Before the
Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra East, Mumbai – 400051
held on March 8, 2022
In the matter of the Trading Member LKP Securities Limited

QUORUM:

Ms. Mona Bhide	- Chairperson
Mr. K Narasimha Murthy	- Committee Member
Ms. Anuradha Rao	- Committee Member
Mr. Ranganayakulu Jagarlamudi	- Committee Member

ALSO PRESENT:

Ms. Priya Subbaraman	- Chief Regulatory Officer
Dr. Dinesh Kumar Soni	- Senior Vice President – Regulatory
Mr. Suresh Nair	-Vice President- Regulatory- Enforcement

BACKGROUND

1. **LKP Securities Limited** ("**Noticee**") is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") segment since July 1995, Futures & Options ("**F&O**") segment since August 2003 and Currency Derivatives ("**CD**") segment since August 2008.

2. The Exchange conducted a regular inspection of the books of accounts and records of the Noticee covering the period between January 1, 2020, and December 31, 2020, from January 2021 to April 2021. Post-inspection, the Exchange issued a show-cause notice ("**SCN**") bearing reference no.NSE/INSP/CMFOCDS/REG/20-21/SC/07200 dated July 19, 2021, for the non-compliances with the regulatory provisions. The Noticee, vide email dated August 14, 2021, replied to the SCN.

INSPECTION OBSERVATIONS/ALLEGED VIOLATIONS

3. The observations/alleged violations mentioned in the SCN are summarized hereunder:

   3.1 The misuse of clients' funds as on July 14, 2020, and July 17, 2020, involving Rs.28.28 crores and Rs.3.40 crores, respectively.

   3.2 Misuse of client's bank accounts for purposes other than specified in 1 instance out of 2,58,596 total instances verified on a sample basis (0.0004%) as on July 14, 2020, involving Rs.5 crores.

3.3 Use of Client Unpaid Securities Account (CUSA) for a purpose other than specified in 24 instances pertaining to 4 clients out of 131 total instances pertaining to 10 clients verified on a sample basis (18.32%) involving Rs.57.79 crores.

3.4 Engagement as a principal in a business other than that of securities involving personal financial liability as of December 31, 2020, involving Rs.1.49 crores.

3.5 Funding of clients' transactions in 3 instances out of 35 total instances verified on a sample basis (8.57%) involving Rs.0.63 crores.

3.6 Non-settlement of clients' funds and securities in 4 instances out of 100 total instances of active clients verified on a sample basis (4%) involving Rs.31.18 lakhs and in case of 797 inactive clients out of 10,499 total inactive clients (7.59%) involving Rs.1.48 crores.

3.7 False reporting of margin collected from clients in 2 instances out of 75 total instances verified on a sample basis (2.67%) involving Rs.14,011/-.

3.8 Non-reconciliation of funds lying in a suspense account, involving the closing balance of Rs. 42.3 lakhs as on December 31, 2020.

3.9 Discrepancies in daily margin statements issued to clients in 4 instances out of 5 total instances were verified on a sample basis (80%) involving differences ranging between (-ve) Rs.1.26 lakhs to (-ve) Rs.60.00 lakhs.

3.10 Incorrect reporting towards weekly holding statements in 85 instances as on December 31, 2020.

3.11 Incorrect reporting toward weekly monitoring of clients' funds under 6 areas as on July 17, 2020, and December 24, 2020, under the Enhanced Supervision of Stock Brokers.

3.12 Incorrect reporting toward monthly balances of clients' funds and securities as on December 31, 2020, under the Enhanced Supervision of Stock Brokers.

PRESENT PROCEEDINGS BEFORE MCSGFC

4 The Exchange, vide email dated March 2, 2022, granted the Noticee an opportunity for a personal hearing before the Committee in its meeting dated March 8, 2022. On behalf of the Noticee, Mr. Pratik Doshi, Designated Director, Mr. Alpesh Dangodra, Chief Financial Officer, and Ms. Sunita Ambavkar, Compliance Officer, appeared before the Committee and made the following oral submissions:

4.1 Misuse of clients' funds

a. The observed violations pertained to the period when the stringent lockdown was imposed due to the pandemic, and its staff was not operating under full capacity. As a result, Noticee's functions and paperwork were adversely affected.

b. The Noticee reiterated that it does not engage in proprietary trade, and thus the clients' funds were not mis-utilized for proprietary trading.

c. Further, it assured that the observed violations were not intentional and that its 'G' calculation remained surplus post-Covid.

4.2 Use of client bank accounts for purposes other than specified.

a. The Noticee reiterated that it has a short-term loan arrangement with "LKP Finance Limited" for margin purposes.

b. However, while returning the loan, Rs. 5 crores were inadvertently transferred from the client bank account to LKP Finance Ltd. instead of the proprietary bank account.

