISIN and value of mismatch Rs. 1870/-

In this regard, following was inter alia observed and/or alleged by SEBI:

a) Data uploaded by the Member w.r.t Holding Statement on a weekly basis is incorrect (DP Holding vs Weekly Holding submission).
-Excess quantity as per de-mat statement in 1 ISIN and value of mismatch Rs. 9870/-

b) Data uploaded by the Member w.r.t Holding Statement on a weekly basis is incorrect (Back office vs Weekly holding submission).
-Excess quantity as per weekly holding submission in 1 ISIN and value of mismatch Rs. 1870/-

Details are placed as Annexure 10H.

In this regard, as per SEBI the Noticee has inter alia accepted the violation in response to the findings of inspection.

In view thereof, Noticee is alleged to have violated Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/ 2008 dated April 17, 2008.

4.6. Finding F: Client registration process (KYC, CKYC and KRA process):

a) Running account authorization contains a clause of retaining amount balance in ledger of Rs. 10,000 less in 28 instances

b) Discrepancies were observed in IPV process in 9 instances *c) Delay in updation of data with KRA in 12 instances*

d) Application forms are not complete in 2 instances.

In this regard, following was inter alia observed and/or alleged by SEBI:

It is observed that the Running A/c authorization contains a clause of retaining amount balance in ledger of Rs. 10,000 less - This clause is continuing after August, 2021. In this regard, Member has submitted that Account opening forms were printed prior to August 2021 and therefore, as per SEBI the Noticee has inter alia accepted the violation in response to the findings of inspection.

Further, on 12 instances it was observed that KRA was updated after 10 days and stamp of Karta was not proper on the application form on 2 occassions.

Details are placed as Annexure 5I and Annexure 6J.

In view thereof, Noticee is alleged to have violated Clause 5.6 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 1(i) of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011.

4.7. Finding G: Verification of Email ID & Mobile Numbers:

a) Mobile number of the clients has not been found in the exchange record in 26 instances.

b) Email ID of client in back office is mismatched with Exchange record in 14 instances.

In this regard, following was inter alia observed and/or alleged by SEBI:

Mobile number of the clients has not been found in the exchange record as well as email ID is also mismatched. In this regard, as per SEBI the Noticee has inter alia accepted the violation in response to the findings of inspection.
Details are placed as Annexure 7K.

In view thereof, Noticee is alleged to have violated Clause 2 (B) of SEBI Circular No. CIR/ MIRSD/15/2011 dated August 02, 2011.

4.8. Finding H: Complaints and arbitration:

It is observed that 4 complaints received during inspection period were pending for more than 30 days.

Details attached at Annexure 17L.

In view thereof, Noticee is alleged to have violated Regulation 9(e) of SEBI (Stock Brokers) Regulations, 1992.

4.9. Finding I: Net Worth verification:

Net worth reported as on 31st March 2022 -Rs. 7.56 Crore
Net worth as per calculation -Rs. 3.18 Crore
Net worth overstated -Rs. 4.38 Crore

In this regard, following was inter alia observed and/or alleged by SEBI:

It is observed that there is discrepancy in the computation of Net worth submitted to the Exchange.

Net worth Reported as on 31st March 2022 – Rs. 75,600,307.67 /-

Net worth as per calculation – Rs. 31,803,021.46 /-

Total value of Net worth overstated – Rs. 43,797,286.21 /-

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In view thereof, Noticee is alleged to have violated Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and Annexure A to NSE Circular NSE/COMP/48895 dated July 10, 2021.

4.10. Finding J: Analysis of Enhanced supervision data (Weekly):

Broker has incorrectly reported the data towards weekly monitoring of client funds for all 10 sample dates.

In this regard, following was inter alia observed and/or alleged by SEBI:

It was observed that TM has incorrectly reported the data towards weekly monitoring of client funds for the below mentioned dates:

20-Aug-2021, 27-Aug-2021, 14-Oct-2021, 03-Nov-2021, 18-Nov-2021, 02-Mar-2022, 17-Mar-2022, 25-March-2022, 02-May-2022, August 26, 2022

Summary mentioned below:

Date	***Principle I***	***Principle II***	***Principle III***	***Incorrect Reporting under following heads mentioned in the Exhibits***
20-Aug-2021	*No violation*	*No Violation*	*No Violation*	*A, B, C,D,MC,MF*
27-Aug-2021	*No Violation*	*No Violation*	*No Violation*	*A,B,C,D,E,P,MC,MF*
14-Oct-2021	*No Violation*	*No Violation*	*No Violation*	*A,B,C,D,MC,MF*
03-Nov-2021	*Violation*	*No Violation*	*No Violation*	*A,B,C,D,P,MC,MF*
18-Nov-2021	*No Violation*	*No Violation*	*No Violation*	*A,B,C,D,MC,MF*

02-Mar-2022	*Violation*	*No Violation*	*No Violation*	*A,B,C,D,E,P,MC,MF*
17-Mar-2022	*No Violation*	*No Violation*	*Violation*	*A,B,C,D,E,MC,MF*
25-Mar-2022	*No Violation*	*No Violation*	*Violation*	*B,C,D,E,MC,MF*
02-May-2022	*No Violation*	*No Violation*	*No Violation*	*A,`B,C,D,E,P,MC,MF*
26-Aug-2022	*No Violation*	*No violation*	*No violation*	*A,B,C,D,E,MC,MF*

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In view thereof, Noticee is alleged to have violated Clause 3.2 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

4.11. Finding K: Client Level Cash & Cash Equivalent Balances and Bank Account Balances:

It was observed that Trading Member has not reported Proprietary, Error Account and Client account client codes appearing in Trial Balance.

Number of instance- 11 clients
Details are placed as Annexure 12M.

In this regard, Member has submitted that these are not client codes, however, SEBI observed that Member is required to submit all the codes in their cash & cash equivalent submission.

In view thereof, Noticee is alleged to have violated Clause 7 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE Exchange circular NSE/ INSP/43486 dated February 10, 2020.

4.12. Finding L: Risk based supervision (RBS):

Broker has not correctly reported the details in RBS submission:

Particulars	***Difference***
Debit Balance of all clients	*-21,77,359*
Value of collaterals from the debit balance clients	*-8,95,362*
Brokerage income	*62,777*
4) Details of loans	
Unsecured loans	*-6,92,842*

In this regard, following was inter alia observed and/or alleged by SEBI:

Trading Member has not correctly reported the details of:
1. *Debit Balance of all clients*
2. *Value of collaterals from the debit balance clients*
3. *Brokerage Income*
4. *Details of loans*

……….

In this regard, the Member has submitted that they have reported Debit Balances of all clients, Value of Collaterals from debit balance clients, Brokerage Income correctly. However, SEBI observed that the member has not submitted any evidence substantiating their response.

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

4.13. Finding M: Demat account verification:

In this regard, following was inter alia observed and/or alleged by SEBI:

1. Member has not reported closed demat accounts on the Exchange Portal

Number of instances- 03 instances

2. Member has not undertaken tagging of DP accounts as required

Number of instances- 05 instances

3. Securities of Credit Balance Clients were transferred to Client's unpaid securities account ('CUSA') – 1 instance

With regards to points 1 and 2 above, the Noticee had accepted the violations in its reply to the findings of inspection.

Details are placed as Annexure 15N.

In view thereof, Noticee is alleged to have violated Clause 2 read with Clause 6.1.1. (g) of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Clause 4.3 of SEBI Circular No. CIR/HO/ MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.

4.14. Finding N: Engaged in other than broking activities:

Member has entered into arrangement for extending loans or giving deposits / advances to its group company (FRR Immigration).

Amount of loan advanced during the Inspection period – Rs. 2.14 Crore

Amount of loan outstanding as on 31.08.2022 – Rs. 13.6 Lakh

In this regard, following was inter alia observed and/or alleged by SEBI:

Member has entered into any arrangement for extending loans or giving deposits / advances its group company not in connection with or incidental to or consequential upon the securities/ commodity derivatives business

Sister concern name	Opening balance as on 01 Apr 2021	Total outflow	Total Inflow	Interest received during the period	Closing balance as on 31 Aug 2022	Closing balance as on 31 Aug 2022
FRR IMMIGRATION SERVICES PRIVATE LIMITED	14,021,295.64	21,438,710.00	34,100,300.00	-	1,359,705.64	10,362,479.64

Pertaining to loan given to FRR Immigration Services Private Limited, Member has submitted that Loan is given in relation to referral business and thus incidental to securities business. However, as per SEBI the referral business is not incidental to securities business and involves creation of personal financial liability for broker.

In view thereof, Noticee is alleged to have violated Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.

4.15. Finding O: Passing of penalty on short reporting of margin:

Broker has passed on penalty to clients on account of short reporting of upfront margins.

Segment	*No. of client*	*Amount passed*
CM	*13*	*63,687*
FO	*27*	*4,31,677*
CD	*2*	*6,538*

In this regard, following was inter alia observed and/or alleged by SEBI:
Member has passed on penalty to clients on account of short reporting of upfront margins.

1. CM Segment –
No. of clients - 13
Penalty passed on to clients - Rs. 63,687.38

2. FO Segment –
No. of clients - 27
Penalty passed on to clients - Rs. 4,31,676.71

3. CD Segment –
No. of clients - 2
Penalty passed on to clients - Rs.6,538.39

Details are placed as Annexure 14O.

In this regard, Member has submitted that they have reversed penalty levied on clients for short reporting of upfront margin. However, has not submitted any evidence substantiating their response.

In view thereof, Notice is alleged to have violated Clause A.5 of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/ INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.

4.16. Finding P: Verification of member internal policies:

Broker has not adhered to Corporate Governance compliance by not presenting to the Board/ Committee regarding internal controls, internal audit reports, Inspection reports, related party transactions, breaches in back office software, delay in submission of data to Exchange during Inspection and others.

In this regard, following was inter alia observed and/or alleged by SEBI:

Member has not adhered to Corporate Governance compliance adherence by not presenting to the Board/ Committee following points:

a) Review of internal controls & procedures
b) Review of Deviations along with proposed action plan in Internal Controls
c) Review of internal auditors' reports including non-compliances observed by the auditors
d) Review of Exchange/SEBI inspection reports including non-compliances observed by the auditors and off-site alerts
e) Review of all Related party transactions and loans availed/given by/to member
f) Review of instances of breaches in system/back office software and suggestion of controls
g) Review of Delay in submission of data to Exchange during inspection/wrong submissions made to SEBI & Exchange
h) Review of internal audit/Exchange & SEBI inspection observations by Compliance Officer

Member has submitted that that all inspections reports, review of policies and internal control framework, internal audit reports, deficiencies in inspection and internal audit report are considered in meetings of Core Committee and subsequently discussed in Board meetings of the company. And further submitted that Related Party transactions/ transactions related to loans given and taken are conducted after passing proper resolutions in the board/ general meetings of the company. However, Member has not submitted any evidence substantiating their response.

In view thereof, Noticee is alleged to have violated Regulation 9(b) of SEBI (Stock Broker) Regulations, 1992 read with Regulation 4.2.2 of Part A of the Capital Market Regulations of NSE.

4.17. Finding Q: Cyber security and cyber resilience:

a) Member did not have cyber security policy in place before July 5, 2021
b) Off-the-Shelf products are not Standardisation Testing and Quality Certification (hereinafter also referred to as "STQC") certified

Summary of observations based on cyber audit report are placed as Annexure 18P.

In this regard, Member has submitted that they have framed cyber security policy w.e.f. July 5, 2021 and submitted the policy document. However, the requirement for formulation of cyber security policy is from April 1, 2019. Thus, there exists non-compliance till July 2021, which Member has accepted.

Pertaining to off-the-shelf products not being STQC certified, Member has submitted that they have placed the observation in meeting of their core committee and Board meeting. However, this does not absolve the member from liability of non-compliance of STQC certification of Off-the-Shelf products.

In view thereof, Noticee is alleged to have violated Clauses 2 and 36 of Annexure-1 to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018.

7. Vide email dated December 21, 2023 i.e. on the due date of reply to the SCN, the Noticee sought extension to submit the reply to the SCN.

8. Vide Hearing Notice dated December 26, 2023, the Noticee was provided an opportunity of hearing on January 05, 2024 and was allowed time till January 01, 2024 to submit the reply to the SCN.

9. Vide email dated December 27, 2023, the Noticee once again sought extension of time till January 11, 2024 to submit its reply to the SCN, which was allowed and the hearing was rescheduled to January 12, 2024.

10. Vide letter dated January 11, 2024, the Noticee submitted its reply to the SCN.

11. On the rescheduled date of hearing i.e. on January 12, 2024, the Noticee availed the hearing opportunity through its Authorized Representatives (ARs) viz., Mr. Nitin Lakhotia (Compliance Officer, FRR), Ms. Deepa Khimasia (CFO,FRR), Mr. Shashank Bagayatar and Mr. Janak Mehta (Director, FRR), wherein the ARs inter alia relied upon and reiterated the submissions made by the Noticee vide letter dated January 11, 2024. Further, the ARs sought time till January 17, 2024 to make additional submissions as its final and complete submission in the matter,

accordingly the same was allowed. Vide letter dated January 17, 2024, the Noticee made additional submissions.

12. Vide email dated January 18, 2024, the Noticee sought another opportunity of personal hearing which was afforded to the Noticee vide Hearing Notice dated February 07, 2024 whereby the second hearing in the matter was scheduled on February 13, 2024.

13. On the scheduled date of second hearing, the Noticee availed the hearing opportunity through its ARs viz., Mr. Nitin Lakhotia (Compliance Officer, FRR), Ms. Deepa Khimasia (CFO,FRR), Mr. Shashank Bagayatar and Mr. Janak Mehta (Director, FRR), wherein the ARs inter alia relied upon and reiterated the submissions made by the Noticee vide letter dated January 17, 2024. As regards whether submission dated January 17, 2024 were complete in itself in the matter or the same have to be read along with earlier submissions dated January 11, 2024, the Noticee confirmed that the submissions dated January 17, 2024, as its reply to the SCN, were complete and final submissions in the matter and that earlier submission dated January 11, 2024 be disregarded.

14. Vide letter dated January 17, 2024, the Noticee submitted its reply to the SCN as below:

Finding No	***Finding***	***Summary of Our Reply***
A	*Misuse of clients' funds, Verification of Proprietary MTM loss and Analysis of Enhanced supervision data (Weekly)* *G negative observed in 12 out of 38 instances* *Avg. amt of misutilisation (G): Rs 1.56 Cr* *Range of misutilisation (G): Rs 0.22 Cr to Rs 3.74 Cr* *2 instances of J Positive,*	*Findings partially contested in respect of number of instances and maximum amount of misutilization* *Number of cases of G negative are 8 out of 38 instances and not 12.* *Avg. amt of misutilisation (G): Rs 1.69 Cr* *Range of misutilisation (G): Rs 0.54 Cr to Rs 2.97 Cr*

		2 instances of J Positive are incorrect since amounts in respect of Collateral Deposited in form of cash with Exchange and amount in respect of Free / Unblocked Collateral Deposited with Clearing Corporation are not considered. *Leniency pleaded by us with request to consider following facts:* *Action taken by us and demonstration thereof in respect of recoupment of shortfall of clients' funds and penalty already paid on maximum amount of misutilization.*
B	***Monthly / Quarterly Settlement of Funds and Securities***	
	Non-settlement of funds of inactive clients with amount of non- settlement ranging from Rs. 7,750 (8 clients) to Rs 16.33 Lakh (339 clients) during the inspection period spanning 15 months *Broker has not maintained separate bank account for keeping funds of Inactive clients* *SMS is not sent to clients on settlement*	*Findings not contested.* *However we plead leniency considering reasons involved in respect of major amounts and subsequent action taken.*
C	***Segregation of clients' funds and own funds*** *1 Dormant account not reported* *1 closed account not reported* *1 Bank account which as per the member is FD account and not bank account, however member not submitted any evidence to substantiate*	*Findings partially contested.* *Disagree in respect of FD account treated as bank account by Inspection team.* *Amounts involved in non- reporting of dormant and closed account, not material.* *No misutilization of funds involved.*
D	***Reporting and short collection of Margin*** *Wrong reporting of End of Day Margin ("EOD margin") in 1 instance amounting to Rs. 2.22 Lakh*	*Findings contested* *Fully paid securities were lying in our pool account before execution of trade which was considered by us as Upfront margin*
E	***Stock reconciliation***	*Findings not contested*

	Excess quantity as per de-mat statement in 1 ISIN and value of mismatch Rs. 9870/- *Data uploaded by the member w.r.t Holding Statement on a weekly basis isincorrect (Back office vs Weekly holding submission).* *Excess quantity as per weekly holding submission in 1 ISIN and value of mismatch Rs. 1870/-*	*Leniency pleaded as no of ISINs are only 2 with amounts involved are less than Rs 10,000* *No misutilization of securities involved*
F	***Client registration process (KYC, CKYC and KRA process)*** *Running account authorization contains a clause of retaining amount balance in ledger of Rs. 10,000 less in 28 instances* *Delay in updation of data with KRA in 12 instances* *Application forms are not complete in 2 instances*	*Findings not contested* *Leniency pleaded considering number of instances involved and subsequent corrective action taken*
G	***Verification of Email ID & Mobile Numbers*** *Mobile number of the clients has not been found in the exchange record in 26 instances* *Email ID of client in back office is mismatched with Exchange record in 14 instances*	*Findings not contested* *Leniency pleaded considering number of instances involved and subsequent corrective action taken*
H	***Complaints and arbitration*** *4 complaints received during inspection period were pending for more than 30 days*	*Findings Contested.* *No complaints from any client, which were pending for more than 30 days.*
I	***Net Worth verification:*** *Net worth reported as on 31st March 2022 -Rs. 7.56 Crore* *Net worth as per calculation -Rs. 3.18 Crore* *Net worth overstated -Rs. 4.38 Crore*	*Findings Contested.* *Networth Certificate as on March 31, 2022 submitted by us was verified and certified by Independent Chartered Accountant.* *We should not be penalised for interpretation issues not specifically*

		mentioned in the circular dealing with networth computation.
J	***Analysis of Enhanced supervision data (Weekly)*** *Broker has incorrectly reported the data towards weekly monitoring of client funds for all 10 sample dates*	*Findings partially contested.* *Correct reporting made in two sample dates* *03.11.2021 and 02.03.2022* *No misutilization of funds or securities involved.*
K	***Client Level Cash & Cash Equivalent Balances and BankAccount Balances***	*Findings contested* *No client codes missed in reporting of Client Level Cash & Cash Equivalent Balances and BankAccount Balances* *No misutilization of funds or securities involved*
L	***Risk based supervision (RBS):*** *Trading Member has not correctly reported the details of:* *1. Debit Balance of all clients* *2. Value of collaterals from the debit balance clients* *3. Brokerage Income*	*Findings partially contested.* *No misutilization of funds or securities involved.*
M	***Demat account verification*** *Member has not reported closed demat accounts on the Exchange Portal - 03 instances* *Member has not undertaken tagging of DP accounts as required- 05 instances* *Securities of Credit Balance Clients were transferred to Client's unpaid securities account ('CUSA') — 1 instance*	*Findings not contested* *However we request for condonation and leniency considering :* *No of instances are few and No misutilisation of client funds or securities involved in inadvertent errors in reporting*
N	***Engaged in other than broking activities*** *Member has entered into arrangement for extending loans or giving deposits / advances to its group company (FRR Immigration) not in connection with or*	*Findings contested*

	incidental to or consequential upon the securities/ commodity derivatives business.	
O	***Passing of penalty on short reporting of margin*** *No proof provided for reversal.*	*Findings Contested* *Penalty levied on clients for short reporting of upfront margin was reversed on December 03, 2022.*
P	***Verification of member internal policies:*** *Member has not adhered to Corporate Governance compliance adherence by not presenting to the Board/ Committee*	*Findings Contested* *All required policies, inspection reports , internal audit reports are duly considered in board meeting of the company.*
Q	***Cyber security and cyber resilience*** *a) Member did not have cyber security policy in place before July 5, 2021* *b) Off-the-Shelf products are not Standardization Testing and Quality Certification (hereinafter also referred to as "STQC") certified*	*Findings Contested* *Required policies are in place.*

Our pointwise detailed submissions are under:

Finding A: Misuse of clients' funds, Verification of Proprietary MTM loss and Analysis of Enhanced supervision data (Weekly):

No of Instances (G)	*12/38*
Avg. amt of misutilisation (G)	*Rs 1.56 Cr*
Range of misutilisation (G)	*Rs 0.22 Cr to Rs 3.74 Cr*
No of Instances (J)	*2/38*
Avg. (J)	*Rs. 6.26 Cr*
Range of misutilisation (J)	*Rs 0.99 Cr to Rs*

In view thereof, Noticee is alleged to have violated Clause 5.1 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Clause 12(e) of Annexure-A to SEBI Circular SEBI/MIRSD/SE/Cir- 19/2009 dated December 03, 2009 and Clause 8.1 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

FRR Submission/ Reply:

SCN dated December 05, 2023 does provide details of 38 Sample cases involving 12 violations.

Previous SEBI letter dated November 25, 2022 in respect of the same joint inspection mentioned 18 sample cases involving 6 violations.

We have tried to ascertain details of 38 cases from various annexures to SCN

		Sample Size	*Principle I Violation Observed*
Annexure 2B	*Misuse of Client Funds*	*18*	*6*
Annexure 11D	*Enhanced Supervision Data*	*10*	*2*
Annexure 13 C	*Proprietary MYM Loss*	*4*	*4*
		32	*12*

Violations appearing in Annexure 11D:

We observe that in 2 cases mentioned in Annexure 11 D (3rd November 2021 and 2nd March 2022), violation of principle I is incorrectly calculated by the inspection team as under:

3rd November 2021:

For 3rd November 2021, the Inspection team has not considered FD of Rs 1,70,00,000. Please find copy of FD ìn favour of ICCL dated 3rd November 2021 and bank statement reflecting debit of Rs 1,70,00,000 on 3rd November 2021 (Exhibit 1 and 2).

Further the Inspection team has not considered deposit of Rs 25,00,000 with clearing member-Edelweiss. (Exhibit 3)

Further amount of creditors considered by the Inspection team are without removing effect of uncleared cheques. Correct balance creditors on 3rd November 2021 is Rs 50,35,36,087 instead of Rs 50,54,07,331

As per our working G was not negative on November 03, 2021 instead G was positive by Rs 21,67,895

2nd March 2022

The Inspection team has not considered deposit of Rs 25,00,000 with clearing member- Edelweiss. Rs 10,00,000 with SMC (Exhibit 4, Exhibit 5 and Exhibit 6)

Further amount of creditors considered by the Inspection team are without removing effect of uncleared cheques

Correct balance creditors on 2nd March 2022 is Rs 50,73,76,727 instead of Rs 50,93,17,126

As per our working G was not negative on March 02, 2022 instead G was positive by Rs 1,51,41,707

Violations appearing in Annexure 13C:

SCN mentions that creditor balances considered by NSE inspection team are taken directly from Back office of the member.

We wish to bring to your notice that though the balances may have been taken directly from back office, the same are without removing effect of unclear cheues.
If one considers clear balances, G was not negative on following 2 dates, instead it was positive as under.

Date	*G As per the Inspection Team*	*G As per Our Working (Clear balances)*	*Reason for Difference*
25-Nov-21	*-22,89,615*	*17,14,812*	*Clear balances of credit clients Rs 46,22,69,762 instead of Rs 46,62,74,191 considered by the inspection team*
14-Feb- 22	*-90,52, 602*	*5,34,749*	*Clear balances of credit clients Rs 52,06,80,515 instead of Rs 53,02,67,866 considered by the inspection team*

Further amount negative G is lesser on following 2 days if we consider clear balance of creditors removing effect of unclear cheques

Date	*G As per the Inspection Team*	*G As per Our Working (Clear balances)*	*Reason for Difference*
12-Apr-21	*(3,73,57,642)*	*(2,08,27,861)*	*Clear balances of credit clients Rs. 36,86,94,174 instead of Rs 38,52,23,855 considered by NSE Inspection team*
24-Jan -22	*(1,02,52,262)*	*(83,92,936)*	*Clear balances of credit clients Rs. 41,55,98,60 instead of Rs 41,74,57,948 considered by NSE Inspection team*

For example for 12.04.2023, the amount of creditors considered by the Inspection team is higher because effect of uncleared cheques amounting Rs 1,62,53,530 has not been removed (Exhibit -7)
As regards observation in respect of J Positive 2 cases, we wish to state that amount in respect of Free / Unblocked Collateral Deposited with Clearing Corporation (Rs 23,38,55,071) for date March 17, 2022 has not been considered by inspection team. Further for date March 25, 2022, amount in respect of Collateral Deposited in form of cash with Exchange (Rs 22,32,00,000) and amount in respect of Free / Unblocked Collateral Deposited with Clearing Corporation (Rs 25,76,99,555) 2022 has not been considered by inspection team. If we consider these amounts, there would no J positive.(Exhibit -8)
Also note that we have kept BG of Rs 3,00,00,000 with Exchange. Non funded part of Rs 1,50,00,000 is towards Margin of Pro Trades.

To Summarise our reply:

Difference in number of Days of G negative and range of misutilization (SCN findings v/s actual):

2 cases of violation of principal I indicated in Annexure 11D (03rd Nov 2021, 2nd March 2022) are factually incorrect. G was positive on these days
2 out 4 cases of violation of principal I indicated in Annexure 13C (25th Nov 2021, 14th Feb 2022) are factually incorrect. G was positive on these days
In 2 out of 4 cases of violation of principal I indicated in Annexure 13C (12th April 2021, 24 Jan 2022), amount of negative is lower than amount calculated by inspection team by Rs 1.66 cr and 0.19 cr respectively.

Thus out of sample 38 cases, G was negative in 8 out of 38 cases with range of misutilization ranging from Rs 0.54 Cr to Rs 2.97 Cr with average misutilization at Rs 1.69 crore. Details of actual G Negative cases are as per (Exhibit – 9)

SCN Findings	***Our Contention***
G negative observed in 12 out of 38 instances	*Number of cases of G negative are 8 out of 38 instances and not 12.*
Avg. amt of misutilisation (G): Rs 1.56 Cr	*Avg. amt of misutilisation (G): Rs 1.69 Cr*
Range of misutilisation (G): Rs 0.22 Cr to Rs 3.74 Cr	*Range of misutilisation (G): Rs 0.54 Cr to Rs 2.97 Cr*

Corrective Actions Taken by the Management:
G was negative on certain days on account of temporary delay in payment of pay-in obligations by debit clients. It was temporary phenomenon for one or two days in a week which got regularised once delaying clients paid for their purchases. Thus recoupment of shortfall of clients' funds took place immediately without significant delay.

Further though the funds of credit clients may have got used for pay-in of debit clients, the funds were however never used for Pro Trading or any other purposes.

Management of the company took notice of this non compliance seriously and implemented strict measures to avoid occurrence. Since Mid February 2022, there is significant improvement in compliance in respect of G / Enhanced Supervision data

To give a perspective of our conscious efforts and result thereof: We had attended Member Core Settlement Guarantee Committee (MCSGFC) of NSE on April 29, 2022 wherein we were called to explain non compliances. During the meeting we explained steps that have already been taken by us to improve funds management and gave our assurance and commitment for the strict implementation of Enhanced

Supervision norms and to have funds in client bank accounts or with exchanges more than credit balances at all the times.

Our conscious efforts to streamline receivable management and ensure compliance at all time have resulted in G not in Negative for a single day Since March 2022 till date.

Para 6.1. vii on page 7 of Order dated July 01, 2022 of Member and Core Settlement Guarantee Fund Committee of NSE dealing with inspection period 19 Jul 21 to 5 Aug 21, mentions about corrective steps taken by us resulting in no shortfall in April 2022 and asked us to demonstrate the availability of funds during May 2022 to July 2022. Accordingly, we submitted required data for May 2022 to July 2022 and there has been no adverse remarks / prohibitive action from NSE on the same. Copy of MCSGFC order is attached as (Exhibit- 10)

Data in respect of G Table for each day during April 2022 to June 2022 submitted to NSE is attached for your perusal. (Exhibit-11)
We understand that NSE monitors data submitted by members and issues letter of observation in case of non- compliance. We have not received any letter from NSE since March 2022.
The days selected by the inspection team and discrepancy observed are as under

Month	*Sample Days*	*G Positive Days*	*G Negative Days*
August 2021	*9*	*3*	*6*
March 2022	*9*	*9*	*-*
Total	*18*	*12*	*6*

From above table of sample days selected by NSE, you will observe that the inspection team did not observe any non- compliance in 9 out 9 sample days selected for March 2022.

You will also observe that there is no negative observations in respect of settlement of active client accounts in findings of the joint inspection informed vide letter dated November 25, 2022.

We would also like to mention that there is not a single compliant us by any client regarding non- payment of funds or non- availability of trading opportunity.

We request you take a note of steps taken by us to improve compliance, no G negative cases in since March 2022 onwards and no observation/ qualification in respect of settlement of active clients in SCN.

Penalty paid by us for the same violation

Enhanced supervision data (G Table) for Financial Year 21-22 and in particular July -August 2021 was subjected to inspection by NSE and we were levied penalty by NSE for negative G as under:

Sr. No	*Inspection Period*	*Penalty Rs*
1	*19 Jul 21 to 5 Aug 21*	*9,57,000*
2	*November 2021*	*2,00,000*
3	*24 Jan 22 to 23 Feb 22*	*3,84,000*
		15,41,000

NSE had levied penalty of Rs 9,57,000 i.e. @ 3% of maximum amount of misutilisation of Rs 3.19 Crore on July 22, 2021 during inspection period covering July 19, 2021 and August 05, 2021. (Please refer to Exhibit -12 for method adopted by NSE to levy penalty)

Joint inspection dealt by this SCN involves immediately subsequent period August 16, 2021 to August 27, 2021 with maximum misutilization amount Rs 2.97 crore on August 18, 2021. If we consider both the periods together, penalty has already been levied on maximum mis utilized amount of Rs 3.19 Crore on July 22, 2021.

Imposition of any further penalty again for lower amount of misutilization would be harsh and result in getting penalized more than once for the same violation.

We draw your attention to SAT order dated April 11, 2023 in case of Asit C Mehta Investment Intermediaries Limited (Appellant) v/s SEBI (Respondent) where while partially allowing appeal in it was held that it was not appropriate for the AO to impose a penalty again on an issue which had already been adjudicated by the Stock Exchanges. The AO while passing the impugned order has not considered the penalty imposed by the BSE and NSE for the same violation. In our opinion, the imposition of penalty by the AO in nothing but an act of penalizing the appellant more than once for the same violation. Copy of SAT order dated April 11, 2023 is attached as (Exhibit –13)

Our Prayer:

We request you to not to levy penalty considering steps taken by us, no case of G negative since March 2022 and since we have already been penalised by NSE.

<u>Finding B: Monthly/Quarterly Settlement of funds and securities</u>

Non-settlement of funds of inactive clients with amount of non-settlement ranging from Rs. 7,750 (8 clients) to Rs 16.33 Lakh (339clients) during the inspection period spanning 15 months
Broker has not maintained separate bank account for keeping funds of Inactive clients

SMS is not sent to clients on settlement

Noticee is alleged to have violated Clause 5.1 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021,Clause 12(e) of Annexure-A to SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated

December 03, 2009 and Clause 8.1 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September26,2016

FRR Submission/ Reply:

We would like to bring to your attention that there is no observation of the Inspection team regarding non settlement of active client accounts. Observation pertains to Inactive client accounts only.

Out of the list of 339 Inactive Clients having unsettled amount of Rs 16.33 lakhs as on 31.08.2022, 1 client account having credit balance of Rs 10.11 lakhs was settled on 01.09.2022. (62 % of total amount involved in the observation). 31.08.2022 was a public holiday on account of Ganesh Chaturthi, hence the account was settled on 01.09.2022.

Client Code	*Client Name*	*Credit balance as on 31.08.22*	*Settled on*
50293	*Sxxxxx Gxxxx*	*10,11,575*	*01.09.22*

One account of NRI Client (Portfolio Scheme) having credit balance of Rs 2.85 could not be paid since the bank account has turned dormant and we were following with bank. (Exhibit 14)

Client Code	*Client Name*	*Credit balance as on 31.08.22*	*Settled on*	*Reason for delay*
50338	*Nxxxx Dxxxxxi – NRI*	*2,84,121*	*31.01.2023*	*Pending for NRI bank account activation*

28 clients having unsettled amount of Rs 38,912 have transacted subsequently and turned active
Client accounts of other 202 clients having unsettled value of Rs 1,73,486 were settled subsequent to 31.08.2022

Though we had not opened separate bank account, we had kept funds of unsettled clients in existing separate account which was not used for any other purposes. Copy of bank statement where funds of Inactive client accounts are parked is attached as(Exhibit 15)

Technical issue of SMS not getting delivered has been resolved now.

Our Prayer:
We humbly request you to consider above facts regarding subsequent payments to inactive clients while deciding on the issue.

Finding C: Segregation of clients' funds and own funds

1 Dormant account not reported

1 closed account not reported

1 Bank account which as per the member is FD account and not bank account, however member not submitted any evidence to substantiate

Noticee is alleged to have violated Clause 2.3.3. of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 datedSeptember26,2016

<u>FRR Submission/ Reply:</u>

We humbly submit as under:

Observation does not involve any active bank account not being reported.

Observation involves non reporting of 1 dormant account not involving any material bank balances (Bank balance Rs 85.87) and 1 closed bank account

One case is not bank account. It is actually Fixed Deposit account not requiring any reporting to the Exchanges. Copy of statement from the bank indicating account is Deposit account is attached as (Exhibit No -16)

Our Prayer:

We humbly request you to condone above inadvertent lapses as amounts involved in non- reporting of dormant and closed account, not material. No misutilization of funds involved.

<u>Finding D: Reporting and short collection of Margin</u>

Wrong reporting of End of Day Margin ("EOD margin") in 1 instance amounting to Rs.2.22Lakh

Noticee is alleged to have violated Clause 4.1.2, 4.1.5 of SEBI Circular SEBI/HO/ MIRSD/DOP/CIR/P/2019/139 dated, November19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2d20/146dated July31, 2020.

<u>FRR Submission/ Reply:</u>

Out of Inspection period spanning 15 months involving daily reporting of approximately 250 clients, inspection team has observed one alleged instance involving wrong reporting.

In case of client 11000587, Txxxxx Bxxxxx, for Trade date 03.08.2021, 2000 shares of La Opala (ISIN INE059D01020) approximate value Rs 5,64,170 considered as margin. These shares were purchased on 30.07.2021 were in our pool account on 03.08.2022. Copy of demat statement evidencing availability of shares in Pool Account is attached (Exhibit No -17)

Fully paid securities were lying in our pool account before execution of trade were considered by us as Upfront margin.

In addition to above there was early pay-in of 1500 Shares of Sterling Wislon amounting to Rs 4,58,888 was also considered as Margin which is contested by NSE as not allowable. However please note that margin in the form of 2000 shares of La Opala (ISIN INE059D01020) approximate value Rs 5,64,170 of *the client were in our pool account before execution of trade as Upfront margin. Thus requirement of collection of upfront margin was adhered to by us and we sincerely believe there is no wrong reporting involved.*

Prayer:

We humbly request you to note above facts and also note that alleged violation of only one instance is observed out of Inspection period spanning 15 months involving daily reporting of approximately 250 clients.

<u>Finding E: Stock reconciliation</u>

Data uploaded by the Member w.r.t Holding Statement on a weekly basis is incorrect
Excess quantity as per de-mat statement in 1 ISIN and value of mismatchRs.9870/-
Data uploaded by the memberw.r.t Holding Statement on a weekly basis is incorrect (Back office vs Weekly holding submission).
Excess quantity as per weekly holding submission in 1 ISIN and value of mismatch Rs.1870/-

Noticee is alleged to have violated Clause2.3 of SEBI Circular MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008.

<u>FRR Submission/ Reply:</u>

We humbly submit that we regularly carry out reconciliation of back off holdings of client's securities with stock lying in DP accounts

Mismatch in reporting in weekly holdings in respect of 2 ISIN of two different dates with amount of mismatch of Rs 9870 and Rs 1870 were unintentional. In case of one ISIN (Yes bank, amount Rs 9870, quantity 600 shares are in lock in and we were not sure how to report the same as options provided are Free Balances or Pledged Balances). These are minor mismatches on account of interpretation issues. Exhibit_24

These mismatches in reporting have not resulted in any misutilisation of client securities.

Prayer:

We humbly request you to condone above inadvertent lapses as amounts involved in non- reporting of are not significant (less than 10,000) and there is no misutilization of securities involved.

<u>Finding F: Client registration process (KYC/CKYC and KRA process)</u>

Running account authorization contains a clause of retaining amount balance in ledger of Rs.10,000 less in 28 instances

Delay in updation of data with KRA in12 instances

Application forms are not complete in 2 instances

Noticee is alleged to have violated Clause 5.6 of SEBI Circular SEBI/HO/MIRSD/ DOP/P/CIR/2021/577 dated June 16, 2021 and Clause1(i) of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011

FRR Submission/ Reply:

We humbly submit as under:

This Running Account Authorisation was printed on Account Opening forms printed just prior to August 2021. We however have not used this authorisation in practise and credit balances less than Rs 10,000 were duly settled by us. There is no observation in respect of non- settlement of active accounts having balance less than Rs 10,000. Further we were cancelling such pre-printed authorisation by hand before handing Account Opening Form to prospective clients. New KYC does not have above clause.

Delay in KRA updation after 10 days:

There were delay in uploading due to staff working from home during and post Corona Pandemic days. Currently, we are updating KRAs within time limit of 10 days

Prayer:
We request you to condone above lapses considering above corrective actions taken by us and lower number of instances involved.

Finding G: Verification of Email ID & Mobile Numbers

Mobile number of the clients has not been found in the exchange record in: 26 instances
Email ID of client in back office is mismatched with Exchange record in: 14instances
Noticee is alleged to have violated Clause 2(B) of SEBI Circular No. CIR/ MIRSD/15/2011 dated August 02,2011

FRR Submission/ Reply:
We humbly submit as under:
These were unintentional lapses due to staff working from home during and post Corona Pandemic days. We have now updated Mobile numbers in UCC data of the exchange. Number of instances are however not significant (26 cases out of approximately 5000 UCC cases)

Up-dation of Email IDs in back office during up-dation of six attributes was missed in respect of UCC data. We confirm that the same has been updated subsequently. Number of instances are however not significant (14 cases out of approximately 5000 UCC cases).

Prayer:
We request you to condone above lapses considering above corrective actions taken by us and lower number of instances involved.

Finding H: Complaints and arbitration

4 complaints received during inspection period were pending for more than 30 days.

Noticee is alleged to have violated Regulation9(e) of SEBI (Stock Brokers) Regulations,1992

FRR Submission/ Reply:

We humbly submit (informed earlier to Inspection Team also), that there were no complaints from any client, which were pending for more than 30 days.

There were emails from exchange asking for the information as the one client (Suresh Gupta) who had filed appeal against IGRP order, was asking for data related to trades. These details were duly provided to Exchanges without any delay. We have won the appeal award against this client.(Exhibit 18)

We do not agree with the finding that complaints received during inspection period were pending for more than 30 days.

Finding I: Net Worth Verification:

Networth reported as on31st March 2022-Rs.7.56Crore
Networth as per calculation-Rs.3.18 Crore
Networth overstated-Rs.4.38 Crore

Noticee is alleged to have violated Clause A(5) of Schedule II read with Regulation 9(f} of SEBI (Stock Brokers) Regulations, 1992 and Annexure A to NSE Circular NSE/ COMP/ 48895 dated July10, 2021.

FRR Submission/ Reply:

We humbly submit that we do not agree with the observations of the Inspection team that the networth as on March 31, 2022 was overstated by Rs 4.38 crore

1.0 *We have submitted NW Certificate by M/s S Raman and Aiyar& Co dated 19.10.2022 certifying networth as on 31.03.2022 at Rs 6,18,15,610 and not Rs 7,56,00,308 as claimed by the Inspection team*

2.0 *Networth Certificate as on March 31, 2022 submitted by us was verified and certified by Independent Chartered Accountant, hence in our opinion Inspection team should have relied on the professional competence, judgement of the independent chartered accountant.*

3.0 *As per the Post Inspection Analysis, the nature of unbilled referral fee Rs 2.66 crore being illiquid, the same can not be included in Networth computation of L C Gupta method.*

Further Rental Deposits of Rs 12.34 lakhs are not liquid hence can not be included in Networth computation of L C Gupta method.

It should be noted that As per AS 9 on Revenue Recognition, revenue is recognised as per Percentage Completion method and revenue earned however not billed till year end is shown as Unbilled Revenue. Alternatively, it can be termed as Income Accrued. This revenue recognition method is consistently followed by us every year and the Independent Auditors have never objected or qualified about such revenue recognition.

As per NSE Circular having ref no NSE/CMP/48895 DATED July 10, 2022, Prepaid Expenses, losses shall include:

- *Prepaid expenses and losses as per Balance Sheet / Trial Balance.*
- *Preliminary / Deferred revenue / Pre-operative expenses / Deferred Tax Asset/ MAT credit not written-off as per Balance Sheet*
- *GST credit not required to be deducted*

Unbilled Revenue and Rental Deposits are not mentioned as deductible items from Networth.

In our opinion and certified by the auditor, Unbilled Referral Fees does not fall in any of the category. Unbilled Referral Fees appearing under other current assets represent revenue accrued to the company as per accounting policy consistently followed by the company and in line with generally accepted accounting principles followed in India.

It should also be noted even if one has to ignore our remarks as above and consider the networth of Rs 3.18 crore calculated by the Inspection team as correct, our Networth was still more than the minimum networth requirement of Rs 1 crore (Exhibit-19)

We should not be penalised for interpretation issue, not explicitly mentioned in the circular dealing with Networth Computation.

Finding J: Analysis of Enhanced supervision data (Weekly)

Broker has incorrectly reported the data towards weekly monitoring of client funds for all 10sample dates Number of instance-10 Days (Annexure 11D)

Noticee is alleged to have violatedClause3.2 of Annexure to SEBI Circular SEBI/ HO/ MIRSD /MIRSD2/CIR/P/2016/95 dated September 26, 2016

FRR Submission/ Reply:

2 instances of Principal violation (03-Nov-2021, 2-March 2022) have been explained by us in point no A above. There is no wrong reporting involved.

Other incorrect reporting without having any violations involve marginal differences.

We will be more careful in future

Finding K: Client Level Cash & Cash Equivalent Balances and Bank Account Balances

Trading Member has not reported Proprietary, Error account and Client account client codes appearing in Trial Balance
Number of instance-11clients (Annexure 12M)

Noticee is alleged to have violated Clause 7 of SEBI Circular SEBI/ HO/ MIRSD/MlRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE Exchange circular NSE/INSP/43486 dated February10, 2020.

FRR Submission/ Reply:

Codes relating to Misdeal (Error) and Proprietary trading have not been reported by us. These are not client codes.
Above non reporting has not resulted in any misutilisation of client funds or securities
Exhibit_18

Finding L: Risk based Supervision (RBS):

Trading Member has not correctly reported the details of:

1. *Debit Balance of all clients (Rs -21,77,359)*
2. *Value of collaterals from the debit balance clients (Rs -8,95,362)*
3. *Brokerage Income (Rs 62,777)*
4. *Unsecured loans (Rs 6,92,842)*

Noticee is alleged to have violated Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95datedSeptember26, 2016.

FRR Submission/ Reply:
There could be difference in RBS data v/s post audit data due to rectification, write off entries passed during the course of audit.
Above inadvertent errors in reporting has not resulted in any misutilisation of client funds or securities.

Finding M: Demat account verification

Member has not reported closed demat accounts on the Exchange Portal -03 instances
Member has not undertaken tagging of DP accounts as required-05 instances
Securities of Credit Balance Clients were transferred to Client's unpaid securities account ('CUSA') —1 instance

Noticee is alleged to have violated Clause2 read with Clause 6.1.1. (g) of Annexure to SEBI circular SEBIIHO/MIRSD/MlRSD2/CIR/P/2016/95 dated September 26,2016, Clause 4.3 of SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June20, 2019

FRR Submission/ Reply:

Non reporting/ Tagging of DP Accounts:

These demat accounts were opened and closed immediately as there was issue with nomenclature used. No securities were held in these demat accounts.

Details of these demat accounts were subsequently updated on Exchange Portal

Please note that there was no misutilisation of securities in any of the above observations. It was an unintentional delay, which was subsequently regularised.

Transfer of Securities to CUSA account:

Securities were transferred against debit balance in Cash segment. Credit in F&O segment is treated separately and considered as margin for F&O trades of the client.

After the client had cleared in debit in cash segment, securities were released to client.'

Please note that there was no misutilisation of client securities involved in above observation.

Finding N: Engaged in other than broking activities

Member has entered into arrangement for extending loans or giving deposits/advances to its group company (FRR Immigration) not in connection with or incidental to or consequential upon the securities/ commodity derivatives business.

The referral business is not incidental to securities business and involves creation of personal financial liability for broker.

Amount of loan advanced during the Inspection period -Rs.2.14 Crore

Repayment Rs 3.14 Crore

Amount of loan outstanding as on 31.08.2022—Rs.13.6Lakh

Noticee is alleged to have violated Rule 8(3)(f) of Securities Contracts (Regulation) Rules,1957

FRR Submission/ Reply:

We confirm that we are not involved in the business of extending loans. Temporary loans were given to group company FRR Immigration which were received back from time to time.

FRR Immigration is involved in referral business in respect of investment programs of USA and other countries whereby persons investing in securities of certain eligible projects resulting in employment generation in those countries get preference for Citizenship over other applicants.

Referral business carried on by FRR Immigration does not involve any personal financial liability for FRR Immigration. There is no contract between the Indian investor in foreign securities and FRR Immigration. FRR Immigration only gets referral commission for introducing prospective Indian investor to Regional Centers of USA or other countries.

Please refer to page 21 of Post Inspection Analysis which indicates that referral activity does not involve any personal financial liability for the broker.

Loan was given by FRR Shares to FRR Immigration in relation to above referral business in respect of investment programs and thus in our opinion is for the purpose of securities related business.

During the period under inspection, repayment from FRR Immigration to FRR Shares (Rs 3.14 Cr) was more than amounts advanced (Rs 2.14 crore) to FRR Immigration by FRR Shares.

Loan was fully repaid by FRR Immigration and as on 31.03.2023 or as on today, there is no amount outstanding.

Though in our humble opinion, observation of the inspection team that referral business carried out by group entity (FRR Immigration) involves personal financial liability for the broker (FRR Shares) is incorrect, we wish to emphasise that loans are fully repaid by FRR Immigration and there is no exposure in respect of loan turning doubtful of recovery or non-recoverable.

Finding O: Passing of penalty on short reporting of margin

Segment	*No. of client*	*Amount passed*
CM	*13*	*63,687*
FO	***27***	*4,31,677*
CD	*2*	*6,538*

In this regard, Member has submitted that they have reversed penalty levied on clients for short reporting of upfront margin. However, has not submitted any evidence substantiating their response.
Noticee is alleged to have violated Clause A.5 of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/ INSP/49929 dated October12, 2021 and NSE/INSP/53525 dated September 02, 2022.

FRR Submission/ Reply

We confirm that we had reversed penalty levied on clients for short reporting of upfront margin on December 03, 2022.
Ledger of 5 clients involving reversal of top 5 amounts of penalties is attached as Exhibit- 20
Printout of Journal Entry crediting clients towards reversal of penalty is attached as Exhibit-21

Finding P: Verification of member internal policies:

Member has not adhered to Corporate Governance compliance adherence by not presenting to the Board/Committee
Review of internal controls& procedures

Review of Deviations along with proposed action plan in Internal Controls
Review of internalauditors'reportsincludingnon-compliancesobservedbytheauditors
Review of Exchange/SEBI inspection reports including non-compliances observed by the auditors and off-site alerts
Review of all Related party transactions and loans availed/given by/to member
Review of instances of breaches in system/ back office software and suggestion of controls
Review of Delay in submission of data to Exchange during inspection/wrong submissions made to SEBI & Exchange
Review of internal audit/Exchange & SEBI inspection observations by Compliance Officer
Member has submitted that that all inspections reports, review of policies and internal control framework, internal audit reports, deficiencies in inspection and internal audit report are considered in meetings of Core Committee and subsequently discussed in Board meetings of the company And further submitted that Related Party transactions/ transactions related to loans given and taken are conducted after passing proper resolutions in the board/ general meetings of the company.
However, Member has not submitted any evidence substantiating their response.
Noticee is alleged to have violated Regulation 9(b) of SEBI(Stock Broker) Regulations, 1992 read with Regulation 4.2.2 of Part A of the Capital Market Regulations of NSE.

FRR Shares Submission/ Reply

We confirm that we have adhered to Corporate Governance Compliance as Review of related party transactions, six monthly internal audit reports, inspection reports and review of operational / risk management / AML policies takes place in the Board meetings of the company on quarterly/ regular / annual basis.
Sample board resolutions in respect of review of internal audit / inspection reports, review of operational policies evidencing corporate governance compliance is attached as Exhibit-22.

Finding Q: Cyber security and cyber resilience

c) Member did not have cybersecurity policy in place before July5,2021
d) Off-the-Shelf products are not Standardization Testing and Quality Certification (herein after also referred to as "STQC") certified

Noticee is alleged to have violated Clauses 2 and 36 of Annexure- 1 to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018.

FRR Submission/ Reply

Various IT policies dealing with Password Standards, Access Control, Backup, Disaster Recovery, User Management, Networking and Firewall Security etc were already in place (since commencement of business by the company in year 2011) and submitted every year to the system auditor during System Audit applicable to us. The same deal with various aspects of cyber security and cyber resilience.

Copies of some of the policies are attached for your reference. Exhibit-23

Additionally, Consolidated Cyber Security Policy effective July 2021 was shared with the Inspection Team. However, it should be noted that various IT policies as mentioned above, taking care of cyber security relates issues were already in force from many years.

15. As regard the violation "Reporting and short collection of Margin", vide email dated 09 May, 2024, the Noticee inter alia made following additional submissions:

"After the discussion and proper recheck in the back office software we here by re conclude that the same is calculated wrongly in the software, the pay-out of La Opala lying in the pool account has been wrongly considered as margin while calculating the client margin calculation.

We here by request you to consider this case as unintentional situation arise due to some technical selection of file in software while calculating the client margin and we reported the same as collected.

We humbly request you to note above facts and also note that alleged violation of only one instance is observed out of Inspection period spanning 15 months involving daily reporting of approximately 250 clients, as we normally report short if our client has not provided the margin required for the trade."

D. CONSIDERATION OF ISSUES AND FINDINGS

16. I find that the following issues require consideration in the instant proceedings:

Issue No. I: Whether the Noticee has violated the provisions of SCR Act, 1956, SEBI Stock Broker Regulations, 1992, SCR Rules, 1957 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 15HB and Section 15C of the SEBI Act, 1992, and Section 23D and 23H of SCR Act, 1956?

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

Issue No. I: Whether the Noticee has violated the provisions of SCR Act, 1956, SEBI Stock Broker Regulations, 1992, SCR Rules, 1957 and SEBI Circulars as alleged?

17. The following was inter alia observed and /or alleged in respect of the Noticee:

17.1. Finding A: Misuse of clients' funds, Verification of Proprietary MTM loss and Analysis of Enhanced supervision data (Weekly):

17.1.1. In this regard, it had inter alia been observed and alleged that G was negative on 12 out of 38 sample instances and J was positive on 2 out of 38 instances.

17.1.2. I note from the material available on record that G was alleged to be negative on following 12 sample instances: 12-Apr-21, 17-Aug-21, 18-Aug-21, 23-Aug-21, 24-Aug-21, 25-Aug-21, 26-Aug-21, 03-Nov-21, 25-Nov-21, 24-Jan-22, 14-Feb-22 and 02-Mar-22. Further, J was alleged to be positive on 17-Mar-22 and 25-Mar-22.

17.1.3. In this regards I note that the Noticee's submissions are in nature of admission, in so far the Noticee has submitted, "*Findings partially contested*".

17.1.4. Further in this regard, the Noticee had submitted the following:

<u>3rd November 2021:</u>

"…*For 3rd November 2021, the Inspection team has not considered FD of Rs 1,70,00,000…… Further the Inspection team has not considered deposit of Rs 25,00,000 with clearing member- Edelweiss….. Correct balance* *creditors on 3rd November 2021 is Rs 50,35,36,087 instead of Rs 50,54,07,331…. As per our working G was not negative on November 03, 2021 instead G was positive by Rs 21,67,895"*

2nd March 2022

"*…The Inspection team has not considered deposit of Rs 25,00,000 with clearing member- Edelweiss. Rs 10,00,000 with SMC… Correct balance creditors on 2nd March 2022 is Rs 50,73,76,727 instead of Rs 50,93,17,126… As per our working G was not negative on March 02, 2022 instead G was positive by Rs 1,51,41,707."*

"…We wish to bring to your notice that though the balances may have been taken directly from back office, the same are without removing effect of unclear cheques.

If one considers clear balances, G was not negative on following 2 dates, instead it was positive as under

Date	*G As per the Inspection Team*	*G As per Our Working (Clear balances)*	*Reason for Difference*
25-Nov-21	*-22,89,615*	*17,14,812*	*Clear balances of credit clients Rs 46,22,69,762 instead of Rs 46,62,74,191 considered by the inspection team*
14-Feb- 22	*-90,52, 602*	*5,34,749*	*Clear balances of credit clients Rs 52,06,80,515 instead of Rs 53,02,67,866 considered by the inspection team*

Further amount negative G is lesser on following 2 days if we consider clear balance of creditors removing effect of unclear cheques

Date	G As per the Inspection Team	G As per Our Working (Clear balances)	Reason for Difference

12-Apr-21	(3,73,57,642)	(2,08,27,861)	Clear balances of credit clients Rs. 36,86,94,174 instead of Rs 38,52,23,855 considered by NSE Inspection team
24-Jan -22	(1,02,52,262)	(83,92,936)	Clear balances of credit clients Rs. 41,55,98,60 instead of Rs 41,74,57,948 considered by NSE Inspection team

"As regards observation in respect of J Positive 2 cases, we wish to state that amount in respect of Free / Unblocked Collateral Deposited with Clearing Corporation (Rs 23,38,55,071) for date March 17, 2022 has not been considered by inspection team. Further for date March 25, 2022, amount in respect of Collateral Deposited in form of cash with Exchange (Rs 22,32,00,000) and amount in respect of Free / Unblocked Collateral Deposited with Clearing Corporation (Rs 25,76,99,555) 2022 has not been considered by inspection team. If we consider these amounts, there would no J positive.

Also note that we have kept BG of Rs 3,00,00,000 with Exchange. Non funded part of Rs 1,50,00,000 is towards Margin of Pro Trades"

17.1.5. In this regard, I note that Section 23D of SCRA Act, 1956 reads as under:

"...

[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.]

…"

17.1.6. Further, in this regard, I note that Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 reads as under:

…"

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] 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.
…"

17.1.7. Further, in this regard, I note that Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

"…

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

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

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

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

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

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

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

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

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

P-Aggregate value of Proprietary Margin Obligation across Stock Exchanges

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

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

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

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

Principle:

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

Stock Exchanges shall calculate the difference i.e. G as follows -

G = (A+B)-C

If difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of G may indicate 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|

…"

17.1.8. In this regard, I note the following:

<u>3rd November 2021:</u>

I note that the FD of Rs. 1,70,00,000 should be considered for calculation of G, as confirmed by SEBI.

As regards the Noticee's submission, "*Inspection Team has not considered deposit of Rs. 25,00,000 with clearing member-Edelweiss",* I note that deposit of Rs 25,00,000 with clearing member Edelweiss is already considered in "Collateral deposited with exchanges in form of Cash and Cash Equivalents (In Rs.)" as confirmed by SEBI. Therefore, the Noticee's contention in this regard is devoid of merit and hence not acceptable.

As regards the Noicee's submission, "*Correct balance creditors on 3rd November 2021 is Rs 50,35,36,087 instead of Rs 50,54,07,331",* I note that the Noticee has not clearly demonstrated with relevant details and documents as to how there is a change in balance of creditors on 3rd November 2021. Hence, the Noticee's contention is not acceptable.

In view thereof, after considering the FD of Rs. 1,70,00,000 as per SEBI, I note that on said/ given date the revised value of G would still be negative to the extent of Rs. (21,89,627).

<u>2nd March 2022</u>

As regards the Noticee's submission, "*The Inspection team has not considered deposit of Rs 25,00,000 with clearing member- Edelweiss. Rs 10,00,000 with SMC",* as dealt with earlier/ in the the foregoing I note that deposit of Rs 25,00,000 with clearing member Edelweiss is already considered in "Collateral deposited with exchanges in form of Cash and Cash Equivalents (In Rs.)" and as regards the deposit of Rs 10,00,000 with

SMC, the same may be considered as the daily margin statement, was not provided by the Noticee at the time of inspection.

In view thereof, after considering FD of 10 lakhs as per SEBI and funds of Rs. 1.35cr as per Exhibit 6, I note that the revised value of G would be Rs. 1,08,05,794.

17.1.9. As regards the Noticee's submissions with respect to value of G on 25-Nov-21, 14-Feb-22, 12-Apr-21 and 24-Jan-22, I note that the Noticee has not clearly demonstrated with relevant details and documents as to how there is a change in balance of creditors on 25-Nov-21, 14-Feb-22, 12-Apr-21 and 24-Jan-22. Therefore, the Noticee's contention in this regards is devoid of merit and hence not acceptable.

In view thereof, I note that the value of G on 25-Nov-21, 14-Feb-22, 12-Apr-21 and 24-Jan-22 is as follows:

Date	G value (Rs.)
25-Nov-21	(22,89,615)
14-Feb- 22	(90,52, 602)
12-Apr-21	(3,73,57,642)
24-Jan -22	(1,02,52,262)

17.1.10. Further in this regard, I note that the Noticee has not disputed negative value of G on 6 instances viz., 17-Aug-21, 18-Aug-21, 23-Aug-21, 24-Aug-21, 25-Aug-21 and 26-Aug-21 where the G value as per the material available on record, is as follows:

Date	G value (Rs.)
17-Aug-21	(1,29,32,729.98)

18-Aug-21	(2,97,50,808.31)
23-Aug-21	(54,08,576.60)
24-Aug-21	(1,80,43,210.80)
25-Aug-21	(2,22,62,963.18)
26-Aug-21	(1,76,46,930.86)

17.1.11. Further in this regard, I also note that the Noticee's submissions are in nature of admission, in so far the Noticee had inter alia submitted, "*G was negative on certain days on account of temporary delay in payment of pay-in obligations by debit clients …though the funds of credit clients may have got used for pay-in of debit clients, the funds were however never used for Pro Trading or any other purposes".*

17.1.12. Further, I note that the Noticee's submission, "*Our conscious efforts to streamline receivable management and ensure compliance at all time have resulted in G not in Negative for a single day Since March 2022 till date",* does not nullify the violations past as dealt with in the foregoing and can at best be considered as mitigating factor.

17.1.13. Further, the Noticee had submitted, "*NSE had levied penalty of Rs 9,57,000 i.e. @ 3% of maximum amount of misutilisation of Rs 3.19 Crore on July 22, 2021 during inspection period covering July 19, 2021 and August 05, 2021*." In this regard, I note from NSE order dated July 01, 2022 submitted by the Noticee that the dates for which the Noticee was penalized by NSE for shortfall of clients' funds and the dates for which SCN alleged negative value of G on 12 instances are distinct. Therefore, the Noticee's contention is out of context and hence not acceptable.

17.1.14. In view thereof, I find that the allegation that funds of credit balance clients were mis-utilized for meeting the obligations of debit balance clients and/or for its own purpose stands established as the value of G was negative on 11 instances. Therefore, I hold that the Noticee had violated 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.

17.2. Finding B: Monthly / Quarterly Settlement of Funds and Securities:

17.2.1. In this regard, following had inter alia been observed and alleged:

a) Noticee had not settled the funds of unique 339 Inactive Clients as on August 31, 2022 amounting to Rs. 16,32,648 /- during the inspection period spanning 15 months.

b) Noticee had not maintained separate bank account for keeping funds of Inactive clients.

c) SMS was not sent to clients on settlement.

17.2.2. In this regard, I note that the submissions of the Noticee are in nature of admission in so far the Noticee has submitted, "*Findings not contested*".

17.2.3. In this regard, I note that Clause 5.1 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 reads as under:

> *"…*
> *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*
> *…"*

17.2.4. Further, in this regard, I note that Clause 12(e) of Annexure-A to SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 reads as under:

> *"…*

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.

…"

17.2.5. Further, in this regard, I note that Clause 8.1 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

"…

8.1. In partial modification of circular on running account settlement, the stock broker shall ensure that;

8.1.1. There must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements.

8.1.2. For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.

8.1.3. The required bank details for initiating electronic fund transfers shall be obtained from new clients and shall be updated for existing clients. Only in cases where electronic payment instructions have failed or have been rejected by the bank, then the stock broker may issue a physical payment instrument.

8.1.4. Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled.

…."

17.2.6. The Noticee, in this regard, has also submitted, "*1 client account having credit balance of Rs 10.11 lakhs was settled on 01.09.2022. (62 % of total amount involved in the observation). 31.08.2022 was a public holiday on account of Ganesh Chaturthi, hence the account was settled on 01.09.2022"*

In this regard, I note that the Noticee has not demonstrated along with relevant documents that any exemption was available in this regard to the Noticee on account of holiday on 31.08.2022. Further in this regard, I note that said provisions of the cited SEBI circulars were applicable to entire class of intermediary viz., All SEBI Registered Stock Brokers. Thus, the Noticee's contention is devoid of merit and hence not acceptable.

17.2.7. In this regard, the Noticee has also contended, "*One account of NRI Client (Portfolio Scheme) having credit balance of Rs 2.85 lakh could not be paid since the bank account has turned dormant and we were following with bank.*"

In this regard, I note that as per the documentary evidence submitted by the Noticee the client's bank account was not activated as of April 30, 2022. However, I note from the material available on record that the client account was not settled since August 2021 but the Noticee has shown the communication with the bank only in the month of April 2022. As per the relevant provisions of law, the settlement of funds by trading member has to be done on atleast once in a calendar month/ quarter as per the preference of the client. Therefore, the Noticee's contention in this regard is devoid of merit and hence not acceptable.

17.2.8. Further, in this regard, the Noticee has submitted, "*28 clients having unsettled amount of Rs 38,912 have transacted subsequently and turned active*". In this regard, I note that the Noticee's submission is in nature of admission. I also note that the Noticee has not substantiated the same with supporting documents, however, in any case this does not absolve the Noticee from the liability of non-settlement as and when the settlement was due.

17.2.9. Further in this regard, the Noticee has submitted that, "*Client accounts of other 202 clients having unsettled value of Rs 1,73,486 were settled subsequent to 31.08.2022".* In this regard, I note that the Noticee has not demonstrated the same with relevant details and documents. Further, in this regard I note that the Noticee's submission is in nature of admission that client accounts were not settled on the due date.

17.2.10. It was interalia alleged that the Noticee had not maintained a separate bank account for keeping the funds of inactive clients.

17.2.11. In this regard, the Noticee has submitted, *"Though we had not opened separate bank account, we had kept funds of unsettled clients in existing separate account which was not used for any other purposes".*

17.2.12. In this regard, I note that the Noticee's submission is in nature of admission in so far as the Noticee has stated, "*Though we had not opened separate bank account, we had kept funds of unsettled clients in existing separate account which was not used for any other purposes"*. Therefore, the Noticee's contention is devoid of merit and hence not acceptable.

17.2.13. It was interalia alleged that SMS was not being sent to clients on settlement.

17.2.14. In this regard, I note the Noticee's submissions of the Noticee in this regard are in nature of admission in so far the Noticee has inter alia submitted, *"Technical issue of SMS not getting delivered has been resolved now."*

17.2.15. In view thereof, I find that the allegations with respect to non-settlement of funds of inactive clients during the inspection period, not maintaining separate bank account for keeping funds of Inactive clients and not sending SMS to clients on settlement stands established. Therefore, I hold that the Noticee has violated Clause 5.1 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Clause 12(e) of Annexure-A to SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 8.1 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

17.3. Finding C: Segregation of clients’ funds and own funds:

17.3.1. In this regard, it was inter alia observed and alleged that the Noticee had not reported following 3 bank accounts to exchanges (BSE/ NSE):

Sr. No.	Bank Name	Account Number	Current Status/Account Closed	Not reported to exchange (BSE/ NSE)
1	HDFC- MF NSE SETL A/C	990610013684	Dormant	Not reported (BSE/ NSE)
2	SIB PMS FEES A/C 0194.73.1651	194073000001651	27.05.2022	Not reported (BSE/ NSE)
3	AXIS BANK - NSEIL A/C	918040081099072	Active	Not reported (BSE/ NSE)

17.3.2. In this regards I note that the Noticee’s submissions are in nature of admission, in so far the Noticee has submitted, “*Findings partially contested*”.

17.3.3. Further in this regard, the Noticee has submitted, “*Observation does not involve any active bank account not being reported.*

…

One case is not bank account. It is actually Fixed Deposit account not requiring any reporting to the Exchanges”.

17.3.4. In this regard, I note that clause 2.3.3. of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

“…

2.Reporting of Bank and Demat accounts maintained by Stock Broker:

…

2.3.Stock Exchanges and/or Depositories, as the case may be, shall ensure the following:

…

2.3.3. Details of all existing bank and demat accounts shall be communicated to Stock Exchanges by the stock brokers in the format specified above within one month from the date of this circular.

…“

17.3.5. In this regard, I note that Noticee's submission, "*Observation does not involve any active bank account not being reported"* is not acceptable as clause 2.3.3. of SEBI Circular dated September 26, 2016 require the details of all existing bank and demat accounts to be communicated to stock exchanges, however, the Noticee did not report the bank accounts viz., HDFC- MF NSE SETL A/C, SIB PMS FEES A/C 0194.73.1651 and AXIS BANK - NSEIL A/C to the stock exchanges.

17.3.6. Further in this regard, the Noticee has submitted, "*Observation involves non reporting of 1 dormant account not involving any material bank balances (Bank balance Rs 85.87) and 1 closed bank account"*

17.3.7. In this regard, I note that following was the Noticee's reply to the findings of inspection on December 07, 2022:

Bank Name	*A/c No*	*Bank Balance Rs*	*Status*
HDFC-MF NSE Setl A/c	*#13684*	*85.87*	*Dormant, not done any transaction in this segment.*
SIB PMS Fees A/c	*# 1651*	*-*	*Closed on 27.05.2022*

17.3.8. In this regard, I note that as regards the HDFC-MF NSE Setl A/c, clause 2.3.3. of SEBI Circular dated September 26, 2016 require the details of all existing bank accounts to be communicated to stock exchanges, hence the Noticee's contention in this regard is devoid of merit and hence not acceptable. Further, as regards the SIB PMS Fees A/c, I note that the Noticee was required to report the bank account to the stock exchanges, prior to closing of account.

17.3.9. As regards the AXIS BANK - NSEIL A/C, the Noticee has submitted that, "…*It is actually Fixed Deposit account not requiring any reporting to the Exchanges*" and has submitted documentary evidence to substantiate the same. Accordingly, having regard to the contention of the Noticee in this regard, I note that the material available on record has not evidently brought out as to how non-communication of AXIS BANK - NSEIL A/C to the stock exchanges is a violation on part of the Noticee. Therefore, I am inclined to give benefit of doubt to the Noticee with respect to non-reporting of bank account AXIS BANK - NSEIL A/C to the stock exchanges.

17.3.10. In view thereof, I hold that the allegation that the Noticee did not report the bank accounts to stock exchanges viz., BSE/ NSE in so far relating to HDFC- MF NSE SETL A/C and SIB PMS FEES A/C 0194.73.1651 stands established. Therefore, I hold that the Noticee had violated clause 2.3.3. of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

17.4. Finding D: Reporting and short collection of Margin:

17.4.1. In this regard, it was inter alia observed and alleged that the Noticee had done wrong reporting of End of Day Margin ("EOD margin") in 1 instance amounting to Rs. 2.22 Lakh in respect of Txxxxx Bxxxxx.

17.4.2. In this regard, the Noticee has submitted, "*In case of client 11000587, Txxxxx Bxxxxx, for Trade date 03.08.2021, 2000 shares of La Opala (ISIN INE059D01020) approximate value Rs 5,64,170 considered as margin. These shares were purchased on 30.07.2021 were in our pool account on 03.08.2022".*

17.4.3. In this regard, I note from the submission of the Noticee that there were 2000 shares of Laopala in pool account as on 03.08.2021. However, I note that the same may not be considered as they are shares purchased by client and lying in pool account, which needs to be transferred to the client's Demat account. It may be considered as margin only if the shares are pledged by client in favor of the TM for margin purpose. Therefore, the Noticee's submission is devoid of merit and hence not acceptable.

17.4.4. Further in this regard, the Noticee has submitted, "*In addition to above there was early pay-in of 1500 Shares of Sterling Wislon amounting to Rs 4,58,888 was also considered as Margin which is contested by NSE as not allowable. However please note that margin in the form of 2000 shares of La Opala (ISIN INE059D01020) approximate value Rs 5,64,170 of the client were in our pool account before execution of trade as Upfront margin.*"

17.4.5. I note from the submissions of the Noticee that the early pay-in was done on 04th august 2021 and not the margin date i.e. 03rd august 2021. Therefore, the Noticee's submission is devoid of merit and hence not acceptable.

17.4.6. In this regard, I note that Clause 4.1.2, 4.1.5 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 reads as under:

> *"…*
>
> *4. In cash segment, the VaR margin is collected by Clearing Corporation (CC)upfront from trading member/clearing member by adjusting against the available liquid assets of TM/CM at the time of trade. However, the quantum, form and mode of collection of the margin from the client is left to the discretion of TM/CM. In order to align and streamline the risk management framework of both cash and derivatives segments, with respect to collection of margins from the clients and reporting of short-collection/non-collection of margins, following guidelines are issued:*
>
> *4.1.Collection of margins from the clients by TM/CM in cash segment:*
>
> *…*
>
> *4.1.2. 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.)*
>
> *…*
>
> *4.1.5. As like in derivatives segments, the TMs/CMs shall report to the Stock Exchange onT+5 day the actual short-collection/ non-collection of all margins from clients.*

…"

17.4.7. Further in this regard, I note that Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/ 2020/146 dated July 31, 2020 reads as under:

"…

2.In view of the representations received from investors, TMs/ CMs, stock broker associations, in this regard, following has been decided:

2.1.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.

…"

17.4.8. Further n this regard, I note that the Noticee's submission is in nature of admission in so far the Noticee has submitted, "…*the pay-out of La Opala lying in the pool account has been wrongly considered as margin while calculating the client margin calculation. We here by request you to consider this case as unintentional situation arise due to some technical selection of file in software while calculating the client margin and we reported the same as collected."*

I also note that the Noticee's contention, "*alleged violation of only one instance is observed out of Inspection period spanning 15 months involving daily reporting of approximately 250 clients"* would not exempt the Noticee from complying with the extant applicable provisions of securities laws violated, which Noticee was required to comply with and can at best be considered as mitigating factor.

17.4.9. In view thereof, I find that the allegation that Noticee has done wrong reporting of EOD margin in 1 instance amounting to Rs. 2.22 Lakh, stands established. Therefore, I hold that the Noticee had violated Clause 4.1.2, 4.1.5 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/ 2020/146 dated July 31, 2020.

17.5. Finding E: Stock reconciliation:

17.5.1. In this regard, it was inter alia observed and alleged that:

a) Data uploaded by the Member w.r.t Holding Statement on a weekly basis was incorrect (DP Holding vs Weekly Holding submission).
-Excess quantity as per de-mat statement in 1 ISIN and value of mismatch Rs. 9870/-

b) Data uploaded by the Member w.r.t Holding Statement on a weekly basis was incorrect (Back office vs Weekly holding submission).
-Excess quantity as per weekly holding submission in 1 ISIN and value of mismatch Rs. 1870/-

17.5.2. In this regards I note that the Noticee's submissions are in nature of admission, in so far the Noticee has submitted, "*Findings not contested*".

17.5.3. Further in this regard, the Noticee has submitted, "*Mismatch in reporting in weekly holdings in respect of 2 ISIN of two different dates with amount of mismatch of Rs 9870 and Rs 1870 were unintentional.*

…

These are minor mismatches on account of interpretation issues."

17.5.4. I note from the material available on record that error on account of data uploaded by member with respect to

- DP Holding vs Weekly Holding submission is as follows:

Quantity as per Demat Account as on 31st August, 2022	Quantity as per Weekly Holding submission as on 31st August, 2022	Difference	Price as on 31st August, 2022 (Rs.)	Value as on 31st August, 2022 (Rs.)

600	0	600	16.45	9870

- Back office vs Weekly holding submission is as follows:

Quantity as per Weekly Holding Submission as on 31st August, 2022	Quantity as per Back Office Holding as on 31st August, 2022	Difference	Price as on 31st August, 2022 (Rs.)	Value as on 31st August, 2022 (Rs.)
100	0	100	18.7	1,870.00

17.5.5. In this regard, I note that Clause 2.3 of SEBI Circular MRD/DoP/ SE/Cir-11/2008 dated April 17, 2008 reads as under:

> "…
> *2.3. The records should be periodically reconciled with the actual collateral deposited with the broker*
> *…"*

17.5.6. In this regard, I note that the Noticee's submissions are in nature of admission in so far as the Noticee has inter alia submitted, "*Mismatch in reporting in weekly holdings in respect of 2 ISIN of two different dates with amount of mismatch of Rs 9870 and Rs 1870 were unintentional".* Further, the Noticee's submission that, "*These are minor mismatches on account of interpretation issues"* is devoid of merit as the Noticee has not demonstrated what was the interpretational issue as such. In any case the provision relate to circulat dated 2008 which even if the contention of the Noticee were to be accepted, the Noticee was at liberty to seek clarification by reaching out to SEBI. Evidently the contention is submitted as an afterthought and devoid of merit, and hence not acceptable.

17.5.7. In view thereof I hold that the allegation that data uploaded by the Noticee with respect to Holding Statement on a weekly basis was incorrect stands established. Therefore, I hold that the Noticee had violated Clause 2.3 of

SEBI Circular MRD/DoP/ SE/Cir-11/2008 dated April 17, 2008.

17.6. Finding F: Client registration process (KYC, CKYC and KRA process):

17.6.1. In this regard, it was inter alia observed and alleged that the Running A/c authorization contained a clause of retaining amount balance in ledger of Rs. 10,000 less - This clause was continuing after August, 2021.

17.6.2. In this regards I note that the Noticee's submissions are in nature of admission, in so far the Noticee has submitted, "*Findings not contested*".

17.6.3. Further in this regard, the Noticee has submitted, "*This Running Account Authorisation was printed on Account Opening forms printed just prior to August 2021. We however have not used this authorisation in practise and credit balances less than Rs 10,000 were duly settled by us. There is no observation in respect of non- settlement of active accounts having balance less than Rs 10,000. Further we were cancelling such pre-printed authorisation by hand before handing Account Opening Form to prospective clients. New KYC does not have above clause"*

17.6.4. In this regard, I note that Clause 5.6 of SEBI Circular SEBI/HO/MIRSD/DOP/ P/CIR/2021/577 dated June 16, 2021 reads as under:

> *"…*
> *Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued*
> *…"*

Further, I note that Clause 7 of the said circular reads as under:

> *"…*
> *The provisions of this circular shall be applicable with effect from August 01, 2021.*
> *…"*

17.6.5. In this regard, I note from the material available on record that for the following 28 clients, Running A/c authorization contains a clause of retaining amount balance in ledger of Rs. 10,000 less and the clause is continuing after August, 2021:

Client code	Client name	Category	Form Category
22020641	Cxxxxx Kxxxxxxxx Pxxxxx	Individual	Offline
22020647	Nxxx Pxxx	Individual	Offline
22020648	Cxxxxxxxxxxx Sxxxxxxx Kxxx	Individual	Offline
22060735	Nxxxxx Pxxxxx Pxxxxx	Individual	Offline
22270087	Sxxxx Sxxxxx Pxxxxx	Individual	Offline
22270088	Vxxxxx Pxxxxx Axxxxxx	Individual	Offline
22270090	Pxxxxx Dxxxx Cxxxxx	Individual	Offline
22270396	Nxxxxx Vxxxxxxxx Sxxx	Individual	Offline
12000687	Sxxxxxxxx Nxxxxxxxxx Txxxxxxxx	Individual	Offline
12110487	Dxxx Vxxxx Kxxxxxx	Individual	Offline
12110488	Vxxxx Bxxxxxxxxx Pxxxx	Individual	Offline
12260078	Sxxxxxxx Cxxxxxxxx Gxxx	Individual	Offline
11000771	Vxxxx Bxxxx	Individual	Offline
11000774	Axxxxxx Cxxxxxx	Individual	Offline
11000789	Gxxxxx Dxxx Pxxxxx	Individual	Offline
11220056	Axxxx Chaturvedi	Individual	Offline
11640006	Sxxxxx Gxxxx	Individual	Offline
51069	Dxxxxx Nxxxxxxxx Vxxx	Individual	Offline
51078	Rxxx Kxxxx	Individual	Offline
51079	Sxxxx Mxxxxxxxxxxx Mxxxxxxx	Individual	Offline
51086	Gxxxxxxxx Rxxxxxxxx Dxxxxxxx	Individual	Offline
51088	Gxxxxx Axxxx	Individual	Offline
2225s044	Kxxxxxx Pxxxxxx Sxxx	Individual	Offline
2225v007	Dxxxxx Vxxx	Individual	Offline
2225v008	Rxxxxx Dxxxxx Vxxx	Individual	Offline
22060734	Axxx Vxxx (Huf)	HUF	Offline
22270093	Axxx Kxxxxxxx Sxxxx	HUF	Offline
22270397	Mxxxxx Bxxxxxxxx Sxxx	HUF	Offline

17.6.6. In this regard, I note that the Noticee's submission is in the nature of admission in so far the Noticee has submitted that, "*This Running Account Authorisation was printed on Account Opening forms printed just prior to August 2021"*. Further, the Noticee has not submitted any evidence to substantiate its argument that it was cancelling pre-printed authorisation by hand before handing Account Opening Form to prospective clients.

17.6.7. In view thereof, I hold that the allegation the Running A/c authorization contains a clause of retaining amount balance in ledger of Rs. 10,000 less, even after August, 2021 stands established. Therefore, I hold that Noticee has violated Clause 5.6 of SEBI Circular SEBI/HO/MIRSD/DOP/ P/CIR/2021/577 dated June 16, 2021.

17.6.8. It was observed and alleged that in 12 instances, the Noticee updated KRA after 10 days and application forms were not complete in 2 instances. Further, discrepancies were observed in IPV process in 9 instances.

17.6.9. In this regard, the Noticee has submitted, "*There were delays in uploading due to staff working from home during and post Corona Pandemic days. Currently, we are updating KRAs within time limit of 10 days.*"

17.6.10. In this regard, I note that Clause 1(i) of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 reads as under:

> *"…*
>
> **1.** ***Guidelines for intermediaries***
>
> *After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA and send the KYC documents i.e. KYC application form and supporting documents of the clients to the KRA within 10 working days from the date of execution of documents by the client and maintain the proof of dispatch.*
>
> *…"*

17.6.11. In this regard, I note from the material available on record that:

a) Following are the 12 instances where the Noticee updated KRA after 10 days:

Sr. No.	Client code	Client name	Category	Account Opening Date	KRA done date	Observation KRA Updated within 10 days
1	22020641	Cxxxxx Kxxxxxxxxx Pxxxxx	Individual	**07/09/2021**	**01/11/2022**	Udated after 10 days in NDML KRA
2	22020648	Cxxxxxxxxxxx Sxxxxxxx Kxxx	Individual	**27/12/2021**	**01/11/2022**	Updated After 10Days
3	22060735	Nxxxxx Pxxxxx Pxxxxx	Individual	**01/02/2022**	**01/11/2022**	Udated After 10 Days In CAMS KRA
4	22270088	Vxxxxx Pxxxxx Axxxxxx	Individual	**30/01/2022**	**01/11/2022**	Not Available
5	22270396	Nxxxxx Vxxxxxxxx Sxxx	Individual	**29/11/2021**	**01/11/2022**	Udated after 10 days in NDML KRA
6	11000774	Axxxxxx Cxxxxxx	Individual	**22/04/2022**	**23/05/2022**	Not Available
7	11000789	Gxxxxx Dxxx Pxxxxx	Individual	**04/01/2022**	**01/11/2022**	After 10 Days updated in DOTEX KRA
8	51069	Dxxxxx Nxxxxxxxx Vxxx	Individual	**02/10/2021**	**01/11/2022**	Not Available
9	2225s044	Kxxxxxx Pxxxxxx Sxxx	Individual	**12/12/2021**	**19/10/2022**	Not Available
10	22270093	Axxx Kxxxxxxx Sxxxx	HUF	**24/05/2022**	**13/07/2022**	Not Available
11	51055	Gxx Bxxxxxx Pxxxx Lxx	BCO	**Date Not Available**	**20/07/2022**	Not Available
12	2225s030	Sxxxxxxxx Sxxxxxxxx Pxxxxxx Lxxxxxx	BCO	**27/06/2021**	**Date Not Available**	Not Available

b) Following are the 2 instances where the application forms were not complete:

Sr. No.	Client code	Client name	Observation KRA Updated within 10 days
1	11220055	Rxxxxx Kxxxx Axxxxxx	Stamp of karta not proper on application form and aadhaar number mentioned on annexure page and HUF deed of declaration not submitted-RC
2	2225p014	Sxxxxxxx Cxxxxxxxx Pxxxxx	Aadhaar number should be blackout from aadhaar copy and application form not legible [cut copy] and huf deed of declaration not submitted

c) Following are the 9 instances where discrepancies were observed in

IPV process:

Sr. No.	Client code	Client name	Category	Form category	Discrepancies observed in IPV done
1	12260078	Sxxxxxxx Cxxxxxxxx Gxxx	Individual	Offline	Sign Not Present
2	51069	Dxxxxx Nxxxxxxxx Vxxx	Individual	Offline	Sign Not Present
3	51078	Rxxx Kxxxx	Individual	Offline	Sign Not Present
4	51079	Sxxxx Mxxxxxxxxxxx Mxxxxxxx	Individual	Offline	Not Found
5	51088	Gxxxxx Axxxx	Individual	Offline	Sign Not Present
6	2225s044	Kxxxxxx Pxxxxxx Sxxx	Individual	Offline	Sign Not Present
7	2225v007	Dxxxxx Vxxx	Individual	Offline	Sign Not Present
8	2225v008	Rxxxxx Dxxxxx Vxxx	Individual	Offline	Sign Not Present
9	22270093	Axxx Kxxxxxxx Sxxxx	HUF	Offline	Not Found

17.6.12. In this regard, I note that Noticee's submission "*Currently*, *we are updating KRAs within time limit of 10 days"* does not absolve the Noticee of the violations committed by it in the past. I further note that the Noticee's submissions are in nature of admission in so far as the Noticee has submitted, "*There were delays in uploading due to staff working from home during and post Corona Pandemic days"*. Further, I note that the Noticee has not submitted any response with respect to the allegations of incomplete application forms in 2 instances and discrepancies observed in IPV process in 9 instances. In view thereof, in absence of any response from the Noticee I note that the Noticee has admitted to the allegation levelled against it with respect to incomplete application forms in 2 instances and discrepancies observed in IPV process in 9 instances.

17.6.13. In view thereof, I find that the allegation that in 12 instances the Noticee updated KRA after 10 days, application forms were not complete in 2 instances and that discrepancies were observed in IPV process in 9 instances, stands established. Therefore, I hold that the Noticee had violated Clause 1(i) of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011.

17.7. Finding G: Verification of Email ID & Mobile Numbers

17.7.1. In this regard, it was inter alia observed and alleged that Mobile number of the Noticee's clients had not been found in the exchange record in 26 instances and email ID of client in back office were mismatched with exchange record in 14 instances.

17.7.2. In this regards I note that the Noticee's submissions are in nature of admission, in so far the Noticee has submitted, "Findings partially contested".

17.7.3. Further in this regard, the Noticee has submitted that, "*"These were unintentional lapses due to staff working from home during and post Corona Pandemic days. We have now updated Mobile numbers in UCC data of the exchange. Number of instances are however not significant (26 cases out of approximately 5000 UCC cases)*

Up-dation of Email IDs in back office during up-dation of six attributes was missed in respect of UCC data. We confirm that the same has been updated subsequently. Number of instances are however not significant (14 cases out of approximately 5000 UCC cases)."

17.7.4. In this regard, I note that Clause 2 (B) of SEBI Circular No. CIR/ MIRSD/15/2011 dated August 02, 2011 reads as under:

"…

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

i. Stock exchanges shall provide a platform to stock brokers to upload the details of their clients, preferably, in sync with the UCC updation module.

ii. Stock brokers shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address.

iii. Stock brokers shall ensure that the mobile numbers/E-mail addresses of their employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.

iv. Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the stock broker may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.

…"

17.7.5. In this regard, I note from the material available on record that Mobile number of the clients had not been found in the exchange record in following 26 instances:

Sr.No	Unique Client Code	Name of the Client
1	11000456	Vxxxxxx Jxxx
2	11010109	Txxxxxxxxx Cxxxxxxxxx
3	11100029	Vxxxx Kxxxx Gxxxx
4	11220045	M D Cxxxxxxxxx
5	11290047	Mxxxxxxx Axxxx Bxxx
6	12110327	Pxxxxxxxxxx Jxxxxxxx Pxxxx (HUF)
7	12120084	Bxxxxx M Txxxxx
8	12260009	Mxxx Axxx Pxxxx
9	12270080	Sxxxxxxx Sxxxxxxxx Axxxxxx
10	14050018	Kxxxxx Bxxxxxxx
11	22010057	Jxxxxxxx P. Wxxxxxx
12	22010141	Txxxxx Cxxxxx
13	22010186	Kxxxx C Pxxxxx
14	22020483	Pxxxxx M Uxxxxxxxx
15	22020490	Dxxxx Dxxxxxx Bxxxxx
16	22020541	Jxxxx Pxxxxx Uxxxxxxx
17	22020565	Jxxxxxxxxx C Mxxxxx
18	22080027	Vxxxx Vxxxx Mxxxx
19	22150409	Axxxxx Cxxxxxx Kxxxxxxx
20	22160026	Mxxxx Jxxxxxx Axxxxxx
21	22160028	Jxxxxxx G Axxxxxx
22	22240024	Axxxxx Bxxxxxxx Mxxxx
23	22270309	Kxxxxx Kxxx
24	50061	Axxxxx Bxxxxxx Sxxxxxx
25	50236	Hxxxxxxx Y. Pxxxxx
26	50379	Sxxxx Sxxxxx

17.7.6. I note from the material available on record that email ID of client in back office was mismatched with exchange record in following 14 instances:

Sr.No.	Unique Client Code	Name of the Client
1	11000456	Vxxxxxx Jxxx
2	11010169	Kxxxxxxxx Dxxx
3	11010174	Pxxxxx Cxxxxxxxxx
4	11290047	Mxxxxxxx Axxxx Bxxx
5	11380003	Txxxxxx Axxxx Sxxx
6	12000471	Pxxxxxx Rxxxxxxxxxx Sxxx
7	12110327	Pxxxxxxxxxxx Jxxxxxxx Pxxxxx (HUF)
8	22010141	Txxxxx Cxxxxx
9	22020490	Dxxxx Dxxxxxx Bxxxxx
10	22020498	HxxxL C Dxxx
11	22020565	Jxxxxxxxxx C Mxxxxx
12	22150409	Axxxxx Cxxxxxx Kxxxxxxxx
13	50236	Hxxxxxxx Y. Pxxxxx
14	50379	Sxxxx Sxxxxx

17.7.7. In this regard, I note that the Noticee's submissions are in nature of admission in so far the Noticee has inter alia submitted, "*These were unintentional lapses"*. I further note that the Noticee's submissions with respect to the subsequent updation of KYC cannot be accepted as it does not absolve the Noticee of the violations committed by it in the past. Further, I note that the Noticee's contention, "*Number of instances are however not significant"* would not exempt the Noticee from complying with the extant applicable provisions of securities laws violated, which Noticee was required to comply with and can at best be considered as mitigating factors.

17.7.8. In view thereof, I find that the allegation that the Noticee did not update mobile numbers in the exchange records and that there was a mismatch of Email ID of client in back office with Exchange record, stand established. Therefore, I hold that the Noticee has violated Clause 2 (B) of SEBI Circular No. CIR/ MIRSD/15/2011 dated August 02, 2011.

17.8. Finding H: Complaints and arbitration

17.8.1. In this regard, it was observed and alleged that 4 complaints received during inspection period were pending for more than 30 days.

17.8.2. The details of aforesaid complaints against the Noticee are as follows:

Registration number	Received/ resolved date	Pending days / resolution time
SEBIE/MH21/0009715/1	03-09-2021	36
SEBIE/MH21/0007562/1	31-07-2021	55
SEBIP/MH21/0001129/1	31-07-2021	82
SEBIE/MH21/0007457/1	26-08-2021	84

17.8.3. In this regard, the Noticee has submitted, "*there were no complaints from any client, which were pending for more than 30 days.*
There were emails from exchange asking for the information as the one client (Suresh Gupta) who had filed appeal against IGRP order, was asking for data related to trades. These details were duly provided to Exchanges without any delay"

17.8.4. In this regards, I note that Regulation 9(e) of SEBI (Stock Brokers) Regulations, 1992 reads as under:

"…
Conditions of registration.
9. Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,-
(e) he shall take adequate steps for redressal of grievances, of the investors within [31][twenty-one calendar days]of the date of receipt of the complaint and inform the Board as and when required by the Board;
…"

17.8.5. In this regard, I note from the material available on record that aforesaid 4 complaints were resolved in a time period of more than 21 days as mentioned in the above table. Therefore, the Noticee's contention, "*there were no complaints from any client, which were pending for more than 30 days"* is devoid of merit and hence not acceptable.

17.8.6. In view thereof, I find that the allegation that the Noticee had not resolved 4 complaints received, within the stipulated time, stands established. Therefore, I hold that the Noticee has violated Regulation 9(e) of SEBI (Stock Brokers) Regulations, 1992.

17.9. Finding I: Net Worth verification:

17.9.1. In this regard, it was inter alia observed and alleged that there is discrepancy in the computation of Networth submitted to the Exchange:

Net worth reported as on 31st March 2022 -Rs. 7.56 Crore
Net worth as per calculation -Rs. 3.18 Crore
Net worth overstated -Rs. 4.38 Crore

17.9.2. In this regard, the Noticee has submitted the following:

"*1.0 We have submitted NW Certificate by M/s S Raman and Aiyar& Co dated 19.10.2022 certifying networth as on 31.03.2022 at Rs 6,18,15,610 and not Rs 7,56,00,308 as claimed by the Inspection team*
2.0 Networth Certificate as on March 31, 2022 submitted by us was verified and certified by Independent Chartered Accountant, hence in our opinion Inspection team should have relied on the professional competence, judgement of the independent chartered accountant.
3.0 As per the Post Inspection Analysis, the nature of unbilled referral fee Rs 2.66 crore being illiquid, the same can not be included in Networth computation of L C Gupta method.
Further Rental Deposits of Rs 12.34 lakhs are not liquid hence can not be included in Networth computation of L C Gupta method.

It should be noted that As per AS 9 on Revenue Recognition, revenue is recognised as per Percentage Completion method and revenue earned however not billed till year end is shown as Unbilled Revenue. Alternatively, it can be termed as Income Accrued. This revenue recognition method is *consistently followed by us every year and the Independent Auditors have never objected or qualified about such revenue recognition.*

As per NSE Circular having ref no NSE/CMP/48895 DATED July 10, 2022, Prepaid Expenses, losses shall include:

• Prepaid expenses and losses as per Balance Sheet / Trial Balance.

• Preliminary / Deferred revenue / Pre-operative expenses / Deferred Tax Asset/ MAT credit not written-off as per Balance Sheet

• GST credit not required to be deducted

Unbilled Revenue and Rental Deposits are not mentioned as deductible items from Networth.

In our opinion and certified by the auditor, Unbilled Referral Fees does not fall in any of the category. Unbilled Referral Fees appearing under other current assets represent revenue accrued to the company as per accounting policy consistently followed by the company and in line with generally accepted accounting principles followed in India.

It should also be noted even if one has to ignore our remarks as above and consider the networth of Rs 3.18 crore calculated by the Inspection team as correct, our Networth was still more than the minimum networth requirement of Rs 1 crore (Exhibit-19)"

17.9.3. In this regard, I note from the submissions of the Noticee that the Networth submitted by the Noticee as on 31.03.2022 is Rs 6,18,15,610 as per the networth certificate.

As regards Unbilled Revenue and Rental Deposits, the Noticee has submitted that, "*As per NSE Circular having ref no NSE/CMP/48895 DATED July 10, 2022, Prepaid Expenses, losses shall include:*

• Prepaid expenses and losses as per Balance Sheet / Trial Balance.

• Preliminary / Deferred revenue / Pre-operative expenses / Deferred Tax Asset/ MAT credit not written-off as per Balance Sheet

• GST credit not required to be deducted

Unbilled Revenue and Rental Deposits are not mentioned as deductible items from Networth."

17.9.4. In this regard, I note that Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 reads as under:

"…

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 specifies in Schedule II;

…

SCHEDULE II

CODE OF CONDUCT FOR STOCK BROKERS

A. General

..

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

…"

17.9.5. In this regard, I note that the NSE Circular NSE/CMP/48895 dated July 10, 2022 does not explicitly mention rental deposits to be deducted while calculating the net worth. Therefore, I am inclined to allow benefit of doubt to the Noticee in this regard.

17.9.6. Further, as regards the unbilled referral fee Rs 2.66 crore, I note that as per NSE Circular NSE/CMP/48895 dated July 10, 2021, under Annexure A Sr no 7 "Prepaid expenses, losses" it is mentioned that deferred revenue shall be deducted at the time of calculating Net worth. As the Unbilled referral revenue is in the nature of deferred revenue the same needs to be deducted. Therefore, the Noticee's contention is devoid of merit and hence not acceptable.

17.9.7. I further note that in response to the findings of inspection, the Noticee has accepted the difference of Rs.4.08 Lakh pertaining to 30% of Marketable Securities and difference of Rs 10,62,162 in respect of doubtful advances.

17.9.8. In view thereof, I find that the allegation that there is discrepancy in the computation of Networth submitted to the Exchange stands established. Therefore, I hold that the Noticee had violated Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and Annexure A to NSE Circular NSE/COMP/48895 dated July 10, 2021.

17.10. Finding J: Analysis of Enhanced supervision data (Weekly):

17.10.1. In this regard, it was inter alia observed and alleged that Noticee has incorrectly reported the data towards weekly monitoring of client funds on 10 sample dates. Details in table below:

Date	Principle I	Principle II	Principle III	Incorrect Reporting under following heads mentioned in the Exhibits
20-Aug-2021	No violation	No Violation	No Violation	A, B, C,D,MC,MF
27-Aug-2021	No Violation	No Violation	No Violation	A,B,C,D,E,P,MC,MF
14-Oct-2021	No Violation	No Violation	No Violation	A,B,C,D,MC,MF
03-Nov-2021	Violation	No Violation	No Violation	A,B,C,D,P,MC,MF
18-Nov-2021	No Violation	No Violation	No Violation	A,B,C,D,MC,MF
02-Mar-2022	Violation	No Violation	No Violation	A,B,C,D,E,P,MC,MF
17-Mar-2022	No Violation	No Violation	Violation	A,B,C,D,E,MC,MF
25-Mar-2022	No Violation	No Violation	Violation	B,C,D,E,MC,MF
02-May-2022	No Violation	No Violation	No Violation	A,`B,C,D,E,P,MC,MF
26-Aug-2022	No Violation	No violation	No violation	A,B,C,D,E,MC,MF

17.10.2. In this regards I note that the Noticee's submissions are in nature of admission, in so far the Noticee has submitted, "*Findings partially contested*".

17.10.3. Further in this regard, I note that the Noticee has submitted the following: "*2 instances of Principal violation (03-Nov-2021, 2-March 2022) have been explained by us in point no A above. There is no wrong reporting involved. Other incorrect reporting without having any violations involve marginal differences.*
We will be more careful in future."

17.10.4. In this regard, I note that Clause 3.2 of Annexure to SEBI Circular

SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

"…

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 bythe 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.

…"

17.10.5. In this regard, I note that the Noticee's submissions are in the nature of admission as regards the violations alleged on 8 sample dates in so far as the Noticee has stated, "*Other incorrect reporting without having any violations involve marginal differences"*:

Date	**Principle I**	**Principle II**	**Principle III**	**Incorrect Reporting under following heads mentioned in the Exhibits**
20-Aug-2021	No violation	No Violation	No Violation	A, B, C,D,MC,MF
27-Aug-2021	No Violation	No Violation	No Violation	A,B,C,D,E,P,MC,MF
14-Oct-2021	No Violation	No Violation	No Violation	A,B,C,D,MC,MF
18-Nov-2021	No Violation	No Violation	No Violation	A,B,C,D,MC,MF
17-Mar-2022	No Violation	No Violation	Violation	A,B,C,D,E,MC,MF
25-Mar-2022	No Violation	No Violation	Violation	B,C,D,E,MC,MF

02-May-2022	No Violation	No Violation	No Violation	A,B,C,D,E,P,MC,MF
26-Aug-2022	No Violation	No violation	No violation	A,B,C,D,E,MC,MF

17.10.6. As regards the violations on the dates 03-Nov-2021, 02-Mar-2022, the Noticee has submitted, "*2 instances of Principal violation (03-Nov-2021, 2-March 2022) have been explained by us in point no A above".* In this regard, I note from finding A, as already dealt with in the foregoing:

<u>3rd November 2021:</u>

After considering the FD of Rs. 1,70,00,000 as confirmed by SEBI, I note that the violation with respect to incorrect reporting of A,C,D,P,MC,MF is established.

<u>2nd March 2022</u>

After considering FD of 10 lakhs with SMC and funds of Rs. 1.35cr as per Exhibit 6, the violation with respect to incorrect reporting of A,B,C,D,E,P,MC,MF is established.

17.10.7. In view thereof, I find that the allegation that Noticee had incorrectly reported the data towards weekly monitoring of client funds on 10 sample dates stands established. Therefore, I hold that the Noticee had violated Clause 3.2 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

17.11. Finding K: Client Level Cash & Cash Equivalent Balances and Bank Account Balances

17.11.1. In this regard, it was inter alia observed and alleged that Noticee had not reported Proprietary, Error Account and Client account client codes appearing in Trial Balance on 11 instances as below:

Sr No.	Client Code	Client Name
1	11080008	MISDEAL A/C DELHI
2	12000250	MISDEAL A/C AHMEDABAD
3	22020100	MISDEAL A/C GHATKOPAR
4	50100	MISDEAL A/C H.O.
5	50276	MISDEAL A/C JYOTI SHAH
6	50280	MISDEAL A/C ADITYA MEHTA
7	50300	FRR SHARES & SEC LTD
8	50300D	FRR SHARES AND SECURITIES LIMITED
9	50300S	FRR SHARES AND SECURITIES LIMITED
10	50472	MISDEAL A/C RIDDHI SHAH
11	22080120	MISDEAL A/C MITESH MANE

17.11.2. In this regard, the Noticee has submitted that, "*Codes relating to Misdeal (Error) and Proprietary trading have not been reported by us. These are not client codes*".

17.11.3. In this regard, I note that Clause 7 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

"…

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

The Stock Exchanges shall put in place a mechanism and ensure that stock brokers upload the following data on a monthly basis for every client onto each Stock Exchange system where the broker is a member

7.1.1.Exchange-wise end of day fund balance as per the client ledger, consolidated across all segments and also net funds payable or receivable by the broker to/from the client across all Exchanges

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

7.1.3.For every client, number of securities pledged, if any, and the funds raised from the pledging of such securities

7.1.4.The data at Para 7.1.1, 7.1.2 and 7.1.3 pertains to the last trading day of the month. The stock broker shall submit the aforesaid data within seven days of the last trading day of the month.

7.2.Each Stock Exchange shall in turn forward this information to clients via Email and/or SMS on the email IDs and mobile numbers uploaded by the stock broker to the Exchange for their clients.

7.3.The above provisions shall be applicable three months from the date of this circular.
…"

17.11.4. Further, I note that NSE Exchange circular NSE/ INSP/43486 dated February 10, 2020 reads as under:

"…
This has reference to the SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 on Enhanced supervision of Stock Brokers wherein members were required to report client fund and securities balances on monthly basis.
With a view to enhance the level of monitoring and considering the prohibition on pledging of client securities for raising funds, the format & the mode of submission is being revised. Therefore, it has been decided in consultation with SEBI and other Stock Exchanges to introduce weekly submission of day wise Client Level Cash/Cash Equivalent Balances and day wise reporting of Bank balances w.e.f April 2020.
The formats of the aforesaid submissions are enclosed herewith as Annexure A and B for reference. Members are advised to make necessary developments at their end and ensure preparedness to comply with the requirement.
A mock facility will be provided by the Exchange in due course to test the system. The relevant details of the mock facility and other details will be communicated through separate circular(s) by the Exchange.
On successful implementation of aforementioned reporting of the Cash/Cash Equivalent Balances and on account of the existing weekly reporting of client wise ISIN balances (Holding statement), the current upload of monthly client wise fund & securities balances (under the provision of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016) shall be discontinued. Exchange will issue appropriate communication in this regard.
…"

17.11.5. In this regard, I note that the submission of the Noticee is in nature of admission with respect to non-reporting of Client account client codes, in so far as the Noticee has stated, *"Codes relating to Misdeal (Error) and Proprietary trading have not been reported by us."* Further, I note that error accounts are required to be reported since error accounts are related to client trades and that as per NSE circular NSE/ INSP/43486 dated February 10, 2020, proprietary balances were required to be reported.

17.11.6. In view thereof, the allegation that the Noticee had not reported Proprietary, Error Account and Client account client codes appearing in Trial Balance on 11 instances, stands established. Therefore, I hold that the Noticee has violated Clause 7 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE Exchange circular NSE/ INSP/43486 dated February 10, 2020.

17.12. Finding L: Risk based supervision (RBS):

17.12.1. In this regard, it was inter alia observed and alleged that Noticee had not correctly reported the following details in RBS submission:

1. Debit Balance of all clients
2. Value of collaterals from the debit balance clients
3. Brokerage Income
4. Details of loans

17.12.2. In this regards I note that the Noticee's submissions are in nature of admission, in so far the Noticee has submitted, "*Findings partially contested*".

17.12.3. In this regard, the Noticee has submitted, *"There could be difference in RBS data v/s post audit data due to rectification, write off entries passed during the course of audit.*
Above inadvertent errors in reporting has not resulted in any misutilisation of client funds or securities"

17.12.4. In this regard, I note that Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

"…

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

…"

17.12.5. In this regard, I note that the Noticee's submissions are in nature of admission in so far as the Noticee has submitted, "*There could be difference in RBS data v/s post audit data due to rectification, write off entries passed during the course of audit".*

17.12.6. In view thereof, I find that the allegation that the Noticee had not correctly reported the details in RBS submission, stands established. Therefore, I hold that the 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.

17.13. Finding M: Demat account verification

17.13.1. In this regard, it was observed and alleged that the Noticee:

a) had not reported closed demat accounts on the Exchange Portal in 3 instances
b) had not undertaken tagging of DP accounts as required in 5 instances
c) Securities of Credit Balance Clients were transferred to CUSA Account – 1 instance

17.13.2. In this regards I note that the Noticee's submissions are in nature of admission, in so far the Noticee has submitted, "*Findings not contested*".

17.13.3. Further in this regard, the Noticee has inter alia submitted that, "*These demat accounts were opened and closed immediately as there was issue with nomenclature used. No securities were held in these demat accounts. Details of these demat accounts were subsequently updated on Exchange Portal*

Please note that there was no misutilisation of securities in any of the above observations. It was an unintentional delay, which was subsequently regularised."

17.13.4. In this regard, I note that Clause 2 of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

"…

2. *Reporting of Bank and Demat accounts maintained by Stock Broker:*

…

2.2. *The stock brokers shall inform the Stock Exchanges of existing and new demat account(s) in the following format:*

Name of DP	*Account Number/ Client ID*	*DP ID*	*Name of Account Holder*	*PAN*	*Sub-type/ tag of Demat Account (Proprietary/ Client/ Pool/ Collateral)*	*Date of Opening*

…"

17.13.5. Clause 6.1.1. (g) of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

"…

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

…

g. Failure to report new bank and demat accounts opened by the stock broker to exchanges within the time specified for reporting of such accounts.

…"

17.13.6. In this regard, I note from the material available on record that the Noticee has not reported closed demat accounts on the Exchange Portal in following 3 instances:

Depository	Demat A/c No.
CDSL	12079700000xxxxx
CDSL	12079700000xxxxx
CDSL	12079700000xxxxx

In this regard, I note that the Noticee's submission with respect to non-reporting of demat accounts are in nature of admission in so far the Noticee has inter alia submitted that, "…*Details of these demat accounts were subsequently updated on Exchange Portal…"* and "…*It was an unintentional delay, which was subsequently regularised..."*

17.13.7. Further in this regard, I note from the material available on record that the Noticee has not undertaken tagging of DP accounts as required in following 5 instances

Depository	Demat A/c No.
NSDL	IN30133022406447
CDSL	1100001000021826
CDSL	1100001100018315
CDSL	1100002300000163
CDSL	1100002800000150

I note that the Noticee has not made submission as regards the allegation of not undertaking tagging of DP accounts as required on 5 instances. Therefore, in absence of any submission from the Noticee in this regard, I am of the opinion that the Noticee has admitted to the said allegation as levelled against it in the SCN.

17.13.8. In view thereof, I find that the allegation that Noticee had not reported closed demat accounts on the Exchange Portal in 3 instances and has not undertaken tagging of DP accounts as required, in 5 instances stands established. Therefore, I hold that the Noticee had violated Clause 2 read with Clause 6.1.1. (g) of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

17.13.9. Further, as regards the violation of Securities of Credit Balance Clients being transferred to CUSA Account on 1 instance, the Noticee has submitted, *"Securities were transferred against debit balance in Cash segment. Credit in F&O segment is treated separately and considered as margin for F&O trades of the client.*

After the client had cleared in debit in cash segment, securities were released to client."

17.13.10. In this regard, I note that Clause 4.3 of SEBI Circular No. CIR/HO/ MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 reads as under:

"…

4.In order to provide clarity with respect to a TM/CM maintaining a running account for client securities and pledging the client securities with Banks/NBFCs, after discussions with the Exchanges, Depositories and Clearing Corporations, the following advice is issued:-

…

4.3The securities kept in the 'client unpaid securities account' shall either be transferred to the demat account of the respective client upon fulfilment of client's funds obligation or shall be disposed off in the market by TM/CM within five trading days after the pay-out. The unpaid securities shall be sold from the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.

…"

17.13.11. In this regard, I note that the Noticee has not demonstrated with documentary evidence as to why the credit balance in F&O segment was not adjusted against debit balance in cash segment. Further, there is no material available on record to show why the securities of the client were transferred to CUSA account despite credit balance being available. Therefore, the Noticee's contention, "*After the client had cleared in debit in cash segment, securities were released to client"* is devoid of merit and hence not acceptable.

17.13.12. In view thereof, I find that the allegation that the Noticee had transferred securities of credit balance clients to Client's unpaid securities account, stands established. Therefore, I hold that the Noticee had violated Clause 4.3 of SEBI Circular No. CIR/HO/ MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.

17.14. Finding N: Engaged in other than broking activities

17.14.1. In this regard, it was inter alia observed and alleged that the Noticee had entered into an arrangement for extending loans or giving deposits / advances to its group company not in connection with or incidental to or consequential upon the securities/ commodity derivatives business.

Sister concern name	Opening balance as on 01 Apr 2021 (Rs.)	Total outflow (Rs.)	Total Inflow (Rs.)	Interest received during the period (Rs.)	Closing balance as on 31 Aug 2022 (Rs.)	Closing balance as on 31 Aug 2022 (Rs.)
FRR IMMIGRATION SERVICES PRIVATE LIMITED	14,021,295.64	21,438,710.00	34,100,300.00	-	1,359,705.64	10,362,479.64

17.14.2. In this regard, the Noticee has submitted the following:

"We confirm that we are not involved in the business of extending loans. Temporary loans were given to group company FRR Immigration which were received back from time to time.

FRR Immigration is involved in referral business in respect of investment programs of USA and other countries whereby persons investing in securities of certain eligible projects resulting in employment generation in those countries get preference for Citizenship over other applicants.

Referral business carried on by FRR Immigration does not involve any *personal financial liability for FRR Immigration. There is no contract between the Indian investor in foreign securities and FRR Immigration. FRR Immigration only gets referral commission for introducing prospective Indian investor to Regional Centers of USA or other countries.*

…

Loan was given by FRR Shares to FRR Immigration in relation to above referral business in respect of investment programs and thus in our opinion is for the purpose of securities related business."

17.14.3. In this regard, I note that Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 reads as under:

> *"…*
>
> *Qualifications for membership of a recognised stock exchange.*
>
> *8.The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:*
>
> *…*
>
> *(3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if—*
>
> *…*
>
> *(f) he engages either as principal or employee in any business other than that of securities [15][or commodity derivatives] except as a broker or agent not involving any personal financial liability, provided that—*
>
> > *(i)the governing body may, for reasons, to be recorded in writing, permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry on business on the stock exchange either as an individual or as a partner in a firm,*
> >
> > *(ii)in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for severing their connection with any such business,*
> >
> > *[16][(iii)nothing herein shall affect members of a recognised stock exchange which are corporations, bodies corporate, companies or institutions referred to in items [(a) to (n)of sub-rule (8)][17]*

17.14.4. In this regard, I note that the Noticee neither denied nor disputed the fact it had extended the loan to FRR Immigration in relation to the referral business. I also note that since FRR Immigration is involved solely in the referral business, the loan given by FRR to FRR Immigration cannot be termed as the one related to or incidental to or consequential upon the securities/ commodity derivatives business of FRR. Further, the loan extended by FRR to FRR Immigration involves the creation of personal financial liability for the Noticee. Thus, the Noticee's submission, "*Loan was given by FRR Shares to FRR Immigration in relation to above referral business in respect of investment programs and thus in our opinion is for the purpose of securities related business"* is devoid of merit and hence not acceptable.

17.14.5. In view thereof, I find that the allegation that Noticee had entered into an arrangement for extending loans or giving deposits / advances to its group company not in connection with or incidental to or consequential upon the securities/ commodity derivatives business stands established. Therefore, I hold that the Noticee has violated Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957.

17.15. Finding O: Passing of penalty on short reporting of margin

17.15.1. In this regard, it was inter alia observed and alleged that the Noticee has passed on penalty to clients on account of short reporting of upfront margins.

Segment	No. of client	Amount passed (Rs.)
CM	13	63,687
FO	27	4,31,677
CD	2	6,538

17.15.2. In this regard, the Noticee has submitted, "*We confirm that we had reversed penalty levied on clients for short reporting of upfront margin on*

December 03, 2022”. Further, in this regard the Noticee has submitted printout of journal entry crediting clients towards reversal of penalty.

17.15.3. In this regard, I note that Clause A.5 of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 reads as under:

> *“…*
>
> ***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*
>
> *…*
>
> ***SCHEDULE II***
>
> ***CODE OF CONDUCT FOR STOCK BROKERS***
>
> ***A. General***
>
> *…*
>
> *(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.*
>
> *…”*

17.15.4. Further, in this regard, I note that Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020 reads as under:

> “…
>
> *15. In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, Can member pass on the penalty to the clients?*
>
> *In case of failure (cheque not cleared or margin* requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member for short reporting of client upfront margins/ margin on consolidated crystallized obligation/MTM losses, member may pass on the actual penalty to the client, provided he has evidences to demonstrate the failure on part of the client .Wherever penalty for short reporting of upfront margin/ margin on consolidated crystallized obligation/ MTM losses is being passed on to the client relevant supporting documents for the same should be provided to the client.*
>
> **Member cannot pass on the penalty w.r.t. short collection of upfront margin to client.*
>
> *…”*

17.15.5. Further, in this regard, I note that NSE/ INSP/49929 dated October 12, 2021 reads as under:

“…

This has reference to Exchange Circular NSE/INSP/45191 dated July 31, 2020 with respect to “Guidelines/clarifications on Margin collection & reporting” wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margin to client. However, Exchange has observed that certain members are passing on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins from clients” to respective clients.

In view of the above, it is reiterated that members are not permitted to pass on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to clients under any circumstances. Further, clarification to Question no. 15 in Annexure A of the Exchange Circular NSE/INSP/45191 dated July 31, 2020, has been partially modified as below:

15. In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, Can member pass on the penalty to the clients?

Member shall not pass on the penalty w.r.t short collection of upfront margins to clients under any circumstances. In case of failure (requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member for short reporting of margins other than “upfront margins” such as consolidated crystallized obligation, Delivery margins, other margins (Mark-to-market & additional margins), member may pass on the actual penalty to the client, provided he has evidence to demonstrate the failure on part of the client. Wherever penalty for short reporting of margins other than “upfront margins” is being passed on to the client relevant supporting documents for the same should be provided to the client.

…”

17.15.6. Further, in this regard, I note that NSE/INSP/53525 dated September 02, 2022 reads as under:

“…

This has reference to Exchange circular NSE/INSP/45191 dated July 31, 2020 wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margin to client. Further, it has been reiterated again vide Exchange circular NSE/INSP/49929 dated October 12, 2021 that members are not permitted to pass on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to clients under any circumstances. However, Exchange has observed that certain members are passing on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins from clients” to respective clients.

In view of the above, it is once again reiterated that members are not permitted to pass on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to clients under any circumstances.

Further, Members are advised to refund the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to the clients on an immediate basis if same has been *passed on to the clients after 11th October, 2021.*

…"

17.15.7. I note that the submissions of the Noticee is in nature of admission in so far the Noticee has submitted that, "*We confirm that we had reversed penalty levied on clients for short reporting of upfront margin on December 03, 2022"*. Further, in this regard I note that the Noticee has reversed the penalty levied on the clients on December 03, 2022. Further, it is pertinent to mention that the penalty levied on the clients was reversed only subsequent to findings of inspection being communicated to the Noticee vide SEBI's letter dated November 25, 2022 and before submitting its reply to the findings of inspection on December 07, 2022.

17.15.8. In view thereof, I find that the allegation that Noticee had passed on penalty to clients on account of short reporting of upfront margins, stands established. Therefore, I hold that the Noticee has violated Clause A.5 of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/ INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.

17.16. Finding P: Verification of member internal policies

17.16.1. In this regard, it was inter alia observed and alleged that the Noticee had not adhered to Corporate Governance compliance by not presenting to the Board/ Committee regarding internal controls, internal audit reports, Inspection reports, related party transactions, breaches in back office software, delay in submission of data to Exchange during Inspection and others.

17.16.2. As per SEBI, the Noticee had not presented the following to the Board/ Committee:

- Review of internal controls & procedures

- Review of Deviations along with proposed action plan in Internal Controls
- Review of internal auditors' reports including non-compliances observed by the auditors
- Review of Exchange/SEBI inspection reports including non-compliances observed by the auditors and off-site alerts
- Review of all Related party transactions and loans availed/given by/to member
- Review of instances of breaches in system/back office software and suggestion of controls
- Review of Delay in submission of data to Exchange during inspection/wrong submissions made to SEBI & Exchange
- Review of internal audit/Exchange & SEBI inspection observations by Compliance Officer

17.16.3. In this regard, the Noticee has inter qalia submitted that, "*We confirm that we have adhered to Corporate Governance Compliance as Review of related party transactions, six monthly internal audit reports, inspection reports and review of operational / risk management / AML policies takes place in the Board meetings of the company on quarterly/ regular / annual basis."* In this regard, the Noticee has submitted sample board resolutions substantiating the same.

17.16.4. Accordingly, having regard to the submissions and the contentions of the Noticee in this regard, I am inclined to allow benefit of doubt to the Noticee.

17.17. Finding Q: Cyber security and cyber resilience

17.17.1. In this regard, it was inter alia observed and alleged that:

a) Member did not have cyber security policy in place before July 5, 2021

b) Off-the-Shelf products were not STQC certified

17.17.2. In this regard, the Noticee has inter alia submitted that, "*Various IT* *policies dealing with Password Standards, Access Control, Backup, Disaster Recovery, User Management, Networking and Firewall Security etc were already in place (since commencement of business by the company in year 2011) and submitted every year to the system auditor during System Audit applicable to us. The same deal with various aspects of cyber security and cyber resilience."*

17.17.3. In this regard, I note that Clause 2 of Annexure-1 to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018 reads as under:

> *"…*
>
> *2. Since stock brokers and depository participants perform significant functions in providing services to holders of securities, it is desirable that these entities have robust cyber security and cyber resilience framework in order to provide essential facilities and perform systemically critical functions relating to securities market.*
>
> *…"*

17.17.4. I further note that Clauses 3 and 4 of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018 reads as under:

> *"…*
>
> *3. Accordingly, after discussions with Exchanges, Depositories and Stock Brokers' and Depository Participants' associations, a framework on cyber security and cyber resilience has been designed, which is placed at Annexure 1. The framework would be required to be complied by all Stock Brokers and Depository Participants registered with SEBI.*
>
> *…*
>
> *4. The guidelines annexed with this circular shall be effective from April 1, 2019*
>
> *…"*

17.17.5. As regards the alleged violation with respect to not having cyber security policy in place before July 05, 2021, I note that the Noticee has submitted that various IT policies were in place since commencement of business by the company in year 2011 and has submitted pdf copies of various policies. In this regard, I note that SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018 inter alia requires all Stock Brokers and Depository Participants registered with SEBI to comply with the Cyber Security & Cyber Resilience framework as per Annexure 1 of SEBI circular

SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018.

I note that the Noticee has only submitted the pdf copis of IT policies and has not demonstrated with relevant details and documents when these policies came into existence. Further, the Noticee has not demonstrated as to how the various IT policies that were in place since commencement of business by the company in year 2011, satisfy the requirement with respect to Cyber Security & Cyber Resilience framework as per Annexure 1 of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018. Therefore, the Noticee's contention is not acceptable.

17.17.6. Further, in this regard, the Noticee has submitted, "*Consolidated Cyber Security Policy effective July 2021 was shared with the Inspection Team.*"

In this regard, I note that as per Clause 4 of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018, the requirement for formulation of cyber security policy is effective from April 1, 2019 while as per the Noticee's submission the cyber security policy became effective from July 2021. Therefore, the Noticee's contention cannot be sustained.

17.17.7. In view thereof, I find that the allegation that the Noticee did not have cyber security policy in place before June 07, 2022, stands established. Therefore, I hold that the Noticee had violated Clause 2 of Annexure-1 to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018.

17.17.8. Further, as regards the violation that Off-the-Shelf products are not STQC certified, the Noticee has not submitted any response.

17.17.9. In this regard, I note that Clause 36 of Annexure-1 to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018 reads as under:

"…

<u>Certification of off-the-shelf products</u>

36.Stock Brokers / Depository Participants should ensure that off the shelf products being used for core business functionality (such as Back office applications) should bear Indian Common criteria certification of Evaluation Assurance Level 4. The Common criteria certification in India is being provided by (STQC) Standardisation Testing and Quality Certification (Ministry of Electronics and Information Technology). Custom developed / in-house software and components need not obtain the certification, but have to undergo intensive regression testing, configuration testing etc. The scope of tests should include business logic and security controls

…"

17.17.10. In this regard, in absence of any response to the allegation, I am of the opinion that the Noticee has admitted to the allegation as alleged in the SCN.

17.17.11. In view thereof, I find that the allegation that Off-the-Shelf products were not STQC certified, stands established. Therefore, I hold that the Noticee had violated Clause 36 of Annexure-1 to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018.

Issue No. II: If yes, whether the Noticee is liable for imposition of monetary penalty under Section 15HB and Section 15C of the SEBI Act, 1992, and Section 23D and 23H of SCR Act, 1956?

18. It has been established in the foregoing paragraphs that Noticee had violated various provisions of SCR Act, 1956, SEBI Stock Broker Regulations, 1992, SCR Rules, 1957 and SEBI Circulars as brought out and dealt with in the foregoing.

19. 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 .... "

20. Therefore, for the above violations, as dealt with and brought out in the foregoing paragraphs, I find that the Noticee is liable for monetary penalty under Section 23D and 23H of SCRA Act, 1956, and Section 15HB and 15C of SEBI Act, 1992 which read as under:

"…

SEBI Act, 1992

15C: Penalty for failure to redress investors' grievances

If any listed company or any person who is registered as an intermediary, after having been called upon by the Board in writing [74][including by any means of electronic communication, to redress the grievances of investors, fails to redress such grievances within the time specified by the Board, such company or intermediary shall be liable to a penalty [75][which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees].

15HB: Penalty for contravention where no separate penalty has been provided

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 [104][liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.]

…"

SCR Act, 1956

23D: [121][Penalty for failure to segregate securities or moneys of client or clients

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.]

23H: [132][Penalty for contravention where no separate penalty has been provided

Whoever fails to comply with any provision of this Act, the rules or articles or bye- laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be [133][liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.]

…"

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

21. While determining the quantum of penalty under Section 23D and 23H of SCRA Act, 1956; and Section 15HB and 15C of SEBI Act, it is important to consider the factors as stipulated in Section 23J of the SCR Act, 1956 and Section 15J of SEBI Act, 1992 respectively, which reads as under: -

> **SCR Act, 1956**
>
> *"………..*
>
> ***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*
>
> *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- 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.*
>
> *…………..."*

22. 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 an investor or group of investors as a result of the violations committed by the Noticee. However, I note that the Noticee has misutilised funds of credit balance clients for meeting the obligations of debit balance clients and/or for its own purpose. As regards, repetitive nature of default, I note from SEBI website that penalty has been imposed against the Noticee under Section 23D of SCR Act,

1956 and Section 15HB of SEBI Act, 1992, vide order dated June 23, 2022. I further note that the Noticee being a SEBI registered Stock Broker 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 non-compliances accordingly need to be dealt with suitable penalty.

E. ORDER

23. 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 15-I of the SEBI Act, 1992 r/w Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and section 23-I of the SCR Act, 1956 r/w Rule 5 of the Securities Contracts (Regulations) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005, I hereby impose a penalty of Rs. 11,00,000 (Rupees Eleven Lakhs Only), as per Table below, on the Noticee, for the aforementioned violations, as discussed 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 (in Rs.)
FRR Shares and Securities Limited	Section 23D of SCRA Act, 1956	2,00,000/- (Rupees Two Lakhs only)
	Section 23H of SCRA Act, 1956	1,00,000/- (Rupees One Lakh only
	Section 15HB of SEBI Act	6,00,000/- (Rupees Six Lakhs only
	Section 15C of SEBI Act	2,00,000/- (Rupees One Lakh only)

24. 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

25. 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 and Section 23JB of the SCR Act, 1956 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

26. In terms of the provisions of Rule 6 of the Adjudication Rules and Rule 6 of the SCR Rules, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

DATE: May 13, 2024
PLACE: MUMBAI

AMAR NAVLANI
ADJUDICATING OFFICER