



भारतीय प्रतिभूति
और विनियम बोर्ड
Securities and Exchange
Board of India

PRASANTA MAHAPATRA
ADJUDICATING OFFICER

Through SPAD

SEBI/HO/EAD-8/PM/SM/ 22834/2 /2022

May 31, 2022

✓ First Futures and Stocks Private Limited (Noticee 1) (PAN: AABCF1127B) A6, Nelson Chambers, No. 115, Nelson Manickam Road, Chennai- 600029	✓ Chennai Commodities (PAN: AGOPG2342M) (Noticee 2) A6, Nelson Chambers, No. 115, Nelson Manickam Road, Chennai- 600029
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Notice under Rule 4 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and Rule 4 of the Securities Contracts (Regulations) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 and Rule 4 of the Depositories (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') appointed the undersigned as the Adjudicating Officer, vide communiqué of appointment order dated February 15, 2022, (enclosed as **Annexure-1**) 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 SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as 'Adjudication Rules 1995') and under Section 23-I of Securities Contracts (Regulation) Act, 1956 (hereinafter

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Show Cause Notice in the matter of First Future and Stocks Private Limited and Chennai Commodities

सेबी भवन, प्लॉट नं. सी 4-ए, "जी" ब्लॉक, बान्द्रा कुर्ला कॉम्प्लेक्स, बान्द्रा (पूर्व), मुंबई - 400 051.
दूरभाष : 2644 9950 / 4045 9950 (आई.वी.आर. एस.), 2644 9000 / 4045 9000 फेक्स : 2644 9019 से 2644 9022 वेब : www.sebi.gov.in



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referred to as 'SCRA') read with Rule 3 of Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter referred to as 'SCRA Adjudication Rules 2005') to inquire into and adjudge under the provisions of the Section 15HB of the SEBI Act, and under the provisions of the Section 23D of the SCRA for the various violations alleged to have been committed by the Noticees viz First Futures and Stocks Private Limited & Chennai Commodities (hereinafter referred to as ('Noticee1 & Noticee 2' / together as 'Noticees').

2. The inspection of the Noticee 1 and Noticee 2 with respect to their stock broking activities was conducted by SEBI for the period April 2019 to September 2020 (hereinafter referred to as 'Inspection Period'). The scope of the inspection was to, *inter alia*, verify whether the Noticee 1 and Noticee 2 had complied with the Regulations and Circulars issued in respect of the Broking activities such as Handling of clients' own funds and securities, Settlement of Clients funds and securities, Client related issues, Financial statement analysis etc.

3. Findings of the Inspection are as follows:

Noticee 1- (First Futures and Stocks Private Limited)

A. Misutilisation of Funds and Securities of Clients

4. It was observed from the Inspection Report that analysis was done by SEBI and NSE w.r.t the total available funds of the Noticee 1 i.e. cash and cash equivalents with itself and with the clearing corporation/clearing member. In this regard, the analysis done by SEBI in 40 sample as per the point 3 of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/201 6/95 dated Sep 26, 2016 (hereinafter referred to as 'Enhanced supervision circular') is given in the Table below:

Table-1



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S.No.	Date	Total End of the day balance in all Client Bank Accounts	Collateral deposited with Exchanges and Clearing member in form of Cash and Cash Equivalents	Total Credit Balance of all clients (after adjusting for open bills and uncleared cheques)	Total debit balance (after adjusting for open bills and uncleared cheques)	Difference G = (A +B) - C
		(A)	(B)	(C)	(D)	(G)
1	03.09.2019	393893.37	11,509,633.07	26066621.65	10439014.24	(14,163,095.21)
2	04.09.2019	120296.02	11,550,000.00	26113482.02	10412755.31	(14,443,186.00)
3	05.09.2019	67243.46	11,550,000.00	26240021.34	10386100.68	(14,622,777.88)
4	06.09.2019	1321430.97	11,550,000.00	26290330.37	10420665.19	(13,418,899.40)
5	09.09.2019	274469.57	11,561,004.00	27040185.13	10682518.91	(15,204,721.56)
6	11.09.2019	536517.07	11,561,092.42	27371234.41	10451265.86	(15,273,624.92)
7	12.09.2019	540199.96	11,559,017.71	27345526.57	10448697.32	(15,246,308.90)
8	13.09.2019	708526.94	11,558,801.11	27169356.92	10459668.57	(14,902,028.87)
9	16.09.2019	1400945.95	11,555,114.86	27554828.49	10436896.05	(14,598,767.68)
10	17.09.2019	803302.95	11,553,999.02	27343464.53	10451454.90	(14,986,162.56)
11	18.09.2019	67134.00	11,546,955.49	26604345.68	10427757.72	(14,990,256.19)
12	19.09.2019	934229.96	11,550,000.00	28213761.92	10466032.43	(15,729,531.96)
13	20.09.2019	1199179.66	11,550,000.00	28054669.30	10397303.49	(15,305,489.64)
14	23.09.2019	1404645.77	11,550,000.00	28311565.73	10373433.94	(15,356,919.96)
15	24.09.2019	819604.18	11,550,034.92	27750957.63	10373484.62	(15,381,318.53)
16	25.09.2019	59899.68	11,548,877.91	27437770.64	10396399.59	(15,828,993.05)
17	26.09.2019	426186.18	11,550,880.82	28064284.99	10387541.91	(16,087,217.99)
18	27.09.2019	524936.02	11,549,374.68	27959824.19	10406570.53	(15,885,513.49)
19	30.09.2019	223080.72	11,533,574.26	28091860.70	10393555.48	(16,335,205.72)
20	02.03.2020	3374532.10	11,959,635.36	20833851.92	11125160.6	(5,499,684.46)
21	03.03.2020	1004373.26	11,805,758.37	18825988.66	11151976.38	(6,015,857.03)
22	04.03.2020	1344856.46	11,655,717.16	19762226.44	11131779.21	(6,761,652.82)
23	05.03.2020	891049.77	11,655,717.16	19770412.57	11132355.11	(7,223,645.64)
24	06.03.2020	1406014.52	11,655,716.97	19551959.54	11132185.76	(6,490,228.05)
25	09.03.2020	1545467.47	11,654,845.22	19123280.51	11175356.98	(5,922,967.82)
26	11.03.2020	1597211.25	11,621,631.42	18759591.06	11157177.30	(5,540,748.39)
27	12.03.2020	1051640.79	11,621,678.42	18368007.42	11172826.73	(5,694,688.21)
28	13.03.2020	671233.27	11,564,603.17	18586084.89	11162510.27	(6,350,248.45)
29	16.03.2020	1842842.68	11,553,708.56	19463922.15	11178835.42	(6,067,370.91)
30	17.03.2020	1356687.63	11,541,378.21	19636669.93	11209297.29	(6,735,604.09)
31	18.03.2020	494558.14	11,541,378.21	19020357.14	11188760.99	(6,984,420.79)
32	19.03.2020	1760369.95	11,542,372.66	20435639.01	11171004.88	(7,132,896.40)
33	20.03.2020	2167429.76	11,434,140.91	20145471.52	11232497.33	(6,543,900.85)
34	23.03.2020	1689028.10	11,545,418.91	18956347.22	11206109.39	(5,721,900.21)
35	24.03.2020	1880618.55	11,589,418.91	19349189.48	11185367.14	(5,879,152.02)
36	25.03.2020	1629758.55	11,589,418.91	19763483.84	11184146.50	(6,544,306.38)
37	26.03.2020	1630235.10	11,545,517.91	18774490.04	11184436.85	(5,598,737.03)
38	27.03.2020	282028.19	11,738,927.16	17911500.95	11178151.14	(5,890,545.60)
39	30.03.2020	563080.14	11,791,869.41	18184719.02	10765304.05	(5,829,769.47)
40	31.03.2020	2225548.78	11,588,930.15	17906880.96	10785257.72	(4,092,402.03)