4.3 Engagement in a business other than that of securities involving personal financial liability

The Noticee reiterated that a sum of Rs.1.16 crores was used during the pandemic for online payment of government dues for a group company, namely "Bhavana Holdings Private Limited," which did not have an online payment facility. Further, the said sum was returned to the Noticee within a week and was not used by the group company for any other purpose.

REGULATORY PROVISIONS

5. At the outset, it is appropriate to refer to the relevant regulatory provisions alleged to have been violated by Noticee; extracts of which are reproduced below:

5.1. Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957

8. The rules relating to admission of member of a stock exchange seeking recognition shall inter alia provide that:

(3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if:

(f) he engages either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability, provided that—

1. the governing body may, for reasons to be recorded in writing, permit a member to engage himself as principal or employee in any such business if the Member in question ceases to carry on business on the stock exchange either as an individual or as a partner in a firm,

2. in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for severing their connection with any such business,

3. nothing herein shall affect members of a recognized stock exchange which are corporations, bodies corporate, companies or institutions referred to in items (a) to (k) of the proviso to sub-rule (4).]

5.2. Exchange Regulations (CM and F&O Segments)

Regulation 3.10 (a) of F&O and Regulations 3.9 of CM Segments

The Trading Members must demand from its constituents the margin deposit which the member has to provide under these Trading Regulations in respect of the business done by the Members for such constituents.

Regulation 4.5.3 (e) of Exchange Regulations (CM and F&O Segments)

No Trading Member or person associated with a Trading Member shall make improper use of the constituent's securities or funds.

Regulation 6.1.5 (c) of Exchange Regulations - Part A (CM Segment) and Regulation 6.1.6.2 of Exchange Regulations (F&O Segment)

(ii) Money to be paid into "clients account": No money shall be paid into clients account other than

A. money held or received on account of clients
B. such moneys belonging to the Trading Member as may be necessary for the purpose of opening or maintaining the account.
C. money for replacement of any sum which may by mistake or accident have been drawn from the account.
D. a cheque or draft received by the Trading Member representing in part money belonging to the client and in part money due to the Trading Member.

(iii) Moneys to be withdrawn from "clients account": No money shall be drawn from clients account other than –

A. money properly required for payment to or on behalf of clients for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Trading Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client.

B. such money belonging to the Trading Member as may have been paid into the client account under para (ii. B) and (ii. D) above. money which may by mistake or accident have been paid into such account.

5.3. Exchange Circular No. NSE/INSP/10367 dated February 28, 2008

All Clearing Members and Trading Members in the F&O segment are required to collect initial margins from all the Trading Members/Constituents whose transactions are settled by them and also to report on a daily basis, details in respect of such margin due and collected.

5.4. Exchange Circular No. NSE/INSP/13606 dated December 3, 2009

Unless otherwise specifically agreed to by a client, the settlement of funds/securities shall be done within 24 hours of the payout. However, a client may specifically authorize the stockbroker to maintain a running account subject to inter alia the following condition:

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.

5.5. Exchange Circular No. NSE/INSP/29096 dated March 11, 2015

Members are advised to ensure that the funds & securities available in the client bank/s and client beneficiary account/s together with balances available with clearing Member and funds with clearing corporation are always not less than the funds and securities payable to the client at all time.

5.6. Exchange Circular No. NSE/INSP/33276 dated September 27, 2016

2.4.2. Transfer of funds between "Name of Stockbroker - Client Account" and "Name of Stockbroker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stockbroker - Client Account" to "Name of Stockbroker - 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 stockbroker, etc. For such transfer of funds, stockbroker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.

2.6. *Stockbrokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in.*

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

MC-Aggregate value of margin utilized for positions of credit balance clients across Stock Exchanges

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

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

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

$$G = (A+B)-C$$

7. *Uploading clients' fund balance and securities balance by the Stock Brokers on Stock Exchange system. The Stock Exchanges shall put in place a mechanism and ensure that stockbrokers upload the following data on a monthly basis for every client onto each Stock Exchange system where the broker is a member*

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

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

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

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

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

5.7. Exchange Circular No. NSE/INSP/35184 dated June 23, 2017

Stockbrokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, or as may be issued from time to time

5.8. Exchange Circular No. NSE/INSP/38154 dated June 27, 2018

2 Trading Members to collect initial margin, net buy premium, delivery margin & exposure margin from respective clients on an upfront basis and Mark-to-market losses (MTM) by T+1 day.

14. Where the upfront Margin/MTM Losses had not been collected by the trading Member in any of the applicable modes prescribed above, however the same has been reported by the Member as collected; it would be construed as false reporting to the Exchange/NSCCL.

