

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Section 12 (3) of the Securities and Exchange Board of India Act, 1992 read with Regulation 27 of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008

In respect of

Sr. No.	Name of the Noticee	SEBI Registration No.
1.	IIFL Securities Limited	INZ000164132

In the matter of IIFL Securities Limited

1. IIFL Securities Limited (hereinafter referred to as “the Noticee”) is registered with Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) as a Stock Broker. The present proceeding is originating from the Enquiry Report dated August 21, 2024, submitted by the Designated Authority (hereinafter referred to as “**DA**”), in terms of the applicable provisions of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as “**Intermediaries Regulations**”).
2. SEBI had conducted an inspection of the Noticee for the period from April 01, 2022 to July 31, 2022 (hereinafter referred to as “**inspection period**” / “**IP**”) in order to examine compliance of various requirements by the Noticee with respect to the provisions of SEBI (Stock Brokers) Regulations, 1992, (hereinafter referred to as “**Broker Regulations**”) and various Circulars issued thereunder. The findings/ observations made during the course of inspection were communicated to the Noticee and after examining its reply dated October 29, 2022, various violations were observed. The summary of violations alleged to have been committed by the Noticee and the corresponding regulatory provisions are given in the table below:

Table 1

Sr. No.	Alleged Violations with respect to:	Regulatory provisions:
A.	Monthly/ Quarterly settlement of Funds and Securities	SEBI circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009, clause 8.1.1 and 8.1.4 of SEBI circular Ref no. SEBI/HO/MIRSD /MIRSD2/CIR /P/2016/95 dated September 26, 2016, and EBI circular SEBI/HO/MIRSD/ DOP/P/CIR/2021/577 dated June 16, 2021.
B.	Stock Reconciliation	SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008
C.	Closure of Client Collateral Account	SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020 and SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020
D.	Client Unpaid Securities Account Verification	Clause 4.2 of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019
E.	Reporting and short collection of Margin	Point No. 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 and Clause (iii) to Annexure of SEBI Circular SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020
F.	Passing of Penalty on Short Reporting of Margin	Clause A (2) & (5) of Schedule II read with Regulation 9(f) of Broker Regulations. SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 and SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020
G.	Verification of Daily Margin Statements	Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008
H.	Margin Trading Funding Verification	Clause 17 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017
I.	Analysis of Weekly Bank Balances and Cash & Cash Equivalents	SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

Sr. No.	Alleged Violations with respect to:	Regulatory provisions:
J.	Engaging in Fund based activity other than broking activity	8(3)(f) of Securities Contracts (Regulation) Rules, 1957 read with Point 7 of BSE notice no. 20220107-45 dated 07 Jan'2022
K.	Engaging as a principal or employee in a business other than that of securities involving personal financial liability	Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957, SEBI circular SMD/POLICY/CIR-6 dated May 7, 1997 read with NSE circular NSE/COMP/50957 dated January 07, 2022 and BSE Notice No.20220107-45 D January 07, 2022

3. Based on the findings of the said inspection, a DA was appointed to inquire into and to submit a report pertaining to the aforesaid allegations. The DA issued a show-cause notice (hereinafter referred to as “**SCN**”) dated April 15, 2024 to the Noticee under Regulation 25(1) of the Intermediaries Regulations to show cause as to why appropriate recommendation should not be made against it in terms of Regulation 26 of the Intermediaries Regulations for the violations alleged to have been committed by the Noticee, as mentioned above at Table No. 1. The Noticee was advised to submit its reply, if any, within 21 days of receipt of the SCN.
4. The Noticee, vide its letter dated June 06, 2024 submitted a detailed reply to the aforesaid SCN. Pursuant to the receipt of the said reply, an opportunity of personal hearing was granted to the Noticee to appear before the DA on July 05, 2024. The authorized representative of the Noticee appeared for the scheduled hearing and reiterated the submissions already made vide its letter dated June 06, 2024.
5. After considering the allegations levelled in the SCN, reply filed by the Noticee, arguments made during the hearing and the material available on record, the DA, submitted the Enquiry Report and made the following recommendation:

“...the aforementioned non-compliances by the Noticee do not constitute grave violations nor are there any findings that the Noticee repeated the violation. In many instances, the Noticee is observed to have taken corrective actions. Further, Noticee has been penalised vide Adjudication

Order No. Order/BM/JR/2024-25/30665 dated August 21, 2024. Given the above, I am of the view that the matter may not be proceeded further.”