5. As per the analysis done by SEBI based on the provisions of the Enhanced supervision circular, value of 'G' was found negative. Negative value of G implies that the ledger balances available in all the client bank accounts of the Noticee 1 along with the collaterals deposited with the Exchanges / Clearing member were lesser than the ledger balance of the credit balance clients on the said days. Further, the Negative value of 'G' indicates that the clients' funds were used for other



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purposes i.e. either for settlement obligations of debit balance of clients or for self-purposes.

6. It was also observed from the inspection report that G was negative on 83 sample dates also (details of 83 instances enclosed as Annexure-2) and the Noticee 1 had mis-used the clients' funds towards the settlement obligation of other clients, Margin obligation of pro-trading and for other self-purposes on various dates as mentioned in table below.

Table: 2

Particulars	No. of dates	Highest Mis-use Date	Highest Amount	Mis-use
Shortfall cum Misuse of Client funds towards settlement obligation of other clients	All 83 dates	Sep 27, 2019	Rs. 1.47 Crores	
Funds used for own purpose	18 out of 83 dates	Aug 16, 2019	Rs. 1.06 Crores	
Funds of clients used for Margin obligation of pro-trading	06 out of 83 dates	May 31, 2019	Rs. 0.48 crores	

7. In view of the above, it was also observed that on all the sample dates, G was negative and the average amount of misutilisation is Rs 0.80 crore. Therefore, it is alleged that the Noticee 1 has violated the following provisions:

- Section 23D of SC(R) Act, 1956
- Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993
- Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

8. It was also observed that value of 'I' was positive in 6 out of 115 selected instances as given in the table below. The positive value of 'I' indicates the sum of Proprietary funds and securities i.e. (G + E + F) lying with the clearing corporation/clearing member is lesser than the Proprietary margin obligations (P). 'I' Positive indicates that the clients assests are mis-utilised towards proprietary margin obligations on all these 6 days. This implies that the total amount of misutilisation is Rs. 1.55 cr and



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average amount of misutilisation is Rs. 25.83 lakh. Computation of 'I' Value is detailed in the last column of the table below. (Details are given in Annexure-3)

Table 2: Comparison of Funds of Clients misutilized against Margin Obligation of Proprietary Trading

G	E	F	P	
Difference (G)	Value of Own Securities Deposited as Collateral with Clearing corporation and with Clearing Member (In Rs.)	Value of Non funded portion of the Bank Guarantee (In Rs.)	Proprietary margin Obligation (In Rs.)	Funds of clients used for Margin obligation of proprietary trading $I = P - (G+E+F)$, As G is -ve, G is taken as 0
(47,93,539.60)	-	12,50,000.00	14,59,473.40	2,09,473.40
(49,90,766.64)	-	12,50,000.00	15,32,818.75	2,82,818.75
(34,29,024.69)	-	12,50,000.00	40,58,216.25	28,08,216.25
(35,36,247.96)	-	12,50,000.00	56,63,643.75	44,13,643.75
(55,03,276.07)	-	12,50,000.00	42,07,166.25	29,57,166.25
(85,18,118.90)	-	12,50,000.00	60,78,692.00	48,28,692.00

Therefore, it is alleged that the Noticee 1 has violated the following provisions:

- d) Section 23D of SC(R) Act, 1956
- e) Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993



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

B. Segregation of clients' funds and securities :-

9. It was observed while verifying the Fund transfers from client account to own account that there was an excess transfer from the client account to the Noticee's 1 account. It was also observed that client fund was transferred from HDFC bank account number ending with 3880 & 3890 to Noticee's 1 HDFC bank a/c no. ending with 3726 and 7585 for meeting self-purposes. The transfer of funds between Noticee's 1 account and client account during the inspection period are given below:

Table-2

Table 1 – Transfer of funds between Client and Own bank A/cs			
Transfer of funds	19-20 (in Rs)	20-21 (till October 31, 2020) (in Rs)	Total (in Rs)
Client to Own	32725140.00	18353420.00	5,10,60,560.00
Own to Client	32916600.00	83,59,400.00	4,12,76,000.00
Difference			98,02,560.00

The net difference in transfer of fund between client and Noticee 1 is Rs. 98,02,560/-

10. Out of the funds lying in the client bank account, the Noticee 1 was entitled to withdraw the brokerage and other statutory due and levies. It was observed that the following amounts were withdrawn from the client bank account with respect to the brokerage and other statutory dues and levies:

Table-3

Table 2 – Charges collected by FFSPL		
Particulars	2019-20 (In Rs)	2021-21-Upto 31 -Oct-20 (In Rs)
	A	B
Brokerage	2321192.95	1227239.75
T.Charges	964907.31	829542.29
Clearing Charges	280997.45	163390.28



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S.Duty	363376.39	55404.6
STT	951221	1142814
Gst	639970.86	395177.42
Sub - Total	5521665.96	3813568.34
Total (A + B)		9335234.30

11. From both the aforesaid table no. 2 and 3, it was observed that Noticee 1 had made an excess withdrawal of Rs.4,67,325.70 (Funds from Client to Noticee 1 bank account: 98,02,560.00 – Charges payable to Noticee 1: 93,35,234.30). (Supportive Documents enclosed as **Annexure-4**)

Therefore, it is alleged that the Noticee 1 had violated the following provisions:

- Section 23D of SC(R) Act, 1956*
- Clause 1 of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993.*
- Clause 2.4 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.*

C. Pledging of clients' securities: -

12. It was observed from the Inspection Report that securities belonging to Shri Chockalinagam, Shri Raman, Shri Mukund Joshi, Shri Sankaranarayanan, Shri Stephen, Smt Pramila (clients with collateral securities) were given to the clearing member by Noticee 1 for taking exposure on sample dates. It was observed that the Noticee 1 had negligible or negative fund balance with clearing member (Globe Capital) on all the 6 sample dates as given in table no. 4 Therefore, in order to give exposure to the clients who were having only fund balances, the Noticee 1 had utilized the securities of aforesaid 6 clients. The total mis-utilised amount is Rs. 2.29 cr.

The details are given in **Annexure-5**

Table-4



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Table 3 - Securities of CCS (clients with collateral securities) used for exposure of other clients					
Date	Total margin required of FFSP (Noticee 1)	FFSP (Noticee 1) funds with CM	FFSP (Noticee 1) securities with CM	FC19 margin requirement	CCS clients securities used
Jun 28, 2019	7340538.15	-14539.76	Nil	1505585	5649139.35
Sep 30, 2019	11363649	-16425	Nil	1056570	9948258
Dec 31, 2019	7386753.20	109940.75	Nil	1380497.75	10311296.59
Mar 31, 2020	1026630.57	49549	Nil	0	977081.57
Jun 30, 2020	1586795.35	815939.65	479719.23	7146	291136.47
Sep 30, 2020	1883812.09	65449.90	544103.55	0	1274258.64

In view of the above, it is alleged that the Noticee 1 has violated the following provisions:

- Section 23D of SC(R) Act, 1956
- SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993
- Clause 2.5 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

D. Delay in settlement of Funds: -

- It was observed from the Inspection Report that the Noticee 1 had not settled client accounts in 239 out of 288 sample instances. (Details enclosed as Annexure-6) Top 50 active clients selected for sample scrutiny. It was also observed that the total non-settled amount is 6.41 crore and the break-up of amount not settled in each quarter is given below.

Table-5



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Table 4 – Details of Non-settlement of Client accounts

F.Y.	Quarter	No. of Clients	Amount not settled in Rs.
2019-20	Apr-Jun	36	1,27,18,088
2019-20	Jul-Sep	38	76,01,074
2019-20	Oct-Dec	38	1,25,37,243
2019-20	Jan-Mar	40	1,29,81,059
2020-21	Apr-Jun	44	94,90,675
2020-21	Jul-Sep	43	87,83,670
Total		239	64,111,809

14. It was observed from the verification of clients who have not traded (across Exchanges) after September 30, 2020, based on the creditors as on September 30, 2020. It was found from the said creditors as on September 30, 2020 that the Noticee 1 has not settled the funds to an extent of Rs. 85,29,885/-, belonging to 481 inactive clients who are having ledger balances of Rs. 500 or more. Details are given below:

Table-6

Inactive Client Balances (having balances of Rs.500 and above) with Stock Broker	No. of clients	Amount with Stock Broker
5,00,000 and above	2	45,65,371
1,00,000 -5,00,000	9	15,42,134
10,000-1,00,000	48	15,75,274
500-10,000	422	8,47,106
Total	481	85,29,885

15. Further, it was observed that the Noticee 1 had not sent statement of accounts & retention statement at the time of settlement of client's accounts in 236 out of 288 sample instances. **(Annexure-6)**
16. In this regard, the total non-settled amount is Rs 6.41 crore (Active clients) + Rs 85.29 lakh (inactive clients). Therefore, it is alleged that the Noticee 1 has violated the following provisions:



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- a) SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009
b) Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
c) Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009

E) Account Modifications: -

17. It was observed from the Inspection Report that Noticee 1 had not updated the KYC modifications of the clients to the KRA system and the same had been confirmed by Noticee 1 vide email dated Mar 30, 2021 (Annexure-7). Therefore, it is alleged that the Noticee 1 has violated the following provision:
a) SEBI Circular MIRSD/Cir-26/2011 dated Dec 23, 2011

F) Disclosure of information on website & display of certificates: -

18. From the inspection report, it was observed that Noticee 1 had submitted photo of notice boards displaying Registration certificates, details of Director/Compliance officer and investor grievance redressal etc. (enclosed as Annexure-8) On the verification of the same, it was observed that Noticee 1 had not prominently displayed details of SCORES in their office premises. Therefore, it is alleged that the Noticee 1 has violated the following provision:
a) SEBI Circular CIR/MIRSD/3/2014 dated August 28, 2014

G) Verification of Email ID & Mobile numbers: -

19. It was observed from the Inspection report that 4 mobile number had been used for 14 clients as given below.

Table-7

S.No	UCC	Client Name	PAN	Mobile No.
1	1221	ALEXANDER J	ASVPA8803C	9962880636
2	73A13	AMAL KRISHNA SIKDER	BMGPS7705F	



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3	7469G1	GANESAN S	ACCPG8863D	
4	FA18	AROCKIA JENITHA J	ATEPA2577M	
5	FV15	MURTHY RANGANATHAN	BGKPM2329N	
6	1K42	KANNAN P	AXCPK7797D	9962397151
7	1M38	MD.YOUNUS V	ANUPM9668D	
8	1N57	N NIRMALA	AHGP4177L	
9	1S47	SATHYAVATHI	BFTPS8259A	
10	7443K4	KUMARAVEL N	AVMPK0123F	9942290055
11		SUBBURAYALU CHETTIAR		
	7443S1	DHANDAYUTHAM	ACYPD5801G	
12	7443V1	VASUDEVAN D	ADBPV8263E	9941331553
13	4512J1	JOSEPH DOMNIC F	AATPF9420A	
14	FP25	PACHAIYAPPAN K	AQXPP3043K	

Details are placed at **Annexure-9**

In view of the above, it is alleged that the Noticee 1 has violated the following provision:

a) *SEBI circular CIR/MIRSD/15/2011 dated August 02, 2011*

H). **Clients order recording and pre trade authorization: -**

20. It was observed from the Inspection report that Noticee 1 did not maintain the call recording for all the sample instances and did not have the facility for pre trade authorization. The same had been confirmed by Noticee 1 vide email dated Mar 26, 2021 (**Annexure-10**) and therefore, it is alleged that the Noticee 1 has violated the following provision:

a) *Clause III and IV of SEBI Circular CIR/HO/MIRSD /MIRSD2/CIR/P/2017/108 dated September 26, 2017*

Verification of systems and trading terminals and certification requirements:-



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21. It was also observed from the Inspection Report that certificates of 4 CTCL terminal users and 3 NEAT terminal users were not found valid during the inspection period.

Table-8

Name of Terminal User	Certificate Valid till
CTCL Terminal	
Manavalan Vedaprakash M	08-Apr-20
Rajeshkannan R R	15-Apr-20
Manickam Swaminathan	25-Apr-20
Rajaram Loganathan	04-Sep-19
NEAT Terminal	
Madhu Sudhanan M	22-Jul-16
Vasanthi Ramakrishnan	04-Feb-16
Sathish S	26-May-18

Hence, it is alleged that the Noticee 1 has violated the following provision:

- a) *SEBI Notification LAD-NRO/GN/2010-11/21/29390 issued under Reg. 3 of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007*

(J) Financial Statement Analysis :-

22. It was observed that provision made for stamp duty payable in the F.Y. 2018-19 of Rs 36,96,608/-, under other current liabilities were neither paid nor carried forward in the annual report of F.Y. 2019-20. Details are placed at **Annexure-11**.