16 Members should send margin related information to their clients, which shall, inter-alia, include:

- *Client code and name, Trade-day (T)*

- *Margin deposit available for the client on day T (with break-up in terms of cash, FDRs, BGs and securities)*
- *Margin adjustments (including MTM losses) for day T after adjusting MTM profit if any.*
- *Margin status (balance with the member / due from the client) at the end of T-day.*

Such margin related information (daily margin statement) should be issued by Members to clients on a daily basis at the end of the trade day (T-Day) itself or by such timelines as may be specified from time to time.

5.9. Exchange Circular No. NSE/INSP/39393 dated November 13, 2018

Exchange shall seek periodic upload of day-wise Holding Statement in the specified standard format. The periodicity of reporting shall be weekly. Members have to submit the data mentioned above for all calendar days of that week on or before the next four trading days of the subsequent week. This circular shall be applicable with effect from January 01, 2019

5.10. Exchange Circular No. NSE/INSP/39855 dated January 3, 2019

All Members were advised to comply with the requirement and upload the holding statement data electronically for all calendar days of the reporting week on or before the next four trading days of subsequent week through the Inspection module in the Member portal. The procedure for submission of the data was given in Annexure-1 of this circular.

5.11. Exchange Circular No. NSE/INSP/41359 dated June 20, 2019

4.2 With regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled – "client unpaid securities account" shall be opened by the TM/CM. Unpaid securities shall be transferred to such "client unpaid securities account" from the pool account of the concerned TM/CM.

4.3 The securities kept in the 'client unpaid securities account' shall either be transferred to the de-mat account of the respective client upon fulfilment of client's funds obligation or shall be disposed off in the market by TM/CM within five trading days after the pay-out.

5.12. Exchange Circular No. NSE/INSP/42229 dated September 27, 2019

As per circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 securities kept in the 'client unpaid securities account' shall either be transferred to the de-mat account of the respective client upon fulfilment of

client's funds obligation or shall be disposed-off in the market by TM/CM within five trading days after the pay-out.

5.13. Exchange Circular No. NSE/INSP/43069 dated December 31, 2019

Exchange issued the clarification in the form of frequently asked questions on margin collection and reporting.

1. What margins are required to be collected by Trading Members from clients in the Capital & Derivatives Segment?

F&O segment
In the F&O segment, it is mandatory for Trading Members to collect initial margin, net buy premium, delivery margin & exposure margin from respective clients on an upfront basis. It must be ensured that all upfront margins are collected in advance of the trade. Mark-to-market losses (MTM) shall be collected from clients by T+1 day.

16. What does false reporting of margin/MTM (non-compliance) mean?

The margins, including upfront margins / MTM losses, has not been collected/short collected by the Member in any of the applicable modes prescribed above; however, the same has been reported by the Member as collected. It would be construed as false reporting to the clearing corporation.

CONSIDERATION AND FINDINGS

6. The observations/alleged violations, the reply of the Noticee, and the findings of the Committee are as under:

6.1. **Misuse of clients' funds**

a. Upon verification of submissions made by the Noticee under the Enhanced Supervision of Stockbrokers as on July 14, 2020, and July 17, 2020, vis-à-vis the bank statements, trial balance, and records of the Exchange/Clearing Corporation/Clearing Member, the Exchange observed that the funds available with the Exchange/Clearing Corporation/ Clearing Member were insufficient to meet the Noticee's payables to clients, involving Rs.28.28 crores and Rs.3.40 crores as on July 14, 2020, and July 17, 2020, respectively.

b. In reply to the SCN, the Noticee has submitted the following:

i. It has diligently submitted all details according to the circulars issued by SEBI and the Exchange within stipulated timelines. However, the

Exchange generated no contemporaneous alerts when submitting data concerning negative “G” or misuse of clients’ funds.

ii. There was no malicious intent to utilize the funds of credit balance clients to meet the settlement obligation of debit balance clients.

iii. There has not been a single incidence of the client’s complaint against it for denial of limits of fund and securities withdrawal. If the funds were mis-utilized as alleged, the credit balance clients would not be able to take positions as the said funds would already have been consumed by other clients. However, no complaints have been received against the Noticee from credit balance clients regarding denial of funds and securities withdrawal. There has never been any single instance where clients with credit balances have been restricted in using their balance.

iv. The clients’ funds are kept in separate bank accounts maintained by the Noticee, and on receipt of funds from or payment made to clients, the same is credited or debited to respective client ledgers.

v. The funds of a particular client are never utilized for the obligation of any other client or for any other purpose.

vi. The violations observed by the Exchange have been resolved.

vii. The "G" calculation has remained surplus funds for almost all days of July 2021 and for all 52 weeks in 2020.

viii. The inspection observations, along with concerns expressed by the Exchange/Regulator have been placed before the Noticee’s board of directors.

ix. it does not undertake proprietary trading, and the said shortfall was caused due to a technical lapse.