6. The DA report was forwarded to the Noticee in terms of Regulation 27(1) of the Intermediaries Regulations vide Notice dated October 01, 2024. It was stated in the said Notice that if the Noticee wishes to file any submission/information along with any supporting documents, it may do so within 21 days from receipt of the said Notice and pursuant thereto, the matter would be proceeded with in accordance with Regulation 27(5) of the Intermediaries Regulations.
7. The Notice was delivered to the Noticee through speed post as well as through email dated October 01, 2024. The Noticee filed its response thereto vide letter dated October 28, 2024.

CONSIDERATION OF ISSUES

8. I have perused the Enquiry Report along with the Notice dated October 01, 2024, the SCN issued by the DA and the replies filed by the Noticee and other material available on record. In the instant proceedings, the DA has not recommended any action against the Noticee and observed that the matter is not required to be proceeded further.
9. The SCN issued by the DA had made allegations on eleven counts as mentioned above at Table 1. The DA observed that all the allegations levelled against the Noticee except the allegation on the count of the ‘*Member engaged as a principal or employee in a business other than that of securities involving personal financial liability*’ stand established.
10. I note that in response to the Notice dated October 01, 2024 the Noticee has *inter alia* submitted the following.

A. Monthly / Quarterly settlement of accounts.

- a. All the accounts selected for scrutiny were settled, however, there was a delay in settlement in 29 instances. Of the 29 instances, 15 instances were such where the delay was up to 5 days and this might have happened on account of weekends and holidays.
- b. For other instances, the delay was inadvertent and the accounts have been eventually settled. All the instances recorded in the SCN are extremely negligible and do not form a major part of the entire activity as it involves only 29 clients which comes to a negligibly small 0.003% of the total settlement done. It has settled 8,79,712 accounts by making payment of ₹ 2065.15 Crores.
- c. None of the clients have ever complained that it had failed to make payments to them.
- d. The issues are technical in nature and also venial taking into account the size and nature of its business.
- e. Sending of retention statement is an automated process and the same happens within the stipulated time. However, due to some technical reasons, in 16 instances, there was a delay beyond 5 days only in issuance of retention statement and not in settlement of accounts, which was of utmost importance. In 6 instances, the statements were sent within 7 or 8 days instead of 5 days (permitted period), which should be treated as compliant as there were holidays in between.
- f. For other instances, the delay in sending retention statements may be because of soft bounce and/or technical issues.
- g. It issues daily margin statements and all other requisite documents to the clients regularly. The daily margin statement contains complete details of the available funds and securities along with margin consumption. This information is similar to retention statement where all these three important details are shared.
- h. None of the clients have ever complained.
- i. It has a process of Enterprise Risk Management where the Risk Committee reviews all areas of operations and prefers to pay special

attention to observations highlighted during inspection. This ensures improvement in processes to ensure non-recurrence of such instance. It has been subjected to another comprehensive inspection by SEBI, the Exchanges and the Depositories for the period from April 01, 2022 to December 31, 2023 wherein no major observation was found.

- j. It has incorporated the process of reconciliation for the issuance of various statements including the retention statement. Thus, the processes and controls have been put in place to ensure non-repetition of similar observations in future.
- k. For incorrect retention statement sent to SWATIJNN, it is submitted that the amount of ₹18,00.54,246.60 was included in the retention statement as it was towards the settlement of account and was given as a payout to the clients and hence, was included in the statement dated July 06, 2021. The amount of ₹18,00,00.000.00 received on July 07, 2021 was rightly not included and could not have been included in the retention statement as on July 06, 2021.
- l. For non-settlement of 8 inactive clients, 4 accounts were not settled for valid reasons. For the other 4 clients, balance of ₹ 285.46 remained unsettled due to technical reasons but the same were eventually settled in short span of time.

B. Stock Reconciliation

- a. Reconciliation is necessary to identify the differences and does not mean both have to match. For instance, "cheques issued but not deposited" is a reconciliation record for difference between bank book and bank statement. There are bound to be differences in back office of the broker and the demat statements. Reconciliation needs to be available where the reasons for differences are identified and explainable.
- b. On July 29, 2022, the clients (client code INVESTPR and JNAND519) preferred an early repay. Despite the fact that the shares were delivered from the Client DP Account, the same were considered in our Back Office Holding report as the normal repay date was July 30, 2022

and hence there was a mismatch with Demat holding. During this period, the stock remained as a reconciliation item as aforesaid which is a correct treatment.

- c. Reconciliation is the process of identifying the entries that resulted in a difference and does not mean exact matching of 2 statements. If that was so, then there was no reason for reconciliation in accounting or book keeping. Reconciliation means matching the difference with identified records and the same has been done in this case as evident from the aforesaid submission.
- d. Without prejudice to the forgoing, SEBI is requested to consider it as a one-off case and a very small portion 0.01% of the entire holding of 2,67,10,170 shares of a value about ₹ 120.73 Crores, and the reason for the same is also identified and it is not a case that the Noticee was unaware of the reasons of differences.