Therefore, it is alleged that the Noticee 1 has violated the following provision:

- a) *Clause A (5) of Code of Conduct for Stock Brokers prescribed in Schedule II read with Regulation 9 of SEBI (Stock Brokers) Regulations, 1992*

K) Net worth verification:-

23. It was observed from the Inspection report that networth as per networth certificate, submitted by Noticee 1 as on March 31, 2020 was Rs.116.91 lakh. It was also



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observed that in the profit and loss account, proprietary trading losses for the financial year 2019-20 Net worth Rs. 62,10,051 were not accounted for and it was also observed that statutory duties such as STT, GST and Stamp Duty were shown in the other income whereas the same had not been shown in the expenses (amounting to Rs19.55 lac) of the profit and loss account. Therefore, it is alleged that by not accounting the statutory expenses and proprietary trading losses, Noticee 1 had overstated the profit and misled the regulating authorities.

24. It was also observed from the Inspection report that in the net worth statement the advances to the associates amounting to Rs.3,38,08,468.31 (advances to directors and this balance was carried over from 2017-18) was not deducted under non allowable assets, thereby inflating network as on March 31, 2020.
25. Further, it is observed from the ageing analysis of debtors, the balances shown in the debtors are more than 1-year-old and also these debtors were not written off/ provided for doubtful debts as seen in network calculation of March 31, 2020. It is noted from the age wise debtor analysis given in the table below, the debtors greater than 1 year aggregates to Rs 83.88 lac whereas in the network calculation doubtful debts is shown as Rs.12.04 lac. By not writing off the debit balance clients, the network of the entity is over stated. The age wise debtor analysis is given in the table below and supportive documents are placed at **Annexure-12**.

Table-9

Aging Particulars	No. of clients	Value of debit balance clients as on Mar 31, 2020
Debtors < 3 months	8	-266027
6 months < Debtors > 3 months	8	-931215
1 year < Debtors > 6 months	18	-160603
Debtors > 1 year	1542	-8388625
Total	1616	-10644061.82



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Therefore, it is alleged that the Noticee 1 has violated the following provision:

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

Noticee 2- Chennai Commodities

A) Misutilisation of client's Funds:-

26. It was observed from the Inspection report that analysis was done by SEBI w.r.t the total available funds of the Noticee 2 i.e. cash and cash equivalents with itself and with the clearing corporation/clearing member according to the principle laid down in point 3 of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated Sep 26, 2016 (hereinafter referred to as 'Enhanced supervision circular') Details of which are as follows:

S.No.	Date	Total End of the day balance in all Client Bank Accounts	Collateral deposited with Exchanges and Clearing member in form of Cash and Cash Equivalents	Total Credit Balance of all clients (after adjusting for open bills and uncleared cheques)	Total debit balance (after adjusting for open bills and uncleared cheques)	Difference G = (A +B) - C
		(A)	(B)	(C)	(D)	(G)
1	02.09.2019	17389.86	940,935.32	4944881.87	8634784.70	(3,986,556.69)
2	03.09.2019	67389.86	854,086.63	5003224.68	8634784.70	(4,081,748.19)
3	04.09.2019	16903.86	903,142.63	5025469.02	8634784.70	(4,105,422.53)
4	05.09.2019	30903.86	1,341,232.05	5098744.68	8634784.70	(3,726,608.77)
5	06.09.2019	117503.86	3,020,843.87	6863479.25	8634784.70	(3,725,131.52)
6	09.09.2019	47603.86	2,329,302.69	6370690.14	8634784.70	(3,993,783.59)
7	10.09.2019	74101.86	2,329,302.69	6612975.39	8634784.70	(4,209,570.84)
8	11.09.2019	59101.86	1,552,295.34	5709144.57	8634784.70	(4,097,747.37)
9	12.09.2019	165176.86	1,448,046.68	5751148.22	8634784.70	(4,137,924.68)
10	13.09.2019	49565.86	1,410,721.58	5966944.14	8634784.70	(4,506,656.70)
11	16.09.2019	9565.86	1,133,705.51	5773413.68	8634784.70	(4,630,142.31)
12	17.09.2019	9536.36	1,125,631.51	5757869.33	8634784.70	(4,622,701.46)
13	18.09.2019	21424.36	1,084,149.51	5710408.39	8634784.70	(4,604,834.52)
14	19.09.2019	9624.36	1,316,008.51	5776988.94	8634784.70	(4,451,356.07)
15	20.09.2019	9624.36	1,059,439.51	5715096.56	8634784.70	(4,646,032.69)
16	23.09.2019	10617.36	1,122,395.60	5772316.30	8634784.70	(4,639,303.34)
17	24.09.2019	10617.36	1,158,769.60	5802233.99	8634784.70	(4,632,847.03)
18	25.09.2019	10617.36	1,495,173.60	5866289.43	8634784.70	(4,360,498.47)
19	26.09.2019	11610.86	1,220,533.60	5444566.18	8634784.70	(4,212,421.72)
20	27.09.2019	11610.86	1,328,670.60	5245307.60	8634784.70	(3,905,026.14)
21	30.09.2019	317795.86	1,092,866.14	5407365.13	8634784.70	(3,996,703.13)
22	02.03.2020	353189.26	1,287,281.47	5615641.06	8634890.09	(3,975,170.33)
23	03.03.2020	354189.26	1,891,644.47	5663386.03	8634890.09	(3,417,552.30)
24	04.03.2020	25255.26	2,056,314.68	5723842.90	8634890.09	(3,642,272.96)
25	05.03.2020	50255.26	2,052,789.68	5731620.06	8634890.09	(3,628,575.12)
26	06.03.2020	39248.26	1,528,436.30	5735599.14	8634890.09	(4,167,914.58)
27	09.03.2020	32993.77	1,950,109.46	6182433.04	8634890.09	(4,199,329.81)



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S.No.	Date	Total End of the day balance in all Client Bank Accounts	Collateral deposited with Exchanges and Clearing member in form of Cash and Cash Equivalents	Total Credit Balance of all clients (after adjusting for open bills and uncleared cheques)	Total debit balance (after adjusting for open bills and uncleared cheques)	Difference G = (A +B) - C
		(A)	(B)	(C)	(D)	(G)
28	10.03.2020	332993.77	1,950,109.46	5695292.63	8677061.98	(3,412,189.40)
29	11.03.2020	43493.77	1,642,578.46	5622977.34	8677061.98	(3,936,905.11)
30	12.03.2020	30615.77	1,677,614.46	5651305.12	8677061.98	(3,943,074.89)
31	13.03.2020	129703.77	1,674,590.46	5576579.04	8677061.98	(3,772,284.81)
32	16.03.2020	29638.87	2,816,327.46	6742347.54	8677061.98	(3,896,381.21)
33	17.03.2020	543632.97	1,613,131.05	5600479.31	8677149.40	(3,443,715.29)
34	18.03.2020	723604.97	1,841,969.21	6078651.52	8634890.09	(3,513,077.34)
35	19.03.2020	745604.97	1,679,920.15	5968378.41	8634890.09	(3,542,853.29)
36	20.03.2020	656404.97	1,694,959.15	5910542.25	8634890.09	(3,557,178.13)
37	23.03.2020	20404.97	1,206,234.15	5419238.27	8634890.09	(4,192,599.15)
38	24.03.2020	68404.97	1,206,110.15	5462727.52	8634890.09	(4,188,212.40)
39	25.03.2020	22297.97	1,406,110.15	5409460.15	8634890.09	(3,981,052.03)
40	26.03.2020	20297.97	1,205,224.15	5405474.37	8634890.09	(4,179,952.25)
41	27.03.2020	23297.97	1,107,645.15	5408698.73	8634890.09	(4,277,755.61)
42	30.03.2020	15936.97	1,077,872.15	5406967.92	8634890.09	(4,313,158.80)
43	31.03.2020	320559.97	1,058,514.21	5910865.75	8634890.09	(4,531,791.57)

27. It was observed from the Inspection Report that on all the 43 days which were selected for verification of mis-utilization of clients' funds, the value of 'G' was negative on all 43 days. Negative value of G implies that the ledger balances available in all the client bank accounts of the Noticee 2 along with the collaterals deposited with the Exchanges / Clearing member were lesser than the ledger balance of the credit balance clients on the said days. Negative value of 'G' indicates utilization of clients' funds for other purposes i.e. funds of credit balance of clients were utilized either for settlement of obligations of debit balance of clients or for the Noticee's 2 self-purposes.

28. Thereafter, the absolute value of G was compared with the debit balance of all clients. It was observed that the funds of credit balance of clients were used for settlement of debit balance of clients and for self-purposes on all 43 sample days of September, 2019 and March, 2020. (supporting documents with respect to the misuse of client funds is placed as **Annexure-13**)

29. Further, it was also observed from the Inspection report that 10 days (in addition to abovementioned 43 days) were also selected for verification of mis-utilization of clients' funds and it was observed that G was found negative on all the 10 dates.



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Further, it was observed that the funds of credit balance clients have been used for the settlement obligations of debit balance clients on all the selected dates. The average amount of misutilisation of funds on all the 53 days (43+10) is Rs 41.66 lakh (supportive documents in this regard is placed as **Annexure- 14**). Further, it was observed that the Noticee 2 had not correctly uploaded details of all clients' funds lying with them on stock exchange system for 9 selected dates out of 10 dates as given below.

Table 12 - Extract of analysis of Enhanced Supervision data submitted by the member to MCX		
Date of Mismatch	Areas of Mismatch	Value of Mismatch in Rs. *
Oct 18, 2019	Aggregate Fund Balance	-30.45
	Collateral deposited with Clearing Member	4999.71
	Unutilized Collateral lying with Clearing Member	-1.38
Oct 25, 2019	Collateral deposited with Clearing Member	4999.71
	Unutilized Collateral lying with Clearing Member	-1.31
Nov 01, 2019	Unutilized Collateral lying with Stock Exchange	1,49,507.41
Dec 06, 2019	Aggregate Fund Balance	-723.92
	Unutilized Collateral lying with Stock Exchange	5,00,000.00
Dec 20, 2019	Aggregate Fund Balance	-84.42
Dec 27, 2019	Aggregate Fund Balance	-84.42
Jan 03, 2020	Aggregate Fund Balance	-84.42
Jan 10, 2020	Aggregate Fund Balance	-84.42
	Unutilized Collateral lying with Clearing Member	16,775.00
Sep 04, 2020	Unutilized Collateral lying with Stock Exchange	80,389.39

Negative mismatch value indicates under reporting by Member

Funds of clients used for Margin obligation of proprietary trading: -

30. It was observed that out of 43 trading days selected for finding the mis-utilisation of clients' fund, 'I' was positive on 7 trading days. Positive values of 'I' implies that the sum of proprietary funds and securities lying with the clearing corporation / clearing member were lesser than the proprietary margin obligation of the Noticee 2 on the aforesaid 7 trading days. 'I' Positive indicates that the funds of clients were used for margin obligation towards proprietary trading on all these 7 days. The total amount



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of Mis-utilisation is Rs. 5.83 lakh and the average amount of misutilisation is Rs 83,285. Computation of 'I' Value is detailed in the last column of the Table below.

S.No.	Date	Difference G = (A +B) - C	Value of Securities Deposited Collateral Clearing corporation declared by the Member	Own as with as the	Non funded portion of the Bank Guarantee	Proprietary Margin Obligation	Funds of clients used for Margin obligation of proprietary trading
		(G)	(E)		(F)	(P)	I = P - (G+E+F), As G is -ve, G is taken as 0
1	02.09.2019	(3,986,556.69)	-	-	-	-	0
2	03.09.2019	(4,081,748.19)	-	-	-	-	0
3	04.09.2019	(4,105,422.53)	-	-	-	35,375.00	35,375.00
4	05.09.2019	(3,726,608.77)	-	-	-	-	0
5	06.09.2019	(3,725,131.52)	-	-	-	17,250.00	142,625.00
6	09.09.2019	(3,993,783.59)	-	-	-	142,625.00	135,425.00
7	10.09.2019	(4,209,570.84)	-	-	-	-	0
8	11.09.2019	(4,097,747.37)	-	-	-	-	0
9	12.09.2019	(4,137,924.68)	-	-	-	-	0
10	13.09.2019	(4,506,656.70)	-	-	-	135,425.00	135,425.00
11	16.09.2019	(4,630,142.31)	-	-	-	-	0
12	17.09.2019	(4,622,701.46)	-	-	-	-	0
13	18.09.2019	(4,604,834.52)	-	-	-	36,375.00	36,375.00
14	19.09.2019	(4,451,356.07)	-	-	-	-	0
15	20.09.2019	(4,646,032.69)	-	-	-	-	0
16	23.09.2019	(4,639,303.34)	-	-	-	-	0
17	24.09.2019	(4,632,847.03)	-	-	-	39,375.00	39,375.00
18	25.09.2019	(4,360,498.47)	-	-	-	58,750.00	58,750.00
19	26.09.2019	(4,212,421.72)	-	-	-	-	0
20	27.09.2019	(3,905,026.14)	-	-	-	-	0
21	30.09.2019	(3,996,703.13)	-	-	-	-	0
22	02.03.2020	(3,975,170.33)	-	-	-	-	0
23	03.03.2020	(3,417,552.30)	-	-	-	-	0
24	04.03.2020	(3,642,272.96)	-	-	-	-	0
25	05.03.2020	(3,628,575.12)	-	-	-	-	0
26	06.03.2020	(4,167,914.58)	-	-	-	-	0
27	09.03.2020	(4,199,329.81)	-	-	-	-	0
28	10.03.2020	(3,412,189.40)	-	-	-	-	0
29	11.03.2020	(3,936,905.11)	-	-	-	-	0
30	12.03.2020	(3,943,074.89)	-	-	-	-	0
31	13.03.2020	(3,772,284.81)	-	-	-	-	0
32	16.03.2020	(3,896,381.21)	-	-	-	-	0
33	17.03.2020	(3,443,715.29)	-	-	-	-	0
34	18.03.2020	(3,513,077.34)	-	-	-	-	0
35	19.03.2020	(3,542,853.29)	-	-	-	-	0
36	20.03.2020	(3,557,178.13)	-	-	-	-	0
37	23.03.2020	(4,192,599.15)	-	-	-	-	0
38	24.03.2020	(4,188,212.40)	-	-	-	-	0
39	25.03.2020	(3,981,052.03)	-	-	-	-	0
40	26.03.2020	(4,179,952.25)	-	-	-	-	0



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S.No.	Date	Difference G = (A +B) - C	Value of Securities Deposited as Collateral with Clearing corporation declared by the Member	Own as with Bank Guarantee	Non funded portion of the Bank	Proprietary Margin Obligation	Funds of clients used for Margin obligation of proprietary trading
		(G)	(E)	(F)	(P)		$J = P - (G+E+F)$, As G is -ve, G is taken as 0
41	27.03.2020	(4,277,755.61)	-	-	-	-	0
42	30.03.2020	(4,313,158.80)	-	-	-	-	0
43	31.03.2020	(4,531,791.57)	-	-	-	-	0

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

31. It was observed that on all the 43 days which were selected for finding the mis-utilization of clients' fund, 'J' was positive on one day. 'J' positive indicates that funds of credit balance of clients were used for margin obligation of debit balance of clients and for proprietary trading on that one day i.e. Mar 30, 2020 as given in the table below. It was also observed that the mis-utilised amount is Rs. 1,01,308.84. Computation of J Value is detailed in the last column of the Table below:

S.No.	Date	Total End of the day balance in all Client Bank Accounts (A)	Collateral deposited with Exchanges and Clearing member in form of Cash and Cash Equivalents (B)	Total Credit Balance of all clients (after adjusting for open bills and uncleared cheques) (C)	Margin utilized for positions of Credit Balance Clients (MC)	Free/unblocked Collateral deposited with clearing corporation/ clearing member (MF)	Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading
		(A)	(B)	(C)	(MC)	(MF)	G positive: $J = (C-A) - (MC+MF)$; G Negative: $J = B - (MC+MF)$;
1	02.09.2019	17389.86	940,935.32	4944881.87	732111.21	732,599.34	-523,775.23
2	03.09.2019	67389.86	854,086.63	5003224.68	746536.18	656,544.62	-548,994.17
3	04.09.2019	16903.86	903,142.63	5025469.02	868201.96	546,036.96	-511,096.29
4	05.09.2019	30903.86	1,341,232.05	5098744.68	3415878.33	(1,547,067.88)	-527,578.40
5	06.09.2019	117503.86	3,020,843.87	6863479.25	1621883.32	1,917,775.18	-518,814.63
6	09.09.2019	47603.86	2,329,302.69	6370690.14	1368510.15	1,475,524.59	-514,732.05
7	10.09.2019	74101.86	2,329,302.69	6612975.39	884507.43	1,966,260.45	-521,465.19
8	11.09.2019	59101.86	1,552,295.34	5709144.57	640654.77	1,436,573.10	-524,932.53
9	12.09.2019	165176.86	1,448,046.68	5751148.22	933068.46	1,041,326.57	-526,348.35



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10	13.09.2019	49565.86	1,410,721.58	5966944.14	1325521.03	774,715.41	-689,514.86
11	16.09.2019	9565.86	1,133,705.51	5773413.68	779992.02	847,849.82	-494,136.33
12	17.09.2019	9536.36	1,125,631.51	5757869.33	982441.87	712433.82	-569,244.18
13	18.09.2019	21424.36	1,084,149.51	5710408.39	1284231.25	317005.38	-517,087.12
14	19.09.2019	9624.36	1,316,008.51	5776988.94	1339677.25	531610.86	-555,279.60
15	20.09.2019	9624.36	1,059,439.51	5715096.56	1284038.39	274859.55	-499,458.43
16	23.09.2019	10617.36	1,122,395.60	5772316.30	1116247.48	535916.74	-529,768.62
17	24.09.2019	10617.36	1,158,769.60	5802233.99	1056096.01	635325.8	-532,652.21
18	25.09.2019	10617.36	1,495,173.60	5866289.43	1228919.37	804948.68	-538,694.45
19	26.09.2019	11610.86	1,220,533.60	5444566.18	1310892.70	620273.7	-710,632.80
20	27.09.2019	11610.86	1,328,670.60	5245307.60	1130178.85	850853.07	-652,361.32
21	30.09.2019	317795.86	1,092,866.14	5407365.13	1252451.91	430358.68	-589,944.45
22	02.03.2020	353189.26	1,287,281.47	5615641.06	2159057.61	(442,997.40)	-428,778.74
23	03.03.2020	354189.26	1,891,644.47	5663386.03	2385976.80	(47,517.20)	-446,815.13
24	04.03.2020	25255.26	2,056,314.68	5723842.90	2344891.74	153,522.59	-442,099.65
25	05.03.2020	50255.26	2,052,789.68	5731620.06	1652638.07	845,198.21	-445,046.60
26	06.03.2020	39248.26	1,528,436.30	5735599.14	2307624.58	(191,520.91)	-587,667.37
27	09.03.2020	32993.77	1,950,109.46	6182433.04	2878035.29	22,556.07	-950,481.90
28	10.03.2020	332993.77	1,950,109.46	5695292.63	2424432.33	(63,330.70)	-410,992.17
29	11.03.2020	43493.77	1,642,578.46	5622977.34	2269998.45	(263,196.02)	-364,223.97
30	12.03.2020	30615.77	1,677,614.46	5651305.12	2873997.62	(269,877.48)	-926,505.68
31	13.03.2020	129703.77	1,674,590.46	5576579.04	1791088.75	1,379,891.51	-1,496,389.80
32	16.03.2020	29638.87	2,816,327.46	6742347.54	3109221.93	1,512,281.55	-1,805,176.02
33	17.03.2020	543632.97	1,613,131.05	5600479.31	2220979.23	(65,756.56)	-542,091.62
34	18.03.2020	723604.97	1,841,969.21	6078651.52	902030.68	1,344,434.78	-404,496.25
35	19.03.2020	745604.97	1,679,920.15	5968378.41	483243.69	1,429,797.30	-233,120.84
36	20.03.2020	658404.97	1,694,959.15	5910542.25	520482.46	1,376,670.49	-202,193.80
37	23.03.2020	20404.97	1,206,234.15	5419238.27	965815.25	652,053.19	-411,634.29
38	24.03.2020	68404.97	1,206,110.15	5462727.52	960613.78	618,696.54	-373,200.17
39	25.03.2020	22297.97	1,406,110.15	5409460.15	836172.67	900,801.58	-330,864.10
40	26.03.2020	20297.97	1,205,224.15	5405474.37	752729.06	751,215.37	-298,720.28
41	27.03.2020	23297.97	1,107,645.15	5408698.73	650616.46	687,208.09	-230,179.40
42	30.03.2020	15936.97	1,077,872.15	5406967.92	740608.45	235,954.86	101,308.84
43	31.03.2020	320559.97	1,058,514.21	5910865.75	468866.87	789,259.71	-199,612.37

In view of the above, it is alleged that the Noticee 2 has violated the following provision:

- Section 23D of SC(R) Act, 1956
- Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993
- Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

C) Segregation of clients' funds and securities: -

- On verification of the fund transfer from client account to own account, it was observed that there was an excess withdrawal from client account. It was also observed that client funds were transferred from HDFC bank account number ending with 2378 to Noticee 2 bank a/c no. ending with 3873 for meeting Noticee 2 purposes and for