x. Funds of clients have not been used in any manner detrimental to the interests of its clients.

c. The Committee finds as under:

i. Regulation 4.5.3 (e) of the Exchange Regulations provides that Trading Members or any persons associated with the Trading Member shall not improperly use constituent funds. Further principle 1 of Exchange circular No. NSE/INSP/33276, dated September 27, 2016, on Enhanced Supervision requires the Members to ensure that the total available funds, i.e., cash and cash equivalents with the stockbroker and with the clearing corporation/clearing member (A + B), should always be equal to or greater than Clients' funds as per client payables in Member’s books (C).

ii. The Noticee had a shortfall of client funds of Rs.28.28 crores and Rs.3.40 crores as on July 14, 2020, and July 17, 2020, respectively.

iii. The Noticee denied the observed violation and has contended that it does not indulge in proprietary trading. The same is unacceptable as the violation pertains to the misuse of funds of credit balance clients for meeting settlement obligations of debit balance clients or for their own purposes, including but not limited to proprietary trading.

iv. Additionally, the Noticee made a payment of Rs.5 crores from the client's bank account to LKP Finance Limited (a non-client entity) on July 14, 2020.

v. The Noticee's contention that there are no complaints against them for denial of limits of funds or withdrawal of securities or for restricting the credit balance client for using their credit balance funds is not relevant. The mere absence of any complaint does not validate the act of using the funds of the credit balance clients. Therefore, the non-availability of client funds to pay the credit balance clients indicates misuse of clients' funds.

vi. Further, the Noticee's contention that its "G" was surplus funds as, on December 24, 2020 (last date of inspection) to the extent of Rs.6.67 crores indicate the availability of funds as on December 24, 2020, does not absolve the Noticee from the violations arising from misuse of client funds prior to December 24, 2020. Further, the Noticee's contention that the Noticee has surplus funds on almost all days of July 2021 is also not relevant since the submissions are post-inspection period.

vii. The Noticee's further contention is that surplus funds were available for all 52 weeks in the year 2020, and in support, the Noticee has submitted the working of surplus 'G'. Upon perusal of the supporting documents, the Committee has not observed any working for July 14, 2020. Further, 'G' has shown surplus funds for July 17, 2020, without supporting documents, and the same is specifically dealt with under paragraph 6.11.

viii. The Noticee, in its oral submissions before the Committee, has attributed the shortfall to inadvertent errors caused due to a shortage of staff during the pandemic and in written submission attributed to technical lapses. The Noticee has further acknowledged that the violation observed during the inspection has complied.

d. Considering that the violation occurred during the peak covid lockdown and the Noticee reduced the shortfall from Rs.24.88 crores to Rs.3.40 i.e., within three days between July 14, 2020, and July 17, 2020, the Committee decided to take a lenient view in the matter and levy the prescribed penalty on shortfall as on July 17, 2020, involving Rs.3.40 crores (i.e., Rs.3,40,000/-).

6.2. **Misuse of clients' bank accounts for purposes other than specified.**

a. Upon verification of the clients' bank books as on July 14, 2020, the Exchange observed that the Noticee paid Rs.5 crores to a non-client entity, viz. "LKP Finance Limited," thereby misusing the client's bank account for purposes other than specified in 1 out of 2,58,596 total instances verified on a sample basis (0.0004%) as on July 14, 2020.

b. In reply to the SCN, the Noticee has stated the following:

i. A sum of Rs.5 crore was received from "LKP Finance Limited" for intra-day margin purpose in Noticee's own bank account (000483000000121), which was transferred to Noticee's client bank account (000483000000152), and after that to clearing bank account (ORBIS), on July 14, 2020.
ii. The Noticee returned the said sum to "LKP Finance Limited" on the same day by transferring funds from the clearing bank account to Noticee's settlement account (008620100012130) and after that to the client's bank account (008620100012126).
iii. However, due to oversight the funds have been transferred from the Client's Bank account to LKP Finance Limited instead of the Noticees Own Bank account.
iv. The Noticee passed a reversal entry backed by funds on the same day when the error was noticed.
v. Further, the observed violation pertains to 1 out of 2,58,596 total instances verified on a sample basis, amounting to 0.0000039% of the sample instances verified.
vi. The Noticee has assured future compliance.

c. The Committee finds as under:

i. Regulation 6.1.5 (c) of Exchange (CM) Regulations and Regulation 6.1.6.2 of Exchange (F&O) Regulations prescribes the purposes for which the money can be paid into or withdrawn from the clients' accounts. Further, Regulation 4.5.3(e) of the Exchange Regulations prescribes that the Trading Member shall not misuse clients' funds.
ii. By using the client bank account for paying Rs.5 cores to a non-client entity, the Noticee has mis-utilized the client's funds for a purpose other than specified, in violation of the said Regulations.
iii. The said use of the client's bank account in the instant case has led to misuse of clients' funds.
iv. The Noticee has accepted the inspection observations and has attributed the same to inadvertent human oversight due to which funds were transferred from the client's bank account to LKP Finance Limited instead of the Noticee's Own Bank account. However, the same is unacceptable as all Trading Members must ensure complete compliance with regulatory provisions.
v. The Exchange, vide an email dated February 23, 2022, has sought additional documents from the Noticee to support its claim regarding the reversal of the afore-stated transaction on the same day. The Noticee vide email dated March 4, 2022, provided statements for F&O settlement no. 008620100012130 and screenshot in a word document of account no.000483000000121, 000483000000152, and 008620100012130 and the bank statement for account 008620100012130, which did not show any transaction of Rs.5 Crores

as on July 14, 2020. The screenshot provided in the word document without actual bank statements cannot be relied upon.

d. The said transfer of Rs.5 crores has resulted in misuse of client funds, which has already been dealt with in paragraph 6.1. Given the above, the Committee decided that a combined penalty be imposed as mentioned under paragraph 6.1.

6.3. **Use of Client Unpaid Securities Account (CUSA) for purposes other than specified**

a. Upon verification of records of pay-in and pay-out from the Noticee's Client Unpaid Securities Account (CUSA), the Exchange observed that the Noticee parked securities received in advance from clients in the CUSA and subsequently transferred them to the Exchange for pay-in, thereby using the Client Unpaid Securities Account (CUSA) for a purpose other than specified, in 24 instances pertaining to 4 clients out of 131 total instances verified on sample basis pertaining to 10 clients (18.32%) involving Rs.57.79 crores.

b. In reply to the said SCN, the Noticee stated that:

i. It has a robust in-house system for regularly reconciling clients' holdings with the securities in the CUSA.
ii. The transfer to CUSA was solely to enable clients not having DP with the Noticee for selling of the shares.
iii. The Noticee did not hold power of attorney over the DP account for the said clients, and the clients were facing difficulty issuing delivery instruction slips daily during the pandemic.
iv. The observed violation pertains to 4 non-power of attorney ("POA") clients whose stocks were transferred to the Noticee's pool account against anticipated future sell obligation.
v. However, the shares which were not sold on the same day were lying in the pool account of the Noticee, which is not allowed. Hence the shares were moved from the pool account to the CUSA, which was the only account available to enable the clients to sell the shares the next day.
vi. Further, there was no risk of stock mismatch, and thus, the same does not violate the applicable provisions of the Exchange Circular.
vii. The Noticee has ensured that the said practice has been stopped, and any such type of giving any levy way to clients won't happen in future, and we would use the specific account for the respective purpose only.

c. The Committee finds, as under:

i. Exchange Circular No. NSE/INSP/41359, dated June 20, 2019, inter alia states that, "*With regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled – "client unpaid securities account" shall be opened by the TM/CM. Unpaid securities shall be transferred to such "client unpaid securities account" from the pool account of the concerned TM/CM."*

ii. By accepting the off-market securities to the Noticee's pool account and further transfer of the securities, which are not unpaid securities of those 4 non-POA clients, to the CUSA, from where it was further transferred to the Exchange for pay-in obligations, the Noticee has violated the provisions of the afore-stated circular.

iii. The Noticee has stated that the same was allowed to enable clients not having DP and POA with the Noticee, to access the market and sell their securities is not acceptable as Exchange Circular No. NSE/INSP/41359, dated June 20, 2019, prescribes that the CUSA must be used only to transfer unpaid shares of the clients from the respective pool account of concerned Trading Members or Clearing Members. The same shall therefore not be used otherwise.

d. Considering that there is no misuse of client funds and no prescribed penalty for the violations observed during the inspection, the Committee decided that the Noticee be warned to ensure non-recurrence of the observed violation pertaining to the use of CUSA for purposes other than specified.

6.4. **Engagement in a business other than that of securities involving personal financial liability**

a. Upon verification of the trial balance of the Noticee as of December 31, 2020, the Exchange observed that the Noticee extended a loan of Rs.1.16 crores to a group entity viz. "Bhavana Holdings Private Limited" (Group Company) during the inspection period and has failed to recover an outstanding loan of Rs.0.33 lakhs pertaining to "CLT Investments Private Limited" and "Prime Securities" since the last inspection conducted by the Exchange in the F.Y. 2017-18, thereby engaging in a business other than that of securities. Further, the Noticee has also incurred personal financial liability by obtaining an overdraft facility.

b. In reply to the said SCN, the Noticee has stated that:

i. One of its group companies, viz. "Bhavana Holdings Private Limited" did not have any online payment facility. Thus an online payment of

Rs.1.16 crores was made by the Noticee towards government dues on behalf of the Group Company during the pandemic.