C. Closure of Client Collateral Account

- a. The demat account no. 12044700 11416964 is a Corporate TM/CM CMPA (Trading Member/ Clearing Member Client Margin Pledge Account) which was opened on July 27, 2020 under new guidelines issued by SEBI/ Exchanges and therefore was not required to be closed.
- b. The demat account no 12044700 11417379 could not be closed as it had 38 shares of Fairchem Organics Limited pledged in his account. The said account had no free security balance but pledge balance of ISIN no. INE0DNW01011 (Fairchem Organics Limited) which was received on account of corporate action. The account was never used for any other purpose after August 31, 2020 and after identifying the beneficial owner of original pledged shares, the shares received on account of corporate action were unpledged/ transferred to the clients' demat account and the said account was closed on 20 October 2022.

D. Client Unpaid Securities Account Verification

- a. In case of 8 clients, the securities could not be transferred to the clients as their new registered demat account was closed/freeze. After receipt of the new demat account details, the stocks were transferred. The Noticee has demonstrated that it had attempted delivery of the shares to the client which failed. Thus, there was no intention to retain the shares.
- b. In case of 9 clients, they held normal trading account as well as Margin Trading Facility ("MTF") account. The transactions under scrutiny are MTF transactions and not normal trading transactions. SEBI has relied on the normal ledger to suggest that client did not have debit balance. The securities purchased under MTF facility are required to be pledged in favor of 'Funded Securities Demat Account', which is possible only after the client provides us the OTP confirmation of advance pledge. The stock is thereafter transferred to the client's demat account so that it automatically gets pledged in the favor of 'Funded Securities Demat Account'. If the payout is released without OTP confirmation, then the securities will not be pledged in the favor of 'Funded Securities Demat Account' and consequentially will result in a credit risk and violation of Margin Trading requirement. Therefore, the shares were rightly transferred to Client unpaid securities account (CUSA) account till the OTP confirmation was received or the normal ledger shows credit balance. In respect of 9 instances, the clients have not provided OTP confirmation by T+2 days. Hence, the shares were held in CUSA Account. Consequently, upon normal ledger shows the credit balance, the shares were immediately transferred to the Demat account.
- c. For 2 clients viz. 56547746 and SIRIGTS5 inadvertently, shares were held in CUSA account on behalf of these clients and upon reconciliation the shares were transferred to the client's demat accounts.
- d. In respect of 4 clients, the shares were inadvertently held in CUSA account.

- e. Without prejudice to the forgoing, it is submitted that the requirement of CUSA was put in place to ensure that the shares of the clients are adequately segregated and not misused or co-mingled with the shares given as margin. In the current case, the shares of the clients have been kept safely and have been transferred to them as and when the details were made available by the clients.

E. Reporting and short collection of Margin

- a. Of the lakhs of clients, only 1 instance has been identified which substantiates that we have strong processes of collecting and reporting of margins.

F. Passing of Penalty on Short Reporting of Margin

- a. 'Upfront Margin' is required to be collected before the trade and in such case, the rate of margin should be that as applicable at the time of the trade and not thereafter.
- b. The VAR and SPAN files are released multiple times during the day and at the end of the day. If a client transacts in the morning, he has to pay upfront margin applicable at that time and his trade takes place. However, the Exchanges have somehow treated margins applicable at the end of the day / max margin of the day as upfront margins, which is grossly beyond the requirements of upfront margin.
- c. Further, in case, the clients have not traded and merely carried forward their positions from one day to another, the SPAN and ELM keep on changing and in these cases the latest applicable margins are treated to be "Upfront Margin" which is completely against the established principle that "Upfront Margin means the margin applicable at the time of the trade.
- d. The Exchanges and Clearing Corporation too have understood that they had taken an incorrect stand while arriving at 'upfront margin' and subsequently modified the requirement to the extent that beginning of day ("BOD") margin file will be applied to all the trades so that there is

no variation in rates of margin during the day and anomaly of upfront margin can be resolved.

- e. After understanding of the issue at exchange/clearing corporation end, the things were set right prospectively. For the huge amount of penalty which was collected from us in the name of upfront margin, the exchanges/CCs ought to be called to refund the amount so that the same can be refunded to the clients.

G. Verification of Daily Margin Statements.

- a. There was an inadvertent error only in two instances and the same has been taken care of.