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proprietary trading. The transfer of funds between Noticee 2 account and client account during the inspection period is given below:

Transfer of funds	19-20 (In Rs)	20-21 (till October 31, 2020 (In Rs)	Total
Own to Client	14787015.00	10733300.00	25520315.00
Client to Own	8136851.50	11424000.00	19560852.00
		Difference	59,59,464.00

Hence, the net difference in transfer of fund between client and Noticee 2 is Rs. 59,59,464/-

33. Out of the funds lying in the client bank account, the Noticee 2 was entitled to withdraw brokerage and other statutory dues and levies. It was observed from the Inspection Report that the following amounts were withdrawn from the client's bank account with regard to the brokerage and other statutory dues and levies:

Particulars	2019-20 (In Rs)	2021-21-Upto 31 -Oct-20 (In Rs)
	A	B
Brokerage	9,37,514.30	3,60,261.41
CGST	2,09,147.11	60,649.62
Clearing Charges	1,30,772.42	31,493.50
IGST	2,000.78	7,761.14
SEBI Turnover Charges	28,515.58	41,274.72
SGST	2,09,147.11	60,649.62
Transaction Charges	12,29,499.52	3,31,725.66
Sub - Total	27,46,596.82	8,93,815.67
Total (A + B)		36,40,412.49

From the table mentioned above, it was observed that the Noticee 2 had made an excess withdrawal of Rs.23,19,051.91/- (Funds transferred from Client to Noticee 2 bank account: 59,59,464.00 - Charges payable to Chennai Commodities; 36,40,412.49). **(Supportive documents isplaced as Annexure- 15)**

Therefore, it is alleged that the Noticee 2 has violated the following provision:

- Section 23D of SC(R) Act, 1956*
- Clause 1 of Annexure of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993*



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c) Clause 2.4 of Annexure of SEBI Circular
SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

D) Delay in settlement of Funds: -

34. It was observed from the Inspection Report that the Noticee 2 had not settled client accounts in 43 out of 45 sample instances across 6 Quarters. Top 50 active clients selected for sample scrutiny. It was observed that the total non-settled amount is Rs 1.92 crore. Quarter-wise details for non-settled amount is given below.

Table-13

F.Y.	Quarter	No. of Clients	Amount not settled in Rs.
2019-20	Apr-Jun	9	4644262.133
2019-20	Jul-Sep	8	2182395.09
2019-20	Oct-Dec	7	2866150.45
2019-20	Jan-Mar	7	3445092.355
2020-21	Apr-Jun	7	2975113.985
2020-21	Jul-Sep	5	3097371.88
Total		43	19210385.893

35. It was also observed that the verification for the clients who have not traded (across Exchanges) after March 31, 2019 was carried out based on the creditors as on 30-Sep-2020. It was observed from creditors list as on July 31, 2020 that Noticee 2 had not settled the funds to an extent of Rs.12.46 Lac of 952 clients, who are inactive having ledger balances of Rs. 500 or more. The details are given in **Annexure-16**. Summary of the non-settlement of inactive clients is given below:

Table-14

Range of Amount (Rs.)	No. of Clients	Aggregate Amount in Rs.
500 to 10,000	72	1,27,691.27
10,001 to 1,00,000	9	3,00,195.00
1,00,001 to 5,00,000	0	0
>5,00,000	1	8,18,703.16
Total	82	12,46,589.43

Therefore, it is alleged that the Noticee 2 has violated the following provision:



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- a) SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009
b) Clause 8.1 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

E) Financial statement analysis: -

36. It was observed from the Inspection Report that the funds available with bank and exchange was Rs.13,79,074 and funds available with creditors on that date was Rs.59,10,865.75. Hence, the funds with Noticee 2 were not sufficient to cover the funds payable to the clients as on March 31, 2020. Therefore, it is alleged that the Noticee 2 has violated the following provision:

- a) Clause A (5) of Code of Conduct for Stock Brokers prescribed in Schedule II
b) Regulation 9 of SEBI (Stock Brokers) Regulations, 1992

F) Net worth verification: -

37. It was observed from the inspection report that Noticee 2 had not accounted for statutory expenses such as stamp duty, GST and CTT in the profit and loss account for F.Y. 2018-19. Therefore, it is alleged that the Noticee 2 has violated the following provision:

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

The text of the abovementioned alleged provisions is given below:

SCRA

PENALTIES AND PROCEDURE

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



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

SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993

Clause 1

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.

SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated Sep 26, 2016

Clause 2.4.2

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

Clause 2.5

2.5. As per existing norms, a stock broker is entitled to have a lien on client's securities to the extent of the client's indebtedness to the stock broker and the stock broker may pledge those securities. This pledge can occur only with the explicit authorization of the client and the stock broker needs to maintain records of such authorisation. Pledge of such securities is permitted, only if, the same is



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done through Depository system in compliance with Regulation 58 of the SEBI (Depositories and Participants) Regulations, 1996

SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated Sep 26, 2016

Clause 3

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



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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 Exchange

Clause 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:

Cause 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.



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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:

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

Clause 3.3.2.

Funds of clients used for Margin obligation of proprietary trading:

Stock Exchanges shall thereafter, verify whether the proprietary margin obligations (across Stock Exchanges) is less than the own funds and securities lying with the Stock Exchanges as collateral deposit, as follows:

Principle:

The sum of Proprietary funds and securities i.e. (G + E + F) lying with the clearing corporation/clearing member should be greater than or equal to Proprietary margin obligations (P)

If value of G is positive (i.e. A+B > C), then Proprietary funds are lying with the clearing corporation/clearing member and/or client bank accounts along with the client's funds to the extent of positive value of G.



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The sum of the proprietary funds (positive value of G), the value of proprietary securities (E) and the non-funded portion of bank guarantee (F) available in the Stock Exchanges is compared with the Proprietary margin obligations (P).

If $P > (G+E+F)$, then Stock Exchange shall calculate the difference I, which is the amount of proprietary margin obligation funded from clients assets.

$$I = P - (G+E+F)$$

If G is negative, then, value of G is considered as 0, as there is no proprietary funds lying with the stock exchange.

The value of I indicates the extent of funds and securities of clients which is possibly utilised towards proprietary margin obligations. This value of I

acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' assets towards proprietary margin obligations.

Clause: 3.3.3.

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

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

Principle:

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



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

$$J = (C - A) - (MC + MF)$$

The value of J, if positive, indicates the extent of clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations.

This value of J acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' funds towards margin obligations of debit balance clients and proprietary margin obligations.

Clause 6.1.1 (j)

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: Page 22 of 29

6.1.1. Monitoring criteria for Stock Brokers

j. In case stock broker shares incomplete/wrong data or fails to submit data on time.



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Clause 8.1

8. Running Account Settlement

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

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

8.1.2. 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.

SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009

Clause 12(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.



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SEBI Circular ref no. MIRSD/Cir- 26 /2011 dated December 23, 2011

Clause 1

1. Guidelines for Intermediaries:

- i. 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.
- ii. In case a client's KYC documents sent by the intermediary to KRA are not complete, the KRA shall inform the same to the intermediary who shall forward the required information / documents promptly to KRA.
- iii. For existing clients, the KYC data may be uploaded by the intermediary provided they are in conformity with details sought in the uniform KYC form prescribed vide SEBI circular no. MIRSD/SE/Cir-21/2011 dated October 05, 2011. While uploading these clients' data the intermediary shall ensure that there is no duplication of data in the KRA system.
- iv. The intermediary shall carry out KYC when the client chooses to trade/ invest / deal through it.
- v. The intermediaries shall maintain electronic records of KYCs of clients and keeping physical records would not be necessary.
- vi. The intermediary shall promptly provide KYC related information to KRA, as and when required. vii. The intermediary shall have adequate internal controls to ensure the security / authenticity of data uploaded by it.

SEBI Circular No. CIR/MIRSD/3/2014 dated August 28, 2014

Clause 2 read with Annexure A of the said circular

2. As an additional measure and for information of all investors who deal/ invest/ transact in the market, it has now been decided that offices of all Stock Brokers (its registered Sub -Broker(s) and Authorized Person(s)) and Depository



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Participants shall prominently display basic information, as provided in Annexure-A, about the grievance redressal mechanism available to investors. For other intermediaries, the information as provided in Annexure-B shall be prominently displayed in their offices.

SEBI Circular No. CIR/MIRSD/15/2011 dated August 02, 2011

Clause 2(B)

2. As an additional measure, it has now been decided in consultation with the major stock exchanges and market participants that the stock exchanges shall send details of the transactions to the investors, by the end of trading day, through SMS and E-mail alerts. This would be subject to the following guidelines:

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.

CIR/HO/MIRSD/MIRSD2/CIR/P/2017/108 dated September 26, 2017

Prevention of Unauthorised Trading by Stock Brokers



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Clause III.

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

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

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

Clause IV.

Further, wherever the order instructions are received from clients through the telephone, the stock broker shall mandatorily use telephone recording system to record the instructions and maintain telephone recordings as part of its records.

Reg. 3 of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007

Obligation to obtain certificate

Regulation 3

3. (1) *The Board may by notification in the Official Gazette require such categories of associated persons to obtain requisite certificate for engagement or employment with such classes of intermediaries and from such date as may be specified in the notification:*



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Provided that an associated person employed or engaged by an intermediary prior to the date specified by the Board may continue to be employed or engaged by the intermediary if he obtains the certificate within two years from the said date.

- (2) An associated person on being employed or engaged by an intermediary on or after the date specified by the Board shall obtain the certificate within one year from the date of being employed or engaged by the intermediary.*
- (3) An associated person who, as on the date specified by the Board, holds a certificate for a category as recognized by the Board shall not be required to obtain a fresh certificate for the same category during the validity of such certificate.*
- (4) The Board for the purpose of issuing notification under sub regulations (1) and (2) shall take into consideration:*
 - (a) whether the associated person as part of his work or operation deals or interacts with the investors, issuers or clients of intermediaries;*
 - (b) whether the associated person deals with assets or funds of investor or clients;*
 - (c) whether the associated person handles redressal of investor grievances;*
 - (d) whether the associated person is responsible for internal control or risk management;*
 - (e) whether the associated person is responsible for compliance of any rules or regulations;*
 - (f) Whether the associated person is engaged in activities that have a bearing on operational risk of the intermediary.*



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***Notification under regulation 3 of the Securities and Exchange Board of India
(Certification of Associated Persons in the Securities Markets) Regulations,
2007.***

1. In terms of sub-regulation (1) of regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 (the Regulations), the Board is empowered to require, by notification, any category of associated persons as defined in the Regulations to obtain requisite certification(s).

2. Accordingly, it is notified that with effect from the date of this notification, the following category of associated persons, i.e., persons associated with a registered stock-broker/trading member/clearing member in recognised stock exchanges, who are involved in, or deal with, any of the following, namely:-

- (a) assets or funds of investors or clients,*
- (b) redressal of investor grievances,*
- (c) internal control or risk management, and*
- (d) activities having a bearing on operational risk,*

shall be required to have a valid certification from the National Institute of Securities Markets (NISM) by passing the NISM-Series-VII: Securities Operations and Risk Management Certification Examination as mentioned in the NISM communiqué/Press Release NISM/Certification/Series-VII: SORM/2010/01 dated November 11, 2010, read with Annexures-I and II thereto.

Provided that the stock-broker/trading member/clearing member shall ensure that all persons associated with it and carrying on any activity specified in this paragraph as on the date of this notification obtain valid certification within two years from the said date of notification.



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Provided further that a stock-broker/trading member/clearing member who employs any associated persons specified in this paragraph after the date of this notification shall ensure that the said associated persons obtain valid certification within one year from the date of their employment.

Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992
Regulation 9(f)

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;

Clause A (5)

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.*

The text of the above mentioned Section 15HB of SEBI Act and Section 19G of Depositories Act is given below:

SEBI Act

PENALTIES AND ADJUDICATION

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 may extend to one crore rupees.*

Depositories Act



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Penalty for contravention where no separate penalty has been provided.

19G. Whoever fails to comply with any provision of this Act, the rules or the regulations or bye-laws 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.

38. In view of the above, the Noticee 1 and Noticee 2 are therefore called upon required to Show Cause as to why an inquiry should not be held against them in terms of Rule 4 of the Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 2005 read with Section 23 I of the SCRA and Rule 4 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 read with Section 15 I of the SEBI Act and why penalty, if any, should not be imposed on them under the provisions of Section 23D of the SCRA, Section 15HB of the SEBI Act.
39. The Entities shall submit the reply to the Show Cause Notice supported by such documentary evidence, which they may like to adduce in support of the reply in 21 days from the date of receipt of this notice by them, failing which the matter shall be proceeded on the basis of the material/ facts available on record. Further, a soft copy of the reply may also be sent via email at prasantam@sebi.gov.in and sumanm@sebi.gov.in. In case no reply is received from the Entities within the prescribed time mentioned above, it would be presumed that Entities have no submissions to make and the matter shall be proceeded with on the basis of material / facts on record. A copy of PAN Card, contact details (contact person, phone number, email details, fax etc.) of the Entities may also be submitted along with the reply. Entities may also indicate whether they desire a personal hearing in the matter.

Securities and Exchange Board of India
SEBI Bhavan II, Plot No. C-7, 'G' Block,



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**Bandra- Kurla Complex,
Bandra (E), Mumbai- 400051**

40. Further Entities may note that if there is any change in their address during the period of the current Adjudication proceedings, they are required to inform the same to the Adjudicating Officer, immediately.
41. Noticees may also note that a settlement mechanism is provided under the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018. If they wish to avail the benefit of the settlement process, they may apply for the same in the manner provided in the said regulations, under intimation to the undersigned.

**PRASANTA MAHAPATRA
ADJUDICATING OFFICER**



**Enclosures: Annexures 1 to Annexure 16 are placed in the Compact Disk
(CD)**