ii. The said payment was made after receiving money from the Group Company and only to enable timely payment.

iii. Further, with respect to the outstanding loan of Rs.0.33 lakhs pertaining to "CLT Investments Private Limited" and "Prime Securities," the Noticee stated that an ECL provision against the said sum was created in the balance sheet in the financial year 2018-19.

iv. However, despite the said provision, the balance will be reflected in the trial balance until it is written off in the books of accounts.

v. The Noticee contended that no fresh funding was extended to "CLT Investments Private Limited" and "Prime Securities." The said loan was covered during the previous inspection, where the Noticee accepted and explained the said violation to the Exchange.

c. The Committee finds, as under:

i. Rule 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957 provides that no Trading Member shall engage as a principal or as an employee in business other than that of securities involving personal financial liability.

ii. The Noticee has contended that the sum of Rs.1.16 crores was used to pay government dues of a group company, and a provision has already been created against the pending loan of Rs.0.33 lakhs. Thus, there is no new loan.

iii. The Noticee's contention regarding the non-availability of an online payment facility is not acceptable. Further, the payments utilized only towards government dues are not entirely correct since the Exchange has observed payments other than GST in the trial balance.

iv. Upon verification of the trial balance for the inspection period (January 1, 2020, and December 31, 2020), the Exchange observed that the Group Company account is showing an outstanding balance of Rs.18.73 Lacs as on December 31, 2020.

v. Given the above, the Noticee's contention that payments on behalf of Group Company were made only after receiving money from Group Company either upfront or within a week is not correct.

vi. The Exchange, vide an email dated February 23, 2022, sought details of all the three relevant parties and supporting documents to verify claims made by the Noticee. The Noticee has provided the ledgers of the said 3 entities, which shows that the loans were recovered in the case of Group Company and were written off in the case of the other two entities in March 2021. Further, post-inspection compliances did not absolve the Noticee from the violations observed during the inspection.

vii. By extending a loan of Rs.1.16 crores to a Group Company and failing to recover the outstanding loan amount of Rs.0.33 lakhs from "CLT

Investments Private Limited" and "Prime Securities," the Noticee has violated the provisions of the said Rules.

d. Considering that a penalty has already been levied for the funds advanced to "CLT Investments Private Limited" and "Prime Securities," by the MCSGFC order dated June 6, 2020. The Noticee recovered the funds extended to a Group Company in March 2021, and no interest was earned from the loan extended to the Group Company, the Committee decided that the Noticee be warned to ensure non-recurrence of the observed violations pertaining to engagement as a principal in business other than that of securities involving personal financial liability.

6.5. **Funding of clients' transactions**

a. Upon verification of the financial ledgers of the Noticee's clients, the Exchange observed that the Noticee granted further exposure to clients having debit balance beyond 5 days from the date of pay-in, in 3 instances of 3 clients out of 35 total instances verified on a sample basis of 35 clients (8.57%) involving Rs.0.63 crores.

b. In reply to the said SCN, the Noticee has stated that:

i. The management intends to liquidate the debit balances through a sale if the same is not received within T+2+5 days. Clients' trading is restricted in such cases, and old outstanding positions are liquidated before granting any further exposure to debit balance clients.
ii. No client was favored in the observed instances.
iii. In the case of Vijay Ranchhod Rathod involving Rs.47,22,786/-, further exposure was granted due to a technical glitch.
iv. In the case of Gayatri Ashutosh Sapre involving Rs.8,81,235/-, the debit balance pertains to carry forward of MTM for the open derivative position. The debit balance was partially cleared by selling stock on November 23, 2020.
v. In the case of Bharti Vikramkumar Jain involving Rs.6,76,018/-, the client partially cleared the debit balance on November 23, 2020, and the residual balance was recovered on November 24, 2020.
vi. The Noticee has requested the Exchange to consider the practical challenges faced while liquidating the securities and stated that it has complied with all the 3 instances post-inspection.

c. The Committee finds, as under:

i. The Exchange Circular No. NSE/INSP/33276, dated September 27, 2016, provides that no further exposure shall be given to clients when the debit balances arising out of the client's failure to pay the required

amount and such debit balances continue beyond the fifth trading day, as reckoned from the date of pay-in.

ii. As regards the claim of the Noticee that the exposure in the case of Gayatri Ashutosh Sapre (Client Code – 16180229) was on account of MTM was verified based on the contract note provided by the Noticee. Based on the contract notes submitted by the Noticee, it is observed that the claim of the Noticee is valid. Hence, the revised instances of non-compliance will be 2 instances involving Rs.53.99 lakhs.

iii. By granting further exposure to 2 debit balance clients beyond five days from the date of pay-in, the Noticee has violated the provisions of the said circular of the Exchange.

iv. The Noticee in its written submission has attributed the error to technical glitches, and difficulties in liquidating the securities are not acceptable. The Trading Members must avoid the same under all circumstances.

d. Considering the findings above, the Committee decided to levy a monetary penalty of Rs. 75,000 (Rs.50,000/-, + 50% escalation for repeated violation, i.e., Rs.25,000/-) on the Noticee for the observed violation pertaining to further exposure granted to debit balance clients.

6.6. **Non-settlement of clients' funds and securities**

a. Upon verification of the settlement declarations, clients' ledgers, trial balances, and register of securities of the Noticee, the Exchange observed that the Noticee failed to settle clients' funds and securities on a monthly/quarterly basis as per the preference of clients, for:

i. Active Clients: in 4 instances of 4 clients out of 100 total instances of 50 clients verified on a sample basis (4%) involving Rs.31.18 lakhs.

ii. Inactive Clients: for 797 clients out of 10,499 total instances verified on a sample basis (7.59%) involving Rs.1.48 crores.

b. In response to said SCN, the Noticee has stated that:

Active Clients

i. For 3 instances, funds were transferred to the client on the following day, i.e., a delay of 1 day occurred due to the internal payout approval matrix.

ii. For the remaining 1 instance, funds and securities were released on the settlement date, i.e., May 15, 2020. But due to some pending pledge balances, only free securities were released along with funds.

iii. Thus, the violation of non-settlement persists only in 1 instance, amounting to 1% of total instances verified on a sample basis.

iv. There was no intention of withholding the clients' funds and securities beyond the stipulated time, but the same was caused due to operational difficulties.

Inactive Clients

i. In 281 instances (35.26%) involving Rs.91,86,188/-, funds were received by the end of the quarter.
ii. In 458 instances (57.47%) involving Rs.45,96,589/-, settlement has been done.
iii. In 3 instances (0.37%) involving Rs.11,751/-, funds were transferred to an inactive client account as the clients were non-traceable.
iv. In 43 instances (5.40%) involving Rs.60,292/-, funds were retained for depository and other charges and settled on November 1, 2021.
v. In 3 instances (0.38%) involving Rs.1,09,987/-, dividend credit was received in December 2021, and the same was settled within 90 days.
vi. In 8 instances (1.003%) involving Rs.5,07,359/-, the ledger showed debit balances, and thus, settlement of securities was kept on hold.
vii. For 1 instance (0.125%) involving Rs.3,33,046/-, the client died, and the nominee/legal heir did not complete the requisite legal procedure for settlement.
viii. Further, the Noticee has stated that it is involved in the retail business with a vast clientele and has never mis-utilized clients' funds for other clients or indulged in proprietary trading. Thus, it had no malicious intent to keep the accounts unsettled.
ix. Noticee has requested that its efforts to settle clients during the pandemic, be considered while adjudicating the matter.

c. The Committee finds as under:

i. Active Clients: The Noticee's claim with respect to 3 active clients stating that the payout was released on the next day was verified and observed to be correct. Further, with respect to the remaining 1 active client (client code 51736), Noticee has attributed the non-settlement to the non-release of the securities pledged. The Noticee, has not provided complete details in the form of client ledger, statement of securities, and proof of delivery of these documents to the client in order to prove that the client was settled post-inspection.

ii. Inactive Clients:

I) 364 instances involving Rs.42.82 Lakhs – Noticee claimed they had settled these clients within the quarter. However, the Noticee has not provided relevant supporting documents in the form of client ledgers, statements of funds, and securities along with retention statements, and proof of dispatch of said statements, to

support their claim of settlement. Further, the said clients have not traded in the relevant quarter, and hence, no amount can be retained for these clients. Hence, the Noticee's submission is not acceptable.

II) 327 instances involving Rs.94.47 Lakhs – The Noticee's claim that it had received the funds/dividend in the last quarter was verified for sample instances. It was observed that Noticee had provided bank statements only in the case of 3 clients out of 10 clients verified. Hence, it cannot be concluded that the funds were received in the relevant quarter.

III) 51 instances involving Rs.1.64 Lakhs – Noticee has stated that the said clients have been settled post-inspection. However, Noticee has not provided relevant documents in the form of client ledgers, statement of funds, and securities, along with retention statements and proof of dispatch of said statements, to support their claim of settlement. In the absence of the relevant documents, the violations persist.

IV) For 43 instances involving Rs.0.60 Lakhs – Noticee's claim that the funds were retained against depository charges is not acceptable as retention of any amount towards administrative/operational difficulties in settling the accounts is not permitted.

V) For 7 instances involving Rs. 0.25 Lakhs – Noticee's claim that securities were not settled due to debit in ledger balance is not acceptable as the value of securities retained was more than the debit balance in the client ledger.

VI) For 3 instances involving Rs. 0.12 Lakhs – Noticee's claim that the clients were not traceable and hence funds of these clients were kept in a separate bank account was not supported by documentary evidence.