H. Margin Trading Funding Verification.

- a. The DA Report has expressed reservation on interpretation of the word 'Exposure' giving it a narrow interpretation, but fails to find any fault with our interpretation and thus our interpretation is correct.
- b. The total exposure was less than the permitted maximum allowable exposure and thus there was no breach of the SEBI Circular.

I. Analysis of Weekly Bank Balances and Cash & Cash Equivalents.

- a. The Enhanced supervision was put up in place to enable the Clearing Corporation to monitor that the trading members always have balance with Clearing Corporation and Banks in excess of the total amount of credit balance of all clients.
- b. For 3 instances, the balance reported by us was in excess of available balance. This was on account of the fact that un-cleared amounts were included inadvertently. However, G remained positive in spite of considering a higher amount to the credit of these clients.
- c. In one instance, the amount of ₹ 39,99,99,000 was maintained in a separate margin deposit account other than the normal trading account of the client and as a result the same was not included as there was no specific guideline to include this separate ledger while reporting the

amounts. However, after being guided by the Exchanges, the balance in margin deposit account is being reported.

- d. The errors are technical in nature and do not constitute violation of SEBI Circular dated September 26, 2016 as alleged.

J. Engaged in Fund based activity other than broking activity

- a. There is nothing in the SCN that substantiates that the Noticee has borrowed money from its clients either by way of an agreement or arrangement.
- b. It is mandatory that clients deposit sufficient margins with Trading Members before executing transactions. In the instant case, the clients have given margin for transacting while the SCN wrongly records that the Noticee was collecting funds from clients whereas, the fact remains that funds were transferred from respective clients bank account to its account as margin deposit towards trading exposure or limit and it do not have any control over the bank account of these clients.
- c. With respect to payment of interest, it is submitted that the same is as per mutually agreed terms. Such interest payment is permitted under Law.
- d. Regarding the creation of FDs, it is submitted that it has large no. of FDs which are placed with banks and clearing corporations and a part of it is allocated to the respective clients. Making a separate FD for each client is neither warranted nor feasible ad not even mandated in the Regulations.
- e. The payments made to the clients on a day to day basis are as per the request of the client and do not constitute interest.
- f. With regard to the funds received by clients from IIFL Finance Limited, it is submitted that IIFL Finance is a NBFC, a separate entity regulated by RBI. It is possible that some of the clients would have approached IIFL Finance for funding. However, there is no restriction on clients to do borrowing from any bank, NBFCs, etc.

- K. It is further submitted that most allegations do not hold good and even if a few still remain, those are technical and venial in nature and have not caused any

prejudice to the clients or markets at large. The procedural lapses be seen in the context of the overall scale of operations handled by it and the various compliance measures adopted by it. Further, on becoming aware, immediate steps have been taken to rectify the same and avoid any recurrence.

- L. The Noticee has also cited various Orders passed by SEBI in the past, where similar procedural/technical violations were condoned by SEBI and simple warning has been issued to the brokers.
11. After perusal of the aforesaid submissions made by the Noticee, I note that the same submissions were made by it before the DA, who, after examining the same, has made her recommendation in the Enquiry Report. I note that the Noticee, while denying most of the allegations, has submitted that even if few allegations still remain, those are of technical and venial in nature and have not caused any prejudice to the clients or markets at large. It is also submitted that the procedural lapses ought to be seen in the context of the overall scale of operations handled by the Noticee and the various compliance measures adopted by it. Be that as it may, the fact of the violations being technical and venial in nature, does not absolve the Noticee from its liabilities. However, at the same time, it is noted that for the same set of allegations, adjudication proceedings were also initiated by SEBI which were concluded with passing of Adjudication Order dated August 21, 2024 whereby, the Adjudicating Officer imposed a penalty of ₹ 11,00,000 upon the Noticee, which has been paid by it.
12. In her report, the DA has also observed that the non-compliance by the Noticee did not constitute grave violations, nor are there any findings that the Noticee repeated the violations. Further, the DA has also acknowledged that the Noticee has taken corrective actions.
13. Therefore, considering the totality of the circumstances, I agree with the recommendation made by the DA that no action is warranted in this case and the matter is not required to be proceeded further.

14. In view of the above, I, in exercise of the powers conferred upon me under Section 19 of the SEBI Act, 1992 read with Regulation 27(5) of the Intermediaries regulations, dispose of the proceedings initiated against the Noticee, IIFL Securities Limited without issuance of any direction.
15. A copy of the Order shall be served on the Noticee and the Market Infrastructure Institutions concerned for their information and record.

Sd/-

DATE: JANUARY 17, 2025
PLACE: MUMBAI

AMARJEET SINGH
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA