BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/BS/PG/2022-23/20891]

UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 4 OF THE SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995 AND SECTION 23-I OF THE SECURITIES CONTRACTS (REGULATION) ACT, 1956 READ WITH RULE 4 OF THE SECURITIES CONTRACTS (REGULATION) (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 2005

In respect of

KIFS Trade Capital Private Limited

[PAN: AAACK6128Q]

B-71/81, Pariseema Complex,
C.G. Road Ellisbridge, Ahmedabad
Gujarat- 380 006

In the matter of KIFS Trade Capital Private Limited

BACKGROUND

1. Securities and Exchange Board of India (*hereinafter referred to as "**SEBI**"*) conducted inspection of the stock broker KIFS Trade Capital Private Limited (*hereinafter referred to as **Noticee/KTCPL***) during April 2018 to December 2019 (hereinafter referred to as ***"Inspection Period"***). Pursuant to the inspection, SEBI noted that the Noticee allegedly violated the provisions of Section 23D of the Securities Contracts (Regulation) Act, 1956 (*hereinafter referred to as "**SCRA**")* and provisions of SEBI circulars mentioned hereinbelow:

a. The SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 (hereinafter referred to as **"1993 Circular")**

b. Clause 3 of Annexure of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 (hereinafter referred to as **"2016 Circular")**

c. Clause 12(e) of the SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 (hereinafter referred to as **"2009 Circular"** r/w Clause 8.1 of Annexure of the SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 (hereinafter referred to as **"2016 Circular"**)

d. Clause 2.6 of Annexure of the 2016 Circular r/w Clause 2(d) of the SEBI Circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017 (hereinafter referred to as **"2017 Circular"**)

e. Clause 1 of the SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 (hereinafter referred to as **"2011 Circular"**) r/w the SEBI Circular MIRSD/Cir-5/2012 dated April 13, 2012 (hereinafter referred to as **"2012 Circular"**)

APPOINTMENT OF ADJUDICATING OFFICER

2. Based on the findings of the inspection, SEBI initiated Adjudication Proceedings against the Noticee and appointed the undersigned as the Adjudicating Officer vide communique dated August 10, 2021, under Section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "***SEBI Act'***) read with Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 *(hereinafter referred to as the "**SEBI Adjudication Rules**")*, and Section 23-I of the SCRA read with Rule 3 of the Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter referred to as the "***SCRA Adjudication Rules***") to inquire into and adjudge under Section 23D of the SCRA and Section 15HB of the SEBI Act, the alleged violations against the Noticee as specified at paragraph- 1.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

3. A Show Cause Notice SEBI/EFD-2/AO/BS/PG/18984/2022/1 dated May 04, 20212 (*hereinafter referred to as **SCN***) was issued to the Noticee to show cause as to why an inquiry should not be held against it and why penalty, if any, under Section 15HB of the SEBI Act and Section 23D of the SCRA, 1956, be not imposed on the Noticee for the violations alleged to have been committed by it. The SCN was duly served on the Noticee

through Speed Post Acknowledgement Due (SPAD), India Post. However, no reply was received from the Noticee.

4. In view of the facts and circumstance of the case and in the interest of natural justice and in terms of Rule 4(3) of the SEBI Adjudication Rules and Rule 4(3) of the SCRA Adjudication Rules, vide Hearing Notice dated June 30, 2021, it was opined that an inquiry needs to be held in the matter and accordingly, an opportunity of personal hearing on July 15, 2022 was granted to the Noticee. However, vide email dated July 12, 2022, Noticee requested for adjournment of scheduled hearing. In the interest of justice, vide email dated July 12, 2022, the Noticee was granted another opportunity of personal hearing on August 04, 2022 and Noticee was also granted additional time to file its reply to SCN on or before August 01, 2022.

5. In reply to the SCN, Noticee, vide email dated August 03, 2022, submitted the copy of letter dated 01 August 2022. The signed letter was received on August 04, 2022 and the same has been taken on record. *Vide* the said letter, the Noticee, *inter alia*, submitted as under:

"………

1. *Misuse of Clients Funds*

Our explanation on the four dates (viz., 11-Oct-2018, 15-Oct-2018, 16-Oct-2018 and 17-Oct-2018) on which "G" was considered as Negative is as follows:

Member Reply:

i. *Our several clients carry out arbitrage, trading and jobbing activities. The trades on the Exchange platform are carried out in one single client code, however for their internal purpose separate ledgers are maintained in the back office.*
ii. *While arriving at the credit balance of these clients, SEBI has considered only the ledgers reflecting credit balance and has ignored ledgers of these clients which reflect debit balance.*
iii. *We humbly submit that the credit and debit balance of a client has to be taken as a net amount as the distinction in various ledgers is only for convenience of the client as per its requirement and only net balance is actually payable to the client at any point of time.*
iv. *The detail of 9 clients (viz 0K500, K171, P950, K500, K5000, P801, W3004, K100 & M1111) who carry out arbitrage, trading and jobbing activity in a common trading code, but maintain multiple back office sub-codes for their internal purpose is given hereunder:*

Sr. No.	*Trading Code*	*Client Name*
1	*0K500, 0K500A, 0K500B, 0K500C*	*KHANDWALA TRADELINK CO*

Sr. No.	Trading Code	Client Name
2	K171, K171A, K171B, K171J, K171K, K171R	KHANDWALA FINSTOCK PVT LTD
3	P950, P950B, P950R, P950R	PRIYAL REALTY
4	K500, K500B, K500C,	KIFS ENTERPRISE
5	K5000	KIFS COMMERCIAL
6	P801, P801D, P801K, P801R	PUNI SANGHAVI
7	W3004, W3004M, W3004R, W3004Z	WALL STREET CAPITAL MARKETS PRIVATE LIMITED
8	K100, K100A, K100B, K100C, K100I, K100J, K100K, K100R, K100S, K100V, K100W	KHANDWALA ENTERPRISE PVT LTD
9	M1111, M1111B, M1111R	MONARCH INFRA VENTURES

A client wise breakup of the debit balance in multiple accounts is as under:

Client Code	Client name	11-Oct-18	15-Oct-18	16-Oct-18	17-Oct-18
0K500	Khandwala Tradelink Company	161251203	161253504.31	161253504.31	161254530.7
K100	KHANDWALA ENTERPRISES PVT. LTD.	24988175.8	230913555.85	130829433.05	157329787.05
K100R		0	12291127	11044904	12725204
K100W		474234	474234	474234	474234
P950B	PRIYAL REALTY	3321878.47	3321878.47	3321878.47	3321878.47
	Total	190035491.27	408254299.63	306923953.83	335105634.22

v. *Further the working of credit balance of all clients also includes the credit balance in our proprietary account "KIFSPRO" of Rs. 1086707.84 which needs to be ignored while arriving at Credit Balance of clients. The extract of the file reflecting incorrect inclusion of our proprietary account is annexed herewith and marked as Annexure 1A.*

vi. *Revised working of "G" after including the balances in the abovementioned subcodes and removing the PRO Credit Balance is as follows:*

SR#	DATE	TOTAL FUND BALANCE AVAILABLE IN ALL CLIENT BANK ACCOUNTS.	COLLATERIAL DEPOSITED WITH CC /CM IN FORM OF CASH EQUIVALENTS	TOTAL CREDIT BALANCES OF ALL CLIENTS AS OBTAIND FROM TRIAL BALANCE ACROSS STOCK EXCHANGES *		Revised "G"		Whether G is compiled after correct working
				As per SEBI	As per Member	As per SEBI	As per Member	
		A	B	C		G=(A+B)C		
1	11-10-18	7796253.98	2160530000	233,3046036	214,19,23,837	164719782	26402416.98	Yes
2	15-10-18	27698717.54	2120530000	2309434854	1900093847	161206137	248134870.8	Yes
3	16-10-18	53304575.57	2150530000	2263664822	1955654161	59830247	248180415	Yes
4	17-10-18	42023309.23	2220530000	2737911587	2401719245	475358278	-139165936.1	No

vii. *The detailed calculations of the differential amounts as mentioned in “C” above is as follows:

SR#	DATE	TOTAL CREDIT BALANCES OF ALL CLIENTS AS OBTAIND FROM TRIAL BALANCE ACROSS STOCK EXCHANGES		Pro Account Balance to be removed from Client Credit balance	Debit Balances of subcodes	FINAL TOTAL CREDIT BALANCES OF ALL CLIENTS AS OBTAIND FROM TRIAL BALANCE ACROSS STOCK EXCHANGES	Does the difference tally with the difference in credit balance as per SEBI and as per TM?	Annx
		As per SEBI	As per Member					
		(i)	(ii)	(iii)	(iv)	(v=i-iii-iv)		
1	11102018	2333046036	2,14,19,23,837	1086707.8	190035492	2,14,19,23,837	Yes	1B
2	15102018	2309434854	1900093847	1086707.8	408254300	1900093847	Yes	1C
3	16102018	2263664822	1955654161	1086707.8	306923954	1955654160	Yes	1D
4	17102018	2737911587	2401719245	1086707.8	335105634	2401719245	Yes	1E

viii. From the above, it can be observed that after netting of credit and debit balance of each main codes and their respective sub codes and after removing the credit balance of Pro Code (07760) there is no “G” Negative values in 3 instances and only 1 instance of Negative G still remains, but the extent thereof is just 1/3rd of what SEBI has mentioned in the SCN, which may be ignored as a one of instance.

ix. As regards to one instance of Negative G on 17/10/2018 to an extent of Rs.13.92 Crore, it is submitted that many of our clients are group companies or family members of promoters and the credit balance of these clients is Rs. 128.48 Crores. This amount is not payable to external clients, but is payable only to group companies or family members of the promoters and therefore can be ignored while arriving at the value of credit balance of clients. After ignoring this amount from the working of “G”, the “G” becomes positive. The working of balances of group companies and family members of promoters is annexed herewith and marked as Annexure 1F.

2. Non-segregation of client’s funds and securities:

It was observed that the Noticee has failed to segregate the securities of the client(s) during the inspection period in 18/20 sample instances. In this regard the total value of stock mismatch was found to be Rs.2.24 Crores.

Member Reply:

Our reply on 20 instances is as follows:

There is absolutely no mismatch in a single share and the explanation to each of the 20 instances is given in Annexure 2.

Without prejudice to the forgoing we submit that as brokers and agents, large number of clients deposit securities with us as margins. We also handle pay-in and pay-out of clients where balances of securities remain in pool / principle account. Further certain securities are also retained in CUSA account / client beneficiary account.

The value of securities in different accounts on the relevant dates selected for verification is as under:

Date	No of Securities	Quantity	Value
14-Oct-2019	855	42752836	3879896709
22-Oct-2019	890	43468204	4189555280
04-Nov-2019	866	42118252	4479271050
11-Nov-2019	902	38436895	4764679142
			17313402181

As per the SCN the alleged mismatch is Rs. 2.24 Crores which is negligibly small 0.13% as compared with the value of securities on the aforesaid dates as can be observed from the table hereinabove.

The value of these securities is negligibly small compared to the value of securities held by us on the relevant days.

3. *Non-settlement of clients Funds and Securities*

It was observed that the Noticee had not settled the funds and securities worth Rs.1.51 Crores for the period June 2018 to December 2019 over the course of 6 quarters for Inactive Clients. Further, it was also observed that the same credit balance of the clients remained outstanding for at least two consecutive quarters (which means that the client is inactive and the account is not settled). In this regard, only credit balances of more than Rs.100/ had been considered.

Member Reply:
SEBI has shared observations pertaining non-settlement of inactive clients in 4 different sheets named D1, D2, D3 and D4. We provide herewith our explanation for each Sheet:

a) *Sheet D1 – This sheet contains 215 instances.*

   i. *Out of these 215 instances, in case of following 73 clients the funds were already returned to the clients prior to December 2019. SEBI has already verified the same and also mentioned the same in its working:*

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19
1	9A079	0	354	0	0	0	0
2	9D074	0	0	31662.28	31662.28	0	0
3	9K002	3390.38	3390.38	3390.38	0	0	0
4	9T004	2300	2300	2300	0	0	0
5	A026	111	111	111	111	0	0
6	AHOV10	0	0	0	16196.93	0	0
7	AHV153	281.52	281.52	281.52	281.52	0	0

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19
8	AIAD04	343	343	343	343	0	0
9	AIAH03	0	0	402	402	0	0
10	AMD002	106.01	106.01	0	0	0	0
11	BA512	406.15	406.15	0	0	0	0
12	BHN12	341.33	341.33	341.33	341.33	0	0
13	BRD448	0	0	0	15000	0	0
14	BRD503	238	0	0	0	0	0
15	BS1336	100.29	0	0	100.29	0	0
16	BS631	450	450	0	0	0	0
17	BV631	0	0	110.79	0	0	0
18	BV640	0	312	0	0	0	0
19	HHB08	162	162	162	162	0	0
20	HHR26	547	547	547	547	547	0
21	HVA11	1086.76	1086.76	0	0	0	0
22	IDDS14	6434	6434	6434	6434	0	0
23	INDS06	19334	19334	19334	0	0	0
24	J39H02	348.21	348.21	348.21	348.21	0	0
25	J56P05	129	129	129	129	129	0
26	J61R07	221.88	221.88	221.88	221.88	221.88	0
27	JN29	3135	3135	0	2785	0	0
28	KEAG01	247	247	247	247	0	0
29	KEOR01	140.85	140.85	140.85	140.85	0	0
30	KEUC01	131.17	131.17	131.17	131.17	0	0
31	MBM19	359	0	0	0	0	0
32	MMCM010	13410.55	13410.55	13410.55	13410.55	0	0
33	MMYS03	391	391	0	0	0	0
34	MNHD006	856.48	856.48	856.48	856.48	0	0
35	MTNJ01	215.19	215.19	215.19	215.19	0	0
36	MVIV06	3851.96	0	0	0	0	0
37	MXNM002	517.23	517.23	517.23	517.23	0	0
38	NNV38	0	0	761	761	0	0
39	OBPM01	195.16	195.16	195.16	195.16	0	0
40	OPRB03	106.03	106.03	106.03	106.03	0	0
41	P558	572.27	572.27	572.27	0	0	0
42	PMSM001	219.1	0	0	0	0	0
43	RJK913	0	150.3	150.3	0	0	0
44	S149	329927	329927	0	0	0	0
45	S571	1147.21	1147.21	1147.21	1147.21	0	0
46	SRT020	311.89	311.89	311.89	311.89	0	0
47	AV1008	0	0	0	481.3	0	0
48	BA210	0	0	0	728	0	0
49	BB693	0	0	0	669	0	0

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19
50	BG171	0	0	0	499	0	0
51	BH232	0	0	0	843.92	0	0
52	BJ110	0	952.84	0	0	0	0
53	BN06	0	0	0	112	0	0
54	BR638	0	0	0	709.14	0	0
55	BV131	0	0	0	2899.95	0	0
56	JS1146	0	22337	22337	22337	0	0
57	KKFN21	0	0	523.42	0	0	0
58	MNHP005	0	3920	3920	3920	0	0
59	MUM1789	0	1147.69	0	0	0	0
60	OBBS19	0	42866.49	42866.49	42866.49	0	0
61	VDR26	0	237.91	237.91	0	0	0
62	GBPA01	0	0	322.76	322.76	0	0
63	GV101	0	0	1913.14	0	0	0
64	J22N04	0	0	645.83	0	0	0
65	J3U28	0	0	0	3284	3284	0
66	SK2D02	0	0	170.02	0	0	0
67	SK2L01	0	0	581	0	0	0
68	SK2M07	0	0	3125	0	0	0
69	SK2S07	0	0	291	0	0	0
70	SKA10	0	0	1301	0	0	0
71	SKR35	0	0	5708.02	0	0	0
72	THMS32	0	0	5179	0	0	0
73	SRT770	0	0	0	0	9646	0

In case of the remaining 142 clients, in 44 cases, the funds were returned to the clients and in remaining 98 instances, since these clients were inactive and nontraceable, we have transferred their funds to a separate bank account maintained for the said purpose in line with NSE guidelines issued vide Circular No. NSE/INSP/43488 dated February 10, 2020.

ii. The details of 44 instances where the funds were returned to the clients are as follows:

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19	Status
1	XBSA02	0	0	0	0	124	124	Balance Refunded To Client By Cheques No. 140556 as on 30th April 2020
2	AHA0029	0	0	0	0	428.73	428.73	Balance Refunded To Client By Cheques No. 63705 as on 25th January 2020
3	9S099	0	0	0	0	5705	5705	Balance Transferred To Client bank account as on 04th January 2022

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19	Status
4	RJK014	0	0	0	0	0	458.2	Balance Transferred To Client bank account as on 08th February 2020
5	GOA13	0	0	0	0	0	1140.85	Balance Transferred To Client bank account as on 13th April 2020
6	BRD1094	0	0	0	0	0	1200	Balance Transferred To Client bank account as on 15th February 2020
7	BRD1106	0	0	0	0	0	100	Balance Transferred To Client bank account as on 15th February 2020
8	GH77	0	0	0	0	0	1679	Balance Transferred To Client bank account as on 19th December 2020
9	JS683	0	0	0	668	668	668	Balance Transferred To Client bank account as on 24th February 2020
10	9A033	0	0	0	0	102.84	102.84	Balance Transferred To Client bank account as on 27th August 2021
11	NNR44	0	0	0	0	0	230	Balance Transferred To Client bank account as on 27th August 2021
12	GVVB30	100	100	100	100	100	100	Balance Transferred To Client bank account as on 29th February 2020
13	LFK09	113	113	113	113	113	113	Balance Transferred To Client bank account as on 29th February 2020
14	UNS14	0	0	0	0	0	2539	Balance Transferred To Client bank account as on 29th February 2020
15	ZFAR07	0	0	0	0	0	2060.85	Balance Transferred To Client bank account as on 29th February 2020
16	1JD41	0	0	0	0	0	1095	Balance Transferred To Client bank account as on 29th February 2020
17	1JJ157	0	0	0	0	0	1000	Balance Transferred To Client bank account as on 29th February 2020
18	1VN04	0	0	0	0	0	615	Balance Transferred To Client bank account as on 29th February 2020

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19	Status
19	KKC04	0	0	0	0	0	442	Balance Transferred To Client bank account as on 29th February 2020
20	LF1A05	0	0	0	0	0	715.34	Balance Transferred To Client bank account as on 29th February 2020
21	LF1H01	0	0	0	0	0	232.54	Balance Transferred To Client bank account as on 29th February 2020
22	LFH01	0	0	0	0	0	313	Balance Transferred To Client bank account as on 29th February 2020
23	LFM10	0	0	0	0	0	183	Balance Transferred To Client bank account as on 29th February 2020
24	LFR03	0	0	0	0	0	1302	Balance Transferred To Client bank account as on 29th February 2020
25	LFR14	0	0	0	0	0	300	Balance Transferred To Client bank account as on 29th February 2020
26	MR04	0	0	0	0	0	300	Balance Transferred To Client bank account as on 29th February 2020
27	SSV19	0	0	0	0	0	281	Balance Transferred To Client bank account as on 29th February 2020
28	SU2B06	0	0	0	0	0	242	Balance Transferred To Client bank account as on 29th February 2020
29	SU2M01	0	0	0	0	0	227	Balance Transferred To Client bank account as on 29th February 2020
30	SU2P02	0	0	0	0	0	219	Balance Transferred To Client bank account as on 29th February 2020
31	SUH30	0	0	0	0	0	281	Balance Transferred To Client bank account as on 29th February 2020
32	TCGG08	0	0	0	0	0	552	Balance Transferred To Client bank account as on 29th February 2020
33	TSPS10	0	0	0	0	0	886.19	Balance Transferred To Client bank account as on 29th February 2020

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19	Status
34	UNN05	0	0	0	0	0	411.5	Balance Transferred To Client bank account as on 29th February 2020
35	UNN07	0	0	0	0	0	421	Balance Transferred To Client bank account as on 29th February 2020
36	VPR03	0	0	0	0	0	246.12	Balance Transferred To Client bank account as on 29th February 2020
37	VTD03	0	0	0	0	0	500	Balance Transferred To Client bank account as on 29th February 2020
38	ZIA03	0	0	0	0	0	122	Balance Transferred To Client bank account as on 29th February 2020
39	ZV42	0	0	0	0	0	167	Balance Transferred To Client bank account as on 29th February 2020
40	SK2P01	0	0	2190	0	0	2190	Balance Transferred To Client bank account as on 29th February 2020
41	GU22	0	0	0	0	0	875	Balance Transferred To Client bank account as on 29th February 2020
42	KIGB11	114	114	114	114	114	114	Balance Transferred To Client bank account as on 30th January 2021
43	BRD376	0	0	0	0	4547.06	4547.06	Balance Transferred To Client bank account as on 30th September 2021
44	AHYS01	250	250	250	250	250	250	Credit Balance Settled on 06-06-2022

The respective client ledgers are enclosed herewith as Annexure 3A.

iii. *The details of 98 instances where the funds of inactive clients were transferred to a separate bank account are as follows:*

Sr#	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19
1	J33M08	141.4	141.4	141.4	141.4	141.4	141.4
2	KSP06	159.08	159.08	159.08	159.08	159.08	159.08
3	BG107	0	0	0	0	2123.05	2123.05
4	J99B01	0	0	0	0	290	290
5	BM1063	103.44	103.44	103.44	103.44	103.44	103.44
6	BP464	0	0	149	149	149	149

Sr#	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19
7	F021	0	0	0	0	0	281
8	GOD01	0	0	0	0	0	2260
9	GOT02	0	0	0	0	0	1390
10	HNJV03	0	0	0	0	0	392
11	HVG07	0	0	0	0	0	645.99
12	NNA56	0	0	0	0	0	137
13	NNM98	0	0	0	0	0	241.75
14	PRAR02	0	0	0	0	0	1079.7
15	QUMC01	0	0	0	0	0	183.56
16	RJ1H04	0	0	0	0	0	199.31
17	RJK05	0	0	0	0	0	911.02
18	RPN02	0	0	0	0	0	168
19	SDH01	0	0	0	0	0	330
20	SK1V01	0	0	166.22	0	0	166.22
21	BD15	0	9727.48	9727.48	9727.48	9727.48	9727.48
22	BD56	0	0	0	0	364.32	364.32
23	KKFS39	110	110	110	110	110	110
24	MBO010	141.02	141.02	141.02	141.02	141.02	141.02
25	OBLS02	1907.32	1907.32	1907.32	1907.32	1907.32	1907.32
26	AHCM01	0	0	0	0	113.8	113.8
27	QJ11002	0	0	0	0	482.7	482.7
28	QJ16001	0	0	0	0	458.04	458.04
29	RMVK01	0	0	0	0	688	688
30	1RY05	420	420	420	420	420	420
31	ASA03	120	120	120	120	120	120
32	EWS2029	132	132	132	132	132	132
33	GNP177	162.43	162.43	162.43	162.43	162.43	162.43
34	INFV141	440	440	440	440	440	440
35	J64B01	141	141	141	141	141	141
36	KKM20	451	451	451	451	451	451
37	NNN81	187.5	187.5	187.5	187.5	187.5	187.5
38	WH31	237	237	237	237	237	237
39	XM68	246	246	246	246	246	246
40	INFB182	0	125	125	125	125	125
41	JK364	0	132	132	132	132	132
42	9K003	0	0	0	0	0	234.47
43	RCA13	290.62	290.62	290.62	290.62	290.62	290.62
44	SKK11	258.86	258.86	258.86	258.86	258.86	258.86
45	SMJM04	600.33	600.33	600.33	600.33	600.33	600.33
46	SMJS20	0	0	0	0	0	678
47	SRV03	454	454	454	454	454	454
48	UDR014	155	155	155	155	155	155
49	MB1Y03	0	0	0	0	0	15180.9
50	LFI01	282	282	282	282	282	282

Sr#	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19
51	R684	530.07	530.07	530.07	530.07	530.07	530.07
52	VNMB27	113	113	113	113	113	113
53	XH101	200	200	200	200	200	200
54	LFU02	0	0	0	1731	1731	1731
55	MMS24	0	0	0	345	345	345
56	BJ371	0	0	0	679.77	679.77	679.77
57	BR1090	0	0	0	2267.37	2267.37	2267.37
58	AHY0052	1391.11	1391.11	1391.11	0	1037.11	1037.11
59	BRD526	0	0	0	0	738.25	738.25
60	JV211	1934.3	1934.3	1934.3	1934.3	1934.3	1934.3
61	MUM477	0	500.42	500.42	500.42	500.42	500.42
62	J78D01	0	137.3	0	102.3	102.3	102.3
63	AMDV204	0	0	1491.19	0	0	1079.19
64	VNMB85	232.83	232.83	232.83	232.83	232.83	232.83
65	PNE479	0	0	0	0	526.14	526.14
66	1JP181	0	0	0	0	0	488.3
67	NNB111	0	0	0	0	0	435
68	BMMS02	246	246	246	246	246	246
69	J38M02	177	177	177	177	177	177
70	J49C14	344	344	344	344	344	344
71	J49V03	139	139	139	139	139	139
72	J73I01	490.74	490.74	490.74	490.74	490.74	490.74
73	KKR21	941.59	941.59	941.59	941.59	941.59	941.59
74	LFB02	353	353	353	353	353	353
75	XYAM002	167	167	167	167	167	167
76	ANA19	0	0	372.02	372.02	372.02	372.02
77	1JB128	0	0	0	0	0	514.48
78	BRD671	0	0	0	0	0	160
79	BB825	0	0	0	160.24	160.24	160.24
80	RRD20	0	0	0	0	0	240.16
81	AHV002	0	0	0	0	141	141
82	AHV081	0	0	0	0	183	183
83	J10A09	0	0	0	0	912	912
84	J10S11	0	0	0	0	867	867
85	J13M03	0	0	0	0	191	191
86	J38G17	0	0	0	0	135	135
87	J3P08	0	0	0	0	709	709
88	J77M14	0	0	0	0	718	718
89	JIAS12	0	0	0	0	130	130
90	J50S03	0	0	0	0	696.2	696.2
91	J62N02	0	0	0	0	1418.52	1418.52
92	AHY0126	225.5	225.5	225.5	225.5	225.5	225.5
93	HVR11	100	100	100	100	100	100
94	GVM017	0	0	0	0	0	509.43

Sr#	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19
95	SLA08	0	0	0	0	0	164.82
96	AHV043	279	279	279	279	279	279
97	J22M01	0	0	0	419.93	419.93	419.93
98	TS5D06	0	0	0	0	363.71	363.71
							213925.61

The total of all 98 instances comes to Rs. 2.13 Lakhs and we have deposited an amount of Rs. 3325849.89 in escrow account which is in excess of the aforesaid amount and all these funds are rightly deposited in the escrow account as per the direction of the Exchange in Circular No. NSE/INSP/43488 dated February 10, 2020. The Bank Statement as on August 03, 2022 showing the same is enclosed as Annexure 3B.

b) *Sheet D2 – This sheet contains 87 instances. The balances in the clients' ledgers pertained to the DP AMC charges and the same have been recovered by us. Copies of their ledgers showing the same is enclosed herewith as Annexure 3C.*

c) *Sheet D3 – This sheet contains 76 instances. Out of which 75 entities are our APs and the funds mentioned are their deposits with us and not their trading account balances. The remaining one instance is of a trading Member viz., Monarch Networth Capital Limited, whose trades used to be cleared by us. The details of the same are as follows:*

i) *In following one instance, the entity in question is a trading Member viz., Monarch Networth Capital Limited, whose trades used to be cleared by us. We have already returned the funds to them in Decembe4 2019 quarter:*

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19
1	64701	27398.59	27398.59	27398.59	27398.59	27398.59	0

ii) *All the following 75 instances belong to our Authorised Persons whose deposits with us have been shown as Client balances:*

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19	AP Regn Number
1	CL112	10946	10946	10946	10946	0	0	AP0450072221
2	CL34	11841	11841	11841	11841	0	0	AP0131270163054
3	CL57	8109	8109	8109	8109	0	0	INS234184716
4	CLN39	122763	122763	122763	122763	0	0	INS234397110
5	CLN47	17617	17617	17617	17617	0	0	INS233864417
6	DEP_AHA	18223.36	18223.36	18223.36	18223.36	18223.36	18223.36	AP0131270176090
7	DEP_AHT	25000	25000	25000	25000	25000	25000	INS238866417
8	DEP_AHY	50000	50000	50000	50000	50000	50000	APF045003441
9	DEP_APM	16000	16000	16000	16000	16000	16000	INS237711416
10	DEP_ATG	49944.85	49944.85	49944.85	49944.85	49944.85	49944.85	INS238822311
11	DEP_AVP	49898.7	49898.7	49898.7	49898.7	49898.7	49898.7	INS019050611
12	DEP_BKV	20000	20000	20000	20000	20000	20000	INS23A141418
13	DEP_BMM	100000	100000	100000	100000	100000	100000	AP045004802

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19	AP Regn Number
14	DEP_CBR	28000	28000	28000	28000	28000	28000	INS015223816
15	DEP_CBV	88895.22	88895.22	88895.22	88895.22	88895.22	88895.22	INS237339515
16	DEP_CRD	100000	100000	100000	100000	100000	100000	AP045003162
17	DEP_DPP	1050.62	1050.62	1050.62	1050.62	1050.62	1050.62	AP0131270112854
18	DEP_DVP	32000	32000	32000	32000	32000	32000	AP0131270172729
19	DEP_GVM	23306.76	23306.76	23306.76	23306.76	23306.76	23306.76	INS018937826
20	DEP_HAH	15000	15000	15000	15000	15000	15000	AP045005181
21	DEP_HAI	40000	40000	40000	40000	40000	40000	INS019902712
22	DEP_HAK	843	843	843	843	843	843	INS019289714
23	DEP_HAN	25000	25000	25000	25000	25000	25000	AP045069431
24	DEP_HAV	13000	13000	13000	13000	13000	13000	INS239185114
25	DEP_HYA	6156.18	6156.18	6156.18	6156.18	6156.18	6156.18	INS239561215
26	DEP_JJC	12397	12397	12397	12397	12397	12397	INS235789919
27	DEP_JMI	10000	10000	10000	10000	10000	10000	INS018722210
28	DEP_KNT	100.63	100.63	100.63	100.63	100.63	100.63	INS238085711
29	DEP_MMC	50000	50000	50000	50000	50000	50000	INS239607810
30	DEP_MMY	700	700	700	700	700	700	APF045003061
31	DEP_MNH	100000	100000	100000	100000	100000	100000	APF045004531.
32	DEP_NMSDRP	25000	25000	25000	25000	25000	25000	AP0450071391
33	DEP_OAB	44011.42	44011.42	44011.42	44011.42	44011.42	44011.42	INS23A09982
34	DEP_OBC	11213	11213	11213	11213	11213	11213	INS239577211
35	DEP_OBD	42190	42190	42190	42190	42190	42190	INS236544610
36	DEP_OBP	10000	10000	10000	10000	10000	10000	INS235137515
37	DEP_OBS	99905.79	99905.79	99905.79	99905.79	99905.79	99905.79	INS016286911
38	DEP_RJKDVG	50000	50000	50000	50000	50000	50000	AP0450071351
39	DEP_RJKPKS	8900	8900	8900	8900	8900	8900	AP0450071441
40	DEP_RMA	50000	50000	50000	50000	50000	50000	INS236881319
41	DEP_SK20	1161.35	1161.35	1161.35	1161.35	1161.35	1161.35	INS018020219
42	DEP_TAD	23000	23000	23000	23000	23000	23000	INS239438620
43	DEP_TCG	24944.85	24944.85	24944.85	24944.85	24944.85	24944.85	INS237439216
44	DEP_TLD	25000	25000	25000	25000	25000	25000	AP0131270108780
45	DEP_TSK	50000	50000	50000	50000	50000	50000	AP045069031
46	DEP_TSS	20000	20000	20000	20000	20000	20000	INS238545813
47	DEP_UDM	6802	6802	6802	6802	6802	6802	INS238865518
48	DEP_UDR	47419	47419	47419	47419	47419	47419	INS237837914
49	DEP_ULD	21500	21500	21500	21500	21500	21500	INS239136513
50	DEP_ULJ	49475	49475	49475	49475	49475	49475	INS239858223
51	DEP_ULK	50000	50000	50000	50000	50000	50000	INS238108216
52	DEP_ULN	45000	45000	45000	45000	45000	45000	INS237342212
53	DEP_ULP	49944.85	49944.85	49944.85	49944.85	49944.85	49944.85	INS238822618
54	DEP_VNM	150000	0	100000	100000	100000	100000	AP0131270195630
55	DEP_WGV	24944.85	24944.85	24944.85	24944.85	24944.85	24944.85	AP045069111

Sr. No.	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19	AP Regn Number
56	DEP_WKV	9352.63	9352.63	9352.63	9352.63	9352.63	9352.63	INS236124314
57	DEP_XPS	147227.7	147227.7	147227.7	147227.7	147227.7	147227.7	INS237489310
58	STK_AHB	0	608	608	0	573	573	INS01A250017
59	STK_AMF	3750.5	3750.5	3750.5	3750.5	3750.5	3750.5	INS019913917
60	STK_ASA	0	0	61127	61127	61127	61127	AP0131270102220
61	STK_EWS	262.5	262.5	262.5	262.5	262.5	262.5	AP0131270104057
62	STK_HAG	3060	3060	3060	3060	3060	3060	INS239647915
63	STK_MBM	1750	0	10250	10250	10250	10250	INS237489815
64	STK_MCP	2850	2850	2850	2850	2850	2850	AP045002251
65	STK_PAK	374.5	0	982	982	982	0	AP0450072103
66	STK_PAK1	225	225	225	225	225	225	AP0450070591
67	STK_SK1	490	490	490	490	490	490	INS015253417
68	STK_THM	0	2300.67	2300.67	2300.67	0	0	AP045069251
69	STK_XAD	1188	1188	1188	1188	1188	1188	INS235989410
70	STKASA	0	0	0	23312	0	114073	AP0131270102220
71	STKMBM	0	0	0	925	0	0	INS237489815
72	STKXAD	0	0	0	0	0	312	INS235989410
73	CLJ03	10838	10838	10838	10838	0	0	APF045000071
74	DEP_DIS	99900	99900	99900	99900	99900	99900	AP0450070591
75	DEP_UAA	15000	15000	15000	15000	15000	15000	AP0450070831

d) *Sheet D4 – This sheet contains 22 instances. Out of these 22 clients, 10 clients were active and their settlement was carried out in between the quarter. The details of the same as well as the details of transfer of funds to the inactive clients is as follows:*

Sr.#	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19	Broker Final Remarks
1	J760	237	0	0	0	0	0	Funds trf to client bank account on 6Oct18. Client ledger is attached as per Annexure D3.1
2	JA956	195	0	0	0	0	0	Funds trf to client bank account on 3Oct18. Client ledger is attached as per AnnexureD3.2
3	JK04	3181.18	0	0	0	0	0	Funds trf to client bank account on 5Jan18. Client ledger is attached as per Annexure D3.3
4	NMFS09	0	0	904.96	904.96	0	0	Funds trf to client bank account on 23Oct19. Client ledger is attached as per Annexure D3.4
5	RSFM14	38670.33	0	0	0	0	0	Funds trf to client bank account on 18Dec18. Client ledger is attached as per Annexure D3.5
6	THMG05	365.2	0	0	0	0	0	Funds trf to client bank account on 6Oct18. Client ledger is attached as per Annexure D3.6

Sr.#	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19	Broker Final Remarks
7	Y127	487	0	0	0	0	0	Funds trf to client bank account on 13Oct18. Client ledger is attached as per Annexure D3.7
8	J15S02	0	0	0	0	4041.35	0	Client is active. Client was settled on 10/08/2019 for Sept19 quarter. Copy of Retention report is attached as per Annexure D3.8
9	JS881	0	0	455.64	0	0	0	Funds trf to client bank account on 17Jun19. Client ledger is attached as per Annexure D3.9
10	PNE090	0	3452.5	0	0	0	0	Client is active.Payout done on 05/01/2019. Copy of Retention report is attached as per Annexure D3.10
11	SSP030	0	0	0	0	0	166.32	Client is active. Client was settled on 02/11/2019 for Dec19 quarter. Copy of Retention report is attached as per Annexure D3.11
12	VSD161	0	0	0	246.29	0	0	Client is active. Settlement was done on 13/04/2019 as well as on 06/07/2019. Copies of Retention reports are attached as per Annexure D3.12
13	L316	0	0	186.9	0	0	0	Client is active. Settlement was done on 23/02/2019 for the March 19 quarter. Copy of Retention reports are attached as per Annexure D3.13
14	MUM3017	0	0	2277.45	0	0	0	Client is active. Settlement was done on 30/03/2019. Copy of retention report is attached as per Annexure D3.14
15	N091	0	0	287.3	0	0	0	Client is active. Settlement was done on 23/02/2019 for Mar19 quarter. Copy of Retention reports are attached as per Annexure D3.15
16	PNE283	0	0	0	0	3279.7	0	Client is active. Settlement was done on 30/03/2019. Copy of retention report is attached as per Annexure D3.16
17	S1182	0	0	275.3	0	0	0	Client is active. Settlement was done on 23/02/2019. Copy of Retention reports are attached as per Annexure D3.17

Sr.#	Client Code	In Sep 18	In Dec 18	In Mar 19	In Jun 19	In Sep 19	In Dec 19	Broker Final Remarks
18	9D0178	0	0	0	0	484	484	Settlement was done on 07/12/2019 for Dec19 quarter. Copy of Retention reports are attached as per Annexure D3.18
19	WOW043	0	0	0	570.62	570.62	0	Client is active. Client was settled on 15/06/2019 for Jun19 quarter as well as on 10/09/2019 for Sep19 quarter. Copies of Retention reports are attached as per Annexure D3.19
20	AHOG007	0	0	0	0	0	2777	Client is active. Client was settled on 02/11/2019 for Dec19 quarter. Copy of Retention report is attached as per Annexure D3.20
21	JIAS97	0	0	0	0	423	0	Client is active.Client was settled on 02/11/2019 for Sept19 quarter. Copy of retention report is attached as per Annexure D3.21
22	P747	0	0	0	0	0	1180	Client is active. Client was settled on 02/11/2019 for Dec19 quarter. Copy of Retention report is attached as per Annexure D3.22

4. *Funding of Clients*

….

Member Reply:

We would like to submit here that the above two clients are our regular Retail HNI Clients, carrying out their transactions in CM as well as F&O Segments. They had also maintained their demat accounts under POA with us.

It is submitted that through NSE Circular no. NSE/INSP/43069 dated 31st December 2019 and the FAQs of NSE it is clear that MTM debit can be collected as securities. The MTM debit is posted in the client ledger and due to which the ledger balance goes in debit.

Out of the two instances pointed out, in case of following one client the MTM debited to its account was Rs. 2,29,68,683, while the alleged debit balance at the time of allowing further exposure was only Rs. 87,25,080/

Client Name	*Date of Debit*	*Further Position*	*Funded Portion in Rs.*	*Amount of MTM debited to client account from May 19 2019 to the date of further position*	*Value of securities available with us*
Vishakha Accounting Services Pvt Ltd (V011)	*30Oct19*	*15Nov19*	*87,25,080*	*2,29,68,683*	*3,67,01,913.79*

From the above it can be observed that the alleged amount of funding is lesser than the MTM debit and the value of securities against that debit and therefore the MTM debit needs to be dropped while arriving at the ledger balance though it is posted in the ledger. After taking into account the aforesaid, there is no funding as alleged or at all.

The register of Securities for Vishakha Accounting Services Pvt Ltd is being enclosed as Exhibit 4A. FAQ of NSE is annexed herewith and marked as Exhibit 4B.

As regards to the exposure allowed to client KP Enterprise on August 21, 2018 it is submitted that the same was granted inadvertently, but this is a stray case and cannot be considered as a regular practice. We shall ensure that such instances do not repeat in future and request your good self to ignore this observation as a one of case of trivial and venial observation.

Without prejudice to the forgoing, it is submitted that the requirement of not allowing exposure beyond 5th day from the reckoned from settlement day has been put in place to avoid reckless funding by trading members. In the current case there are only 2 instances of nominal amount of exposure being granted. The clients are large clients having trading turnover during the inspection period Rs. 45 Crores (K825) and Rs. 434.60 Crores (V011) respectively, and the alleged exposure is no way material to the size and nature of business.

5. *Non Segregation of Clients Securities*

   ……..

At the outset we deny using own or other clients shares for meeting the pay-in obligation of few clients as alleged or at all.

An instance wise explanation to all the instances is given in Annexure 5A.

An analysis of Annexure 5A would make it evident that the observations were incorrect and a summary of the valid reasons is given hereunder:

Sr#	*No. of shares*	*Explanation*
1	*479*	*There seems to be some error as the shares were available in the Register of Securities and there was no mismatch.*
2	*2398*	*The shares were received from client's own demat accounts for pay-in, hence not routed through ROS. There was no mismatch.*
3	*7441*	*Since pay-in of these shares were to be done internally, early pay-out was given to internal (buying) clients.*

Total	10318	

From the above explanation it can be observed that, there was proper segregation of client and own securities and records of the same are properly maintained.

6. *Non-compliance with Client Registration Process (KYC and KRA Process)*

Of the 240 instances, we have not allowed the following 160 clients to trade till the KRA upload is completed and the detail of the same is as under:

Sr. No.	CLIENT_ID	CLIENT_NAME	PAN_NO	REGISTRATION DATE	KRA Date	First Trade Date
1	BS265	SUHAS RAMJIBHAI RATHOD	ABHPR9056P	02Apr18	16May18	29 May 2020
2	RSFG10	GIRISHKUMAR KACHRABHAI PATEL HUF	AABHG9388J	06Apr18	28Apr18	28 January 2019
3	BPM37	MALLIKABEN PARESHBHAI JOSHI	AHCPJ2768H	11Apr18	08May18	30 May 2018
4	GGM88	MINAZ MASUDKHAN SIPAHI	JQGPS5244M	11Apr18	15May18	10 Jan 2019
5	BM1530	MINESHBHAI SHAH	CNOPS5732C	12Apr18	08May18	NULL
6	SRT426	JAY HARSUKHBHAI GAJERA	CKXPG7402D	12Apr18	16May18	NULL
7	NMFA20	ANKIT KISHOR SHAH HUF	AASHA4228G	13Apr18	28Apr18	05 July 2018
8	A9S21	SURESHBHAI JAGABHAI CHAUDHARI	BERPC9986F	13Apr18	15May18	NULL
9	J22D19	DEEPIKA	DXJPD1721A	28Apr18	15May18	07 May 2019
10	DSPJ10	JASHWANT VADILAL PATEL	AOGPP7118G	05May18	22May18	NULL
11	VSD003	NAGINBHAI MATHURBHAI JANI	AFTPJ3192A	05May18	22May18	NULL
12	AHOC06	RAM BABU CHITTA	AXFPC1342P	07May18	22May18	NULL
13	DT28	TABSUM MOHAMADHANIF SHEKH	JBEPS7589J	07May18	22May18	NULL
14	KIGK56	KAILASHBEN SHANTILAL PATEL	AEHPP5590D	07May18	22May18	08 May 2019
15	VSD002	RAVIBHAI VITTHALBHAI PATEL	ALBPP5661N	07May18	22May18	NULL
16	DA134	ASHOKBHAI RAVAL	DIDPR2101B	07May18	22May18	05 March 2019
17	OSS242	SHAILJA VISHAL SHAH	FSXPS0594B	07May18	22May18	02 July 2018
18	DV111	VIPULKUMAR PATEL	DIIPP5770H	07May18	22May18	NULL
19	DM159	MAFATLAL NARANDAS PATEL	DHPPP3251P	07May18	22May18	NULL
20	BD1065	DEVILABEN MANUBHAI SHAH	CRXPS1021B	07May18	22May18	03 August 2018
21	BP1600	PANKAJ VITTHALBHAI PATEL	AJCPP0005F	07May18	22May18	NULL
22	MUM2541	JAY KIRANKUMAR DAVE	BMVPD7942N	07May18	22May18	NULL
23	DN147	NITABEN ASHOKBHAI RAVAL	DIDPR2102C	07May18	22May18	06 July 2018
24	BV950	VINITABEN KISHORBHAI LALAJI	AXEPL2791E	08May18	22May18	27 June 2018

Sr. No.	CLIENT_ID	CLIENT_NAME	PAN_NO	REGISTRATION DATE	KRA Date	First Trade Date
25	ZC34	CHANDRAKANT DHULABHAI GOHIL	BEUPG9561D	08May18	22May18	NULL
26	MUM2546	AMIT ASHOK MORE	AVUPM4512G	08May18	22May18	NULL
27	MUM2544	SHYAMJI PYARELAL SONI	EJDPS0758D	08May18	22May18	NULL
28	AMD1004	CHANDRIKABEN RAJENDRA BHATT	AOMPB5297G	07Jun18	25Jun18	30 August 2018
29	DJ172	JAYANTIBHAI HIRABHAI CHAUDHARY	AGVPC4348J	18Jun18	06Jul18	20 July 2018
30	AMD557	NAVINCHANDRA H PATEL HUF	AAJHN1397Q	18Jun18	13Jul18	NULL
31	AMD556	PRAJESH N PATEL HUF	AAQHP6202F	18Jun18	16Jul18	NULL
32	I360	IVG FAMILY TRUST	AABTI5667C	20Jun18	17Jul18	NULL
33	MUM2677	JAYESH ANANDA SONAR	GBSPS4666D	22Jun18	11Jul18	19 July 2018
34	J26P03	PAWAN KUMAR	GXGPK0700N	02Jul18	10Oct18	14 October 2019
35	1JS258	SANDIP CHINUBHAI SHAH	ABDHS4935G	03Jul18	19Jul18	NULL
36	INFC040	CHANDRAKANT K SHAH	AAEHC6172R	04Jul18	19Jul18	06 August 2018
37	S1375	SHRUJAL SACHIN PATEL	AAPPA7748E	04Jul18	02Aug18	NULL
38	S1374	SHETAL SAMIRBHAI PATEL	ABBPP5618F	04Jul18	02Aug18	NULL
39	A9D12	DINESHBHAI JAGABHAI CHAUDHARY	AMLPC7672H	19Jul18	10Oct18	NULL
40	J12R58	RAMA DEVI	EGQPD3244D	20Jul18	31Aug18	NULL
41	9S0304	SEEMA RAMESHKUMAR NANDANI	AFAPN3442E	26Jul18	18Aug18	NULL
42	DM161	MADHAVI TANNA	BFXPT3538K	02Aug18	27Aug18	17 December 2018
43	JS1525	SUNIL ANWALA	CTYPA3058H	02Aug18	13Nov18	NULL
44	VSD130	RAMESHBHAI PATEL	DNDPP0775A	03Aug18	01Nov18	21 January 2019
45	BA1372	APEXABEN ANKIT PATEL	AURPP5118M	06Aug18	01Nov18	01 January 2020
46	GTM22	MINESHKUMAR RAMANLAL PATEL	AVRPP3040K	06Aug18	01Nov18	NULL
47	SBM57	MULAJI RAGAJI PRAJAPATI	AGEPP1590J	06Aug18	01Nov18	NULL
48	SBV34	VANITABEN PATEL	DODPP3277J	06Aug18	01Nov18	16 March 2020
49	G1T17	TULSIDAS LEUVA	AODPL1672G	06Aug18	01Nov18	29 November 2018
50	1RV23	VIVEKPRIYA PATEL	EOTPP7300M	07Aug18	09Oct18	08 May 2019
51	BJ1027	JAYSHREEBEN PATEL	ELRPP4918Q	07Aug18	01Nov18	NULL
52	KKD84	DINESHKUMAR TALASHIDAS PRAJAPATI	ACYPP9700G	07Aug18	01Nov18	NULL
53	1JP181	PRIYANSH SHAH	IVHPS6516M	07Aug18	01Nov18	23 January 2019
54	K762	KARISHMA JASVANTBHAI BHAVSAR	CTNPB6262M	07Aug18	01Nov18	NULL
55	V598	VINOD BHAVSAR	CLEPB8383A	07Aug18	01Nov18	NULL

Sr. No.	CLIENT_ID	CLIENT_NAME	PAN_NO	REGISTRATION DATE	KRA Date	First Trade Date
56	MCPM113	MAMTA RAJIV TAWADE	BCLPT0998L	07Aug18	01Nov18	01 February 2019
57	KJ79	JEEL CHOKSHI	BWHPC7845M	07Aug18	01Nov18	16 March 2020
58	VSD137	HANSA JAYPRAKASH GANDHI	AIPPG1165P	08Aug18	01Nov18	NULL
59	TJ24	JAGRUTI DILIPBHAI SHETH	BFDPS9986J	08Aug18	01Nov18	NULL
60	B901	BHAVNA SAILESH PATEL	BWYPP1730P	08Aug18	26Nov18	NULL
61	1JG08	GAUTAM VASUDEVBHAI JANI	AHCPJ0091P	10Aug18	27Aug18	NULL
62	J78G02	GHANSHYAM	BZPPG0875G	13Aug18	27Aug18	14 September 2018
63	1JU31	URMILABEN SHASHIKANT VARATIYA	AWCPV5366N	13Aug18	27Aug18	16 April 2019
64	1JY16	YASH SANJAYBHAI RAVAL	CICPR0682P	13Aug18	27Aug18	15 May 2020
65	ZN96	NARESHKUMAR JAYANTIBHAI PRAJAPATI	BLLPP9976M	13Aug18	27Aug18	NULL
66	BM1542	MILLI MEET MEHTA	EQYPM7920R	13Aug18	27Aug18	NULL
67	NNP114	PRATIKKUMAR PRAVINBHAI KAPATEL	BNNPK1112J	13Aug18	27Aug18	31 March 2020
68	J12C18	CHETNA	BAQPC3006F	13Aug18	02Jan19	16 April 2019
69	THMR50	RAVINDRAKUMAR TEKCHANDBHAI THAKKAR HUF	AAUHR9662R	14Aug18	30Oct18	16 March 2020
70	BI142	INDIRABEN MAHENDRAKUMAR SHAH	CTLPS3118M	14Aug18	13Nov18	NULL
71	BN1017	NEHA PATEL	BJPPP1704D	14Aug18	13Nov18	NULL
72	SBF03	FALGUNIBEN ASHVINKUMAR PATEL	BQPPP2251Q	23Aug18	26Nov18	NULL
73	NR55	RAJENDRA KUMAR BOTHRA	AAGHR5071Q	24Aug18	26Sep18	NULL
74	G1R70	RIDHAM R DESAI HUF	AAMHR1946L	27Aug18	26Sep18	NULL
75	GU58	UMANG JAGDISHBHAI RAVAL	AABHU2436F	29Aug18	26Sep18	14 October 2019
76	BK1258	KANTIBHAI PATEL	DXZPP7710K	31Aug18	13Nov18	NULL
77	G1R71	RAJENDRA N DESAI HUF	AAMHR1944J	01Sep18	26Sep18	NULL
78	BR1425	RAMANBHAI PUNJABHAI PATEL	CGXPP2306K	01Sep18	13Nov18	NULL
79	VSD186	CHINTAN RAMESHBHAI PATEL	BLUPP3277J	04Sep18	13Nov18	NULL
80	BN1019	THAKORBHAI NARSINHBHAI PATEL	AKAPP7483Q	04Sep18	13Nov18	NULL
81	BMMD21	DHAVAL MUKESHKUMAR SHAH	AAKHD4983K	05Sep18	26Sep18	23 December 2019
82	VSD188	RAHULKUMAR DILIPBHAI SHAH	HGHPS6887M	05Sep18	13Nov18	NULL
83	KBB33	BABULAL VALLABHBHAI GAJERA HUF	AABHG5870K	07Sep18	30Oct18	04 March 2020
84	BK1259	KAMLESH RAMANBHAI PATEL	AGYPP0697A	07Sep18	13Nov18	13 March 2019

Sr. No.	CLIENT_ID	CLIENT_NAME	PAN_NO	REGISTRATION DATE	KRA Date	First Trade Date
85	J761	JAGDISH JASVANTLAL DAVE	BFRPD0206C	10Sep18	11Feb19	NULL
86	A9P20	PARESH R SHAH HUF	AAQHP8787H	12Sep18	26Sep18	16 April 2019
87	A9V16	VISHESH P SHAH HUF	AALHV2055B	12Sep18	26Sep18	NULL
88	T700	TANMAY BAKULBHAI PAREKH HUF	AADHT3439D	12Sep18	14Nov18	31 May 2019
89	AMD594	BHARATBHAI KANJIBHAI VARATIYA	APJPV2029N	15Sep18	03Oct18	NULL
90	DDV21	VISHAL SHARADBHAI MEHTA	AAKHV3116Q	18Sep18	30Oct18	14 February 2020
91	JO50	OMPRAKASH KHADDA	GICPK1648Q	24Sep18	13Nov18	NULL
92	RRC26	CHANDRIKABEN RAMESHBHAI PATEL	DHIPP2886P	10Oct18	26Oct18	NULL
93	BS2064	SHIVAJIRAO KRUSHNARAO KANK	BRDPK5748J	19Oct18	13Nov18	27 November 2018
94	BB968	BHANUBHAI CHAGANBHAI PATEL	EKUPP0222H	22Oct18	13Nov18	16 April 2019
95	BC434	CHANDRAKANTBHAI PATEL	BJWPP3120L	22Oct18	28Nov18	NULL
96	BM1560	MINAL MUKESH PATEL	CLQPP7201M	29Oct18	13Nov18	05 November 2019
97	MUM3031	SHOBHA DEBROTO DAS	CGJPD4552K	30Oct18	28Nov18	NULL
98	BC202	CHANDRAPRAKASH SURESHBHAI RAVAL	ADZPR8105K	28Nov18	14Dec18	NULL
99	A1700	ARISTO TRADERS PRIVATE LIMITED	AACCA1122C	29Nov18	08Jan19	NULL
100	PGP04	PAYAL KEYUR SHAH	AKAPS1188H	31Dec18	18Jan19	NULL
101	ZK94	KHODABHAI GOPALDAS PATEL	CWKPP4376A	31Dec18	30Jan19	NULL
102	KKM103	MANILAL MOHANLAL PRAJAPATI	ABHPP4525B	12Jan19	11Feb19	NULL
103	BK1270	KIRITBHAI HIRUBHAI PATEL	DSJPP5952E	17Jan19	11Feb19	24 September 2019
104	PNE513	YOGESH SUBHASH MUNOT	BTWPM3153J	21Jan19	05Feb19	NULL
105	KIGA58	ANANDIBEN DAHYABHAI PATEL	BTDPP5023M	21Jan19	05Feb19	NULL
106	PNE514	YUVARAJ UMAJI PATIL	DFRPP9351G	21Jan19	05Feb19	NULL
107	MCPS246	SATISH CHARANDAS MESHRAM	BSAPM3594G	21Jan19	11Feb19	24 June 2019
108	SRT737	JITENDRA SHIVABHAI KANANI	AGUPK5885F	22Jan19	05Feb19	NULL
109	GP266	PRAGNA CHANDRAKANTBHAI PATEL	BSQPP5102D	05Feb19	26Feb19	NULL
110	9K0165	KRUNAL MANSUKHBHAI CHUDASMA	AVEPC3220B	05Feb19	26Feb19	22 November 2019
111	M1150	MUKESHBHAI MADANLAL DHAWAN HUF	AAAHD4987P	19Mar19	22Apr19	19 June 2019
112	RJK419	BHARATKUMAR JAYANTILAL MADHANI	ADCPM3842P	25Mar19	22Apr19	06 May 2019

Sr. No.	CLIENT_ID	CLIENT_NAME	PAN_NO	REGISTRATION DATE	KRA Date	First Trade Date
113	BR1445	RAMSINHBHAI PUNJABHAI PARMAR	ALCPP3145L	01Apr19	22Apr19	26 April 2019
114	MVC224	ROHINTON NADIRSHAW PATEL	APWPP0117N	05Apr19	22Apr19	18 November 2019
115	PNE680	SACHIN RAMCHANDRA BANSODE	CBVPB9863Q	05Apr19	22Apr19	NULL
116	MVC225	SHERNAVAZ ROHINTON PATEL	AOOPP0178G	05Apr19	22Apr19	18 November 2019
117	DS244	SANGITABEN LALLUBHAI PATEL	ACQPP1051N	06Apr19	22Apr19	29 May 2019
118	GGJ82	JAIMIN K ZALA	ABYPZ5510F	06Apr19	22Apr19	06 May 2019
119	KIGN65	NARMADABEN PRAVINBHAI PATEL	ELLPP3586G	31May19	23Oct19	NULL
120	SRT830	GITABEN MOVLIYA	AVPPM7605M	04Jul19	29Jul19	NULL
121	KKA101	ARUNABEN ARJANBHAI CHOTALIYA	CCSPC4860L	12Jul19	29Jul19	NULL
122	GM249	MANJULABEN SURYAKANTBHAI SANGHVI	BSHPS3418Q	13Jul19	29Jul19	NULL
123	GP165	PRATIK HARESHBHAI PARMAR	CUOPP2051C	13Jul19	29Jul19	NULL
124	BB996	BHARTIBEN ATULBHAI VASAVA	BQTPV1476M	15Jul19	29Jul19	11 October 2019
125	BJ1051	JANAKBEN VASAVA	BQTPV8121M	15Jul19	29Jul19	11 October 2019
126	PNE835	SAMEER DILIP NANEKAR	AKZPN3316P	15Jul19	29Jul19	NULL
127	IDDS43	SOORYA ECO POWER PRIVATE LIMITED	AAWCS7301M	25Jul19	09Aug19	NULL
128	OSK128	KHUSHALI HITESHKUMAR SHAH	LYMPS0149D	06Sep19	24Sep19	NULL
129	SRT852	SALONI GAURANG PUROHIT	FFNPP9010J	25Sep19	23Oct19	29 October 2019
130	BRD1106	ARUNABEN PANCHAL	CCLPP8456N	25Sep19	23Oct19	NULL
131	MCPH25	HARIHAR BAPUJI SADAMWAR	BBJPS8796N	26Sep19	23Oct19	27 December 2019
132	BM1590	MAYURKUMAR BHALACHANDRA PANDYA	BPUPP3142J	26Sep19	23Oct19	19 November 2019
133	BA1396	AJITSINH KALYANSINH SINDHA	BMPPS8583L	26Sep19	23Oct19	03 March 2020
134	KKH80	HEMALI NEVIL PATEL	CSFPP4817F	28Sep19	23Oct19	02 December 2019
135	ANR48	RINKAL JITENDRAKUMAR PATEL	AWHPP5279M	28Sep19	23Oct19	NULL
136	R1020	RAJENDRAKUMAR BHATT	BHZPB3677H	28Sep19	23Oct19	NULL
137	MMR30	ROHINIBEN NIKUL PATEL	DZDPP5638C	30Sep19	23Oct19	NULL
138	GS271	SIMABEN PRAVINBHAI VITHANI	BEGPV3063R	30Sep19	23Oct19	NULL
139	VSD484	SAGAR PRAKASHBHAI SHRIMALI	HNEPS3169A	30Sep19	23Oct19	NULL
140	D1012	DHRUVESHKUMAR PATEL	DAXPP0289L	15Oct19	05Nov19	16 March 2020

Sr. No.	CLIENT_ID	CLIENT_NAME	PAN_NO	REGISTRATION DATE	KRA Date	First Trade Date
141	M1004	MANISH NARESHBHAI BHAGNANI	DWQPB2951E	15Oct19	05Nov19	16 March 2020
142	P1025	PRITESH RAJESHBHAI GAJJAR	BWCPG5533M	15Oct19	05Nov19	16 March 2020
143	PNE949	ARSHAD KHAN ZAFARULLA KHAN	HLTPK2557R	17Oct19	05Nov19	NULL
144	PNE948	BALKRISHNA SHIVAJI WAGHMODE	AATPW6441L	17Oct19	05Nov19	NULL
145	B1019	BHAVESH NILESHBHAI PATEL	APHPP9280K	18Oct19	05Nov19	NULL
146	MCPS254	SIDDIQUE AHMED	ABJPA9625K	25Oct19	07Jan20	NULL
147	KKN76	NIDHI VIRENDRAKUMAR BHAVSAR	EQHPB7770K	25Nov19	12Dec19	NULL
148	RJK437	AARTI ALABHAI KHARA	DSNPK2431R	25Nov19	12Dec19	NULL
149	1JS271	SUMITRABEN PARGI	DNIPP1511F	25Nov19	12Dec19	NULL
150	S1456	SHIVANI KAMLESHBHAI ACHARYA	DLAPA2471R	27Nov19	12Dec19	08 June 2020
151	NNH92	HINAL CHANDRASHEKHARSINH DABHI	FZAPD6686P	27Nov19	12Dec19	13 December 2019
152	MMG11	GEETABEN AMRUTLAL PATEL	AUHPP8011D	27Nov19	12Dec19	13 March 2020
153	RJK439	GAURAV MAHESHBHAI SOLANKI	BQMPS8368C	27Nov19	12Dec19	NULL
154	PNE984	ROHIT SANJAY BHOSALE	DVXPB7311E	28Nov19	12Dec19	NULL
155	J15P09	POORVI BHANDARI	EWAPB9907H	28Nov19	12Dec19	NULL
156	BL123	LAXMI HARESHKUMAR BHASANI	BHJPB4540F	10Dec19	24Dec19	16 March 2020
157	D765	DHARTI PARMAR	EMRPP6151A	10Dec19	24Dec19	NULL
158	KM41	MONABEN CHIMANLAL BHIL	AYTPB9768R	10Dec19	24Dec19	16 March 2020
159	BH958	HARIVADAN DAHYABHAI SOLANKI	COMPS3040A	13Dec19	07Jan20	NULL
160	JSN050	ANILABEN HIMANSHU GAJERA	BERPG3781E	23Dec19	07Jan20	NULL

a) In case of remaining 80 clients, due to technical issues we could not upload the KYC Details within the specified timeline. Please note, many a times we face issues in exporting data as it gets rejected by KRA.

We further submit that, during the relevant inspection period, we had opened 13279 client accounts and except the said discrepancy of delay in uploading KYC information to KRA in 80 instances, no other discrepancy was observed. Hence, we request that the same be ignored as it is a negligible portion of the total clients registered.

Our further submissions:

1. *It is submitted that the lapses pointed out in the Inspection Report are merely technical, venial and procedural in nature (form vs substance). As a result of the alleged violations, we have not made any gains or derived*

any unfair advantage. We are committed to complying with the law and request that the procedural lapses be seen in the context of our overall scale of operations handled and the various compliance measures adopted by us. Further, on becoming aware of the stray instances pointed out during the course of inspection, we have immediately taken steps to rectify the same and avoid their recurrence in future.

2. *It is submitted that, in the past for the similar procedural/technical violations, regulators and exchanges had merely issued warning to the brokers. In this context we invite your attention to the following Orders passed by SEBI, wherein similar procedural/technical violations were condoned by SEBI and it had issued simple warning to the brokers, as stated in Order passed by Hon'ble Securities Appellate Tribunal in the matter of Chona Financial Services Pvt Ltd vs. SEBI (Appeal No 95 of 2003).*

……………..."

7. The opportunity of hearing was availed by the Noticee on August 4, 2022 and August 25, 2022, through its authorised representative ('**AR**'). The hearing was conducted at the office of SEBI located at Bandra (East), Mumbai and the contents of the SCN and the allegations levelled against the Noticee were explained to the AR. The AR reiterated the submissions of the reply dated August 01, 2021 and the Noticee submitted that it wishes to make a post hearing submission specifying corrective measures taken by them with regard to violations alleged in the SCN and the same was submitted *vide* letter dated September 02, 2022 and further, *vide* letter dated September 19, 2022, the Noticee made additional submissions in the matter.

8. In view of the above, noting that sufficient opportunity for submission of reply and personal hearing has been granted to the Noticee, I now proceed further for consideration of issues.

CONSIDERATION OF ISSUES AND FINDINGS

9. After perusal of the material available on record, I have the following issues for consideration *viz.*,

ISSUE NO I: Whether the Noticee has violated the following provisions of Act/Regulations/Circulars:

a. **Provisions of Section 23D of the SCRA;**
b. **Provisions of the 1993 Circular;**

c. **Clause 3 of Annexure of the 2016 Circular;**
d. **Clause 12(e) of the 2009 Circular read with Clause 8.1 of Annexure to 2016 Circular;**
e. **Clause 2.6 of Annexure of the 2016 Circular r/w Clause 2(d) of the 2017 Circular;**
f. **Clause 1 of the 2011 Circular r/w the 2012 Circular.**

ISSUE NO II: If yes, whether the failure on the part of Noticee would attract monetary penalty under Section 23D of the SCRA and Section 15 HB of the SEBI Act, 1992 ?

ISSUE NO III: If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 23J of the SCRA and Section 15J of the SEBI Act, 1992 ?

FINDINGS

10. On perusal of the material available on record and giving regard to the facts and circumstances of the case and submissions of the Noticee, I record my findings hereunder.

Issue no. I: Whether the Noticee has violated the following provisions of Act/Regulations/Circulars:

a. **Provisions of Section 23D of the SCRA;**
b. **Provisions of the 1993 Circular;**
c. **Clause 3 of Annexure of the 2016 Circular;**
d. **Clause 12(e) of the 2009 Circular read with Clause 8.1 of Annexure to 2016 Circular;**
e. **Clause 2.6 of Annexure of the 2016 Circular r/w Clause 2(d) of the 2017 Circular;**
f. **Clause 1 of the 2011 Circular r/w the 2012 Circular.**

A) Mis-utilization of Funds and Securities of Clients

11. It is alleged in the SCN that the Noticee has mis-utilized the funds of credit balance clients for meeting settlement obligations of debit balance clients and/or for its own purpose and was in non-compliance during the inspection period, and therefore, has violated the provisions of Section 23D of the SCRA r/w Clause 1 of the 1993 circular and Clause 3 of Annexure of the 2016 Circular..

12. In respect to aforesaid violation, Noticee contended that SEBI has only considered the ledgers reflecting credit balance of client and that credit balance along-with the debit balance of a client should also be considered while calculating the G value. In this regard, I note that as per 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). If ledger i.e. (G+(A+B)-C) is negative, then the total available fund is less than the ledger 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 purpose. In view of this, I note that the debit balance of client cannot be considered in calculating the G value as per the methodology prescribed under the 2016 Circular and therefore, the contention of the Noticee that debit balance of clients should also considered is not tenable.

13. In respect to the submissions of the Noticee about the mis-use of clients' funds, I note that the calculation regarding the misuse of client's funds was done on the basis of the data obtained from the Noticee for 40 sample instances. Based on the calculations, the inspection conducted by SEBI observed that in 4 out of 40 instances, the value of G was found to be negative in the range of ₹5.9 crores to ₹47 crores. Noticee had allegedly misused clients' funds as the total available funds i.e. cash and cash equivalents with the Noticee and the clearing corporation/ clearing broker was lesser than the clients' funds. The instances of such violations have been provided in the SCNand the Noticee has not disputed such instances. The submission of the Noticee is that the full value of debit balance should have been taken while arriving at the value "G" is also not tenable in view of the observations in the preceding paragraph

14. I note that for a trading member, the total available funds i.e. cash and cash equivalents with the clearing corporation/ clearing broker should always be equal to or greater than the clients' funds, so that the money given by the clients would be available with the member at all times. This is one of the requirements specified under the 2016 Circular. Any deviation from the aforesaid principle indicates misuse of its clients' funds.

15. Furthermore, even if the contention and calculation as proposed by the Noticee in its reply are accepted without admitting, the value of 'G' still remains negative at one instance, as admitted by the Noticee.

16. In terms of Section 23D of SCRA, if a stock 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 any other client, he shall be liable to a penalty as stated therein. In view of the above, I do not have any hesitation in holding that the Noticee has violated the provisions of Section 23D of the SCRA r/w the 1993 Circular and the clause 3 of the 2016 Circular.

B) Non Segregation of Clients' Funds and Securities:

17. As regards the allegation of non-segregation of clients' funds and securities by Noticee, it was alleged in the SCN that the Noticee has failed to segregate the securities of the client(s) during the inspection period in 18 out of 20 sample instances. In this regard, the total value of stock mismatch was found to be ₹ 2.24 crore.

18. With respect to the allegation, Noticee submitted explanation to each of the aforementioned instances and further submitted that in principle, there was never any shortfall of securities for the purposes of pay-in as the securities were lying either in the Client Unpaid Securities Account (CUSA) or the client beneficiary account. Further, Noticee contented that while arriving at the conclusion on the aforementioned instances the following were not considered:

    a. Shares available in client beneficiary account and recorded in RoS were not considered,

b. Auction, trading positions of clients share transferred to clients' accounts and SLB segment transactions were not considered,
c. Payout given to clients internally was also not considered and,
d. Incorrect consideration of clients shares as own shares as the Noticee is partner in a partnership firm and firms are not allowed to open a demat accounts. PAN in such demat statement belonged to partnership firm and doesnot pertain to the Noticee.

19. I note that clause 2 of the annexure to the 1993 circular mandats segregation of clients' securities. The relevant part of the aforesaid circular is given below:

"It shall be compulsory for all Member brokers to keep separate accounts for client's securities and to keep such books of accounts, as may be necessary, to distinguish such securities from his/their own securities. Such accounts for client's securities shall, inter-alia provide for the following:-

a. Securities received for sale or kept pending delivery in the market;
b. Securities fully paid for, pending delivery to clients;
c. Securities received for transfer or sent for transfer by the Member, in the name of client or his nominee(s);
d. Securities that are fully paid for and are held in custody by the Member as security/margin etc. Proper authorization from client for the same shall be obtained by Member;
e. Fully paid for client's securities registered in the name of Member, if any, towards margin requirements etc.;
f. Securities given on Vyaj-badla. Member shall obtain authorization from clients for the same."

20. In view of the mandate stipulated in the aforesaid circular with respect to the segregation of clients' securities, I am unable to accept the submissions of the Noticee that the securities were transferred to meet the pay in obligation from CUSA account. Further, in terms of the circular dated June 20, 2019, the 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 the trading member/clearing member within five trading days after the pay-out. The unpaid securities shall be sold from the unique client code of the respective client and the Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to /adjusted from the respective client account. Further, the Noticee has not provided the demat transaction statement as a result of which complete transaction flow could not be ascertained conclusively.In view of the same, I

find that the Noticee has violated the provisions of Section 23D of SCRA r/w clause 2 of the 1993 circular.

C) Non settlement of clients' funds and securities

21. With respect to the allegation of non-settlement of clients' funds and securities by Noticee, it was stated in the SCN that the Noticee had not settled funds and securities worth ₹1.51 crore over the course of the six quarters for inactive clients. Further, it was alleged that the same credit balance of the clients remained outstanding for atleast two consecutive quarters (which means that the client was inactive and the account was not settled).

22. As regards the aforesaid allegation, the Noticee submitted that with respect to 215 instances, funds were transferred to all inactive clients who were traceable and where clients were not traceable, the Noticee had transferred the funds to a separate bank account maintained for the said purpose in line with NSE Guidelines issued vide circular no. NSE/INSP/43488 dated February 10, 2022. In support of its argument, the Noticee has supplied the copy of bank statements certified by the bank of Noticee and also furnished the copy of ledgers of respective clients. Therefore, I note that Noticee has provided sufficient evidence in support of its argument.

23. With respect to 163 instances, Noticee submitted that the in 87 instances, the balances in the clients' ledgers pertained to the Depository Participant Annual Maintanace Charges and the same have been recovered by the Noticee. In this regard, I note that the Noticee has not settled the credit balance client in lieu of the debit balance on Depository Participant side. However, a stock broker's responsibilities and obligations are different from DP and hence, the two cannot be merged. In respect to remaining 76 instances, the Noticee has submitted that funds at issue are deposits of Authorised Persons/Sub Broker/Trading Member. Further, Noticee submitted that the accounts do not belong to any client(s) but are SB/AP/TM accounts. In this regard, I note that the member has not provided any substantiating evidence to prove that the Unified Client Code belong to SB/AP/TM accounts. In view of the same, I do not find any merit in the contention of the Noticee.

24. In respect of 22 instances, the Noticee has submitted the settlement of clients was carried out in between the quarters. In this regard, I note that the SEBI circulars mentioned above do not envisage such a scenario wherein the stock broker may settle the funds of a client beyond the specified period. I note that the SEBI circular dated December 3, 2009 mandates settlement of funds within twenty-four hours of the pay-out and empowers the client to authorize the stock broker to actually settle the funds at least once in a calendar quarter or month, as preferred by the client. The relevant parts of the said circular are given below:

Clause 12 of Annexure of SEBI Circular dated December 3, 2009-

"Running Account Authorization

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

a. The authorization shall be renewed at least once a year and shall be dated.
b. The authorization shall be signed by the client only and not by any authorised person on his behalf or any holder of the Power of Attorney.
c. The authorization shall contain a clause that the Client may revoke the authorization at any time.
d. For the clients having outstanding obligations on the settlement date, the stock broker may retain the requisite securities/funds towards such obligations and may also retain the funds expected to be required to meet margin obligations for next 5 trading days, calculated in the manner specified by the exchanges.
e. The actual settlement of funds and securities shall be done by the broker, at least once in a calendar quarter or month, depending on the preference of the client. While settling the account, the broker shall send to the client a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.
f. The client shall bring any dispute arising from the statement of account or settlement so made to the notice of the broker preferably within 7 working days from the date of receipt of funds/securities or statement, as the case may be.
g. Such periodic settlement of running account may not be necessary:

i. for clients availing margin trading facility as per SEBI circular

ii. for funds received from the clients towards collaterals/margin in the form of bank guarantee (BG)/Fixed Deposit receipts (FDR).

h. *The stock broker shall transfer the funds / securities lying in the credit of the client within one working day of the request if the same are lying with him and within three working days from the request if the same are lying with the Clearing Member/Clearing Corporation.*

i. *There shall be no inter-client adjustments for the purpose of settlement of the 'running account'.*

j. *These conditions shall not apply to institutional clients settling trades through custodians. The existing practice may continue for them."*

Further, clause 8.1 of Annexure to the SEBI circular dated September 26, 2016 also *inter alia* deals with mode of transfer of funds, as given below:

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

8.1.1. There must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements.
8.1.2. For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.
8.1.3. The required bank details for initiating electronic fund transfers shall be obtained from new clients and shall be updated for existing clients. Only in cases where electronic payment instructions have failed or have been rejected by the bank, then the stock broker may issue a physical payment instrument.
8.1.4. Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled."

25. Therefore, I am of the view that that the Noticee has failed to settle the funds of its clients in accordance with the 2009 circular read with the 2016 circular which require the Noticee to settle the funds of its clients within the specified period and therefore, the contentions of the Noticee, in this regard, is liable to be rejected.

26. In view of the foregoing, I find that the Noticee has violated the provisions of Clause 12(e) of the 2009 Circular and Clause 8.1 of Annexure of the 2016 Circular by failing to settle the funds of its client(s) within the stipulated period.

D) Client funding

27. As regards the allegation of client funding, it was alleged in the SCN that out of sample 35 clients, the Noticee had allowed further exposure beyond T+2+5 days to debit balance clients in 2 instances. It was also observed that the Noticee had funded aggregate amount of ₹8,64,16,424/- to two of its clients beyond T+2+5 Days.

28. In respect of the above allegation, it was submitted by the Noticee that clients were its regular retail HNI clients and they had also maintained their demat accounts under Power Of Attorney with the Noticee. It was further submitted that in line with NSE circular no. NSE/INSP/43069 dated December 31, 2019, Mark To Market debit was collected as securities. Further it was submitted that the exposure was inadvertently granted to the client, KP Enterprise on August 21, 2018. Vide letter dated September 2, 2022 the Noticee has submitted that as a corrective measure, the Noticee has upgraded its software to ensure that the client do not get exposure. In view of the same, I note that the Noticee has not disputed that the said clients were provided exposure over and above the limit specified under the law. Clause 2.6 of the annexure to the 2016 circular, inter alia, requires the Noticee to not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount. Since the Noticee has provided exposure to its clients beyond the specified period, I find that the Noticee has committed the violation of clause 2.6 of the annexure to the 2016 circular r/w clause 2(d) of the 2017 circular.

E) Non- Segregation of Securities

29. It was alleged in the SCN that there was of total 7935 shares with different UCCs for which pay-in was done but shares were not available with respective UCCs. Therefore, it was alleged in the SCN that the Noticee has used securities of other clients to meet obligation of some other clients and hence, has failed to segregate its clients' securities.

30. As regards the aforesaid allegation, the Noticee has submitted the following

a. There seems to be some error during the inspection as the shares were available in the Register of Securities and there was no mismatch.
b. The shares were received from client's own demat accounts for pay-in, hence not routed through ROS. There was no mismatch.
c. Since pay-in of these shares were to be done internally, early pay-out was given to internal (buying) clients.

31. I note that the clause 2 of the annexure to the 1993 circular mandates the segregation of clients' securities. The relevant part of the aforesaid circular is given below:

> *"It shall be compulsory for all Member brokers to keep separate accounts for client's securities and to keep such books of accounts, as may be necessary, to distinguish such securities from his/their own securities. Such accounts for client's securities shall, inter-alia provide for the following:-*
>
> *a. Securities received for sale or kept pending delivery in the market;*
> *b. Securities fully paid for, pending delivery to clients;*
> *c. Securities received for transfer or sent for transfer by the Member, in the name of client or his nominee(s);*
> *d. Securities that are fully paid for and are held in custody by the Member as security/margin etc. Proper authorization from client for the same shall be obtained by Member;*
> *e. Fully paid for client's securities registered in the name of Member, if any, towards margin requirements etc.;*
> *f. Securities given on Vyaj-badla. Member shall obtain authorization from clients for the same."*

32. In view of the mandate stipulated in the aforesaid circular with respect to the segregation of clients' securities, I note that the Noticee has only provided copies of the pool account transaction statement and the client master. However, in the absence of contract notes of participating clients as well as individual demat statement, the contention of the Noticee cannot be accepted. Further, It is pertinent to note that Noticee has also failed to suppy the said documents when comments(s) were sought from the Noticee by SEBI at the time of investigation. In view of the same, I find that the Noticee has violated the provisions of Section 23D of the SCRA r/w clause 2 of the 1993 circular.

F) Client registration process

33. As regards the client registration process, it was alleged in the SCN that out of 9253 sample clients verified during the inspection period, the Noticee had not uploaded KYC details of 240 clients in Central Registry of Securitization Asset Reconstruction and Security Interest Portal. The details of the clients have been specifically mentioned in the annexure enclosed to the SCN.

34. With regard to the allegation, it was submitted by the Noticeee that 160 client(s), out of 240 clients with respect to which violation was observed, were not allowed to trade until there was proper compliance with CKYC and KRA requirements. Further, Noticee has submitted that it could not upload the KYC details of remaining 80 clients due to technical issues faced by the Noticee.

35. I note that the Noticee has not denied the allegation raised in the SCN and has only ensured the subsequent compliance in the matter. Accordingly, I find that the Noticee has committed the violation of Clause I of the 2011 circular read with the 2012 circular which, inter alia, required the Noticee to upload the KYC data of all the individuals.

ISSUE NO II: If yes, whether the failure on the part of Noticee would attract monetary penalty under Section 23D of the SCRA and Section 15HB of the SEBI Act , 1992?

36. In view of the above, I find that the Noticee has violated the provisions of law as stated at paragraphs 11 to 31 of this order. The violations, as brought out above, make the Noticee liable for monetary penalty under Section 23D of the SCRA and Section 15HB of the SEBI Act. The text of the said provisions is produced hereunder for ready reference:

SCRA

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

SEBI Act

Penalty for contravention where no separate penalty has been provided.

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

37. I note that the Hon'ble Supreme Court in the matter of Chairman, ***SEBI Vs Shriram Mutual Fund*** {[2006] 5 SCC 361} has held "*In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant....*"

ISSUE NO III: If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 23J of the SCRA and Section 15J of the SEBI Act, 1992 ?

38. While determining the quantum of penalty under Section 23D of SCRA and Section 15HB of the SEBI Act, the relevant factors as stipulated in Section 23J of the SCRA and Section 15J of the SEBI Act needs to be considered. The said Sections are given below: -

"SCRA

Factors to be taken into account while adjudging quantum of penalty

23J. While adjudging the quantum of penalty under section 12A or section 23-I, 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 been exercised under the provisions of this section."

"SEBI Act

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

15J. While adjudging quantum of penalty under section 15-I, or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely:-

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

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

(c) the repetitive nature of the default.

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

39. In the present matter, it is noted that no quantifiable figures are available to assess the disproportionate gain or unfair advantage made as a result of such default by the Noticee. Further, from the material available on record, it is not possible to ascertain the exact monetary loss to the investors /clients on account of default by the Noticee. At the same time, I also note from the submissions made by the Noticee that it had rectified/taken corrective steps in respect of certain violations.

40. Further, I note that the Noticee, being a registered intermediary is required to comply with the various Circulars and Regulations as laid down by the SEBI, with objective of promoting prudential norms for protecting the investors in the securities market. The very purpose of the said provisions is to deter wrong doing and promote ethical conduct in the securities market. I note that the Noticee has remedied the lapses in certain cases, post-inspection by SEBI, however, such non- compliance, unearthed during time of of inspection deserves and attracts penalty. Nevertheless, I am inclined to take a lenient view in the matter considering the fact that the instant matter has arisen out of inspection conducted by SEBI.

ORDER

41. Having considered all the facts and circumstances of the case, the material available on record including the submissions made by the Noticee, the factors mentioned in Section 23J of the Securities (Contracts) Regulation Act, 1956 and Section 15J of the Securities and Exchange Board of India Act, 1992, I, in exercise of the powers conferred upon me under Section 23-I of the Securities (Contracts) Regulation Act, 1956 and Section 15-I of the Securities and Exchange Board of India Act, 1992 read with rule 5 of the Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and rule 5 of the Securities Contracts (Regulations) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005, hereby impose the following penalty on KIFS Trade Capital Private Limited:-

Sr. No.	**Penalty**	**Provisions**
1	₹ 2,00,000 (Rupees Two Lakh only)	Section 23D of the Securities (Contracts) Regulation Act, 1956
2	₹ 1,00,000 (Rupees One Lakh only)	Section 15HB of the Securities and Exchange Board of India Act, 1992
Total	₹ 3,00,000 (Rupees Three Lakh only)	

42. I am of the view that the said penalty is commensurate with the violations committed by the Noticee.

43. The Noticee shall remit / pay the said amount of penalty within forty five days of receipt of this order either by way of Demand Draft in favour of "SEBI -Penalties Remittable to Government of India", payable at Mumbai or through online payment facility available on the SEBI website www.sebi.gov.in on the following path, by clicking on the payment link "ENFORCEMENT ->Orders -> Orders of AO -> PAY NOW.". The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to the "The Division Chief, Enforcement Department –Division of Regulatory Action –VI, SEBI" along with the following details:

    a) Name and Permanent Account Number of the entity (Noticee)

    b) Name of the case / matter

    c) Purpose of Payment –Payment of penalty under Adjudication proceedings

    d) Bank Name and Account Number

    e) Transaction Number

44. In the event of failure to pay the said amount of penalty within forty-five days of the receipt of this order, the Securities and Exchange Board of India may initiate consequential actions including but not limited to recovery proceedings in accordance with law for the realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties of the Noticee.

45. A copy of this order is sent to KIFS Trade Capital Private Limited and also to the Securities and Exchange Board of India.

Mumbai **Biju S**

October 31, 2022 **Adjudicating Officer**