VII) For 1 instance involving Rs.3.33 Lakhs – Noticee's claim that the client was not settled due to a legal dispute was not supported by documentary evidence.

VIII) 1 instance involving Rs.4.82 Lakhs – Noticee's claim that the said account is not a client account is verified. The said account "Excess Rec. Client Account" is in the nature of a suspense account wherein funds/securities received from unidentified clients are parked. Since the said funds/securities belong to clients and Noticee has not settled the same, the contention of the Noticee is not acceptable.

iii. Given the above, the revised instances of non-settlement will be for 1 active client involving Rs. 0.13 lakhs and 794 instances involving Rs.1.40 crores (7.5% of the instances verified).

iv. Exchange Circular No. NSE/INSP/13606, dated December 3, 2009, provides that 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 selected by the client.

v. By failing to settle funds and securities of active and inactive clients, the Noticee has violated the provisions of the said circular.

d. Considering the findings above, the Committee decided to levy a monetary penalty of Rs. 67,500/- (Rs.45,000/- + escalation of 50% i.e., Rs.22,500/-) on the Noticee for violations pertaining to non-settlement of clients' funds and securities.

6.7. **False reporting of margin collected from clients**

a. Upon verification of Noticee's submissions towards margin collection vis-à-vis Noticee's clients' ledgers, bank statements, register of securities along with Exchange records, the Exchange observed that the Noticee falsely reported the margin collected from clients in 2 instances of 2 clients out of 75 total instances verified on a sample basis of 75 clients (2.67%) involving an amount of Rs.14,011/-.

b. In reply to the said SCN, Noticee has stated that:

i. It has ensured that sufficient margin is collected from the clients in advance as Initial Margin and MTM, and all other margins are collected within a given period of T+2 days, as per the prescribed rules and regulations of the Exchange.

ii. In 1 instance, the Noticee has denied the observations and has stated that the false reporting occurred on account of the difference in valuation of securities as per the Noticee and the Exchange

iii. As per the Exchange, the valuation of POA holdings was Rs.16,22,791/, and the shortfall reported was Rs.2,42,915/-, which has not been shared

iv. As per Noticee, the valuation of POA holdings was Rs.16,32,951/-, and the shortfall reported was Rs.2,32,755/-.

v. Thus, the difference in Exchange's vis-à-vis Noticee's calculations of the reported shortfall was Rs.10,160/-.

vi. In the remaining 1 instance, the Noticee admitted the observed violation and stated that the same occurred as the stock valuation of T-4 days was inadvertently captured instead of T-1 day by its back-office system due to oversight.

vii. The Noticee has assured future compliance.

c. The Committee finds as under:

i. The Exchange Circular No. NSE/INSP/38154, dated June 27, 2018, requires all Trading Members to report the upfront initial margins due

and collected daily. The Trading Members must ensure that their data towards the same are accurate, correct, and verifiable.

ii. By incorrectly reporting of margin collected from clients in 2 instances, the Noticee has violated the provisions of the said circular.

iii. The Noticee accepted the inspection observations in one instance and has stated that the same occurred due to oversight. The same is not acceptable, as the Noticee must verify data at their end before its submission to the Exchange to ensure compliance with regulatory provisions.

iv. The Noticee's contention that the Exchange has not provided the shortfall value of POA holding of Rs.2,42,915/- is not shared is unacceptable as the same was provided in the Preliminary Observation Sheet ("POS"). Post-consideration of Noticee's reply to the POS, the benefit of MTM settlement margin collection was extended to the Noticee, and the violation amount was revised to Rs.10,160/-.

v. The Noticee's has shared the POA holding calculation file supporting its POA valuation. Upon verification, it was observed that Noticee has considered the value of Rs.10,689/- for security with ISIN INE481K01021, which was delisted in November 2018. The value of the delisted ISIN mentioned by the Noticee cannot be considered without any valuation report. Therefore, Noticee's contention concerning the difference in POA stock valuation is also unacceptable, and no benefit for the said security extended to Noticee.

d. Considering the non-materiality of the amount involved, the Committee decided to warn the Noticee to ensure non-recurrence of the observed violation pertaining to incorrect reporting of margin collected from clients.

6.8. **Non-reconciliation of funds lying in the suspense account**

a. Upon verification of Noticee's trial balance as on December 31, 2020, the Exchange observed certain irregularities in the reconciliation of funds in Noticee's suspense account. A summary of entries passed in the Noticee's suspense account during the inspection period is as under:

i. Opening balance as on January 1, 2020 (credit) : Rs.13.25 lakhs
ii. Total debit during the year: Rs.9.30 crores
iii. Total credit during the year: Rs.9.59 crores
iv. Closing balance as on December 31, 2020: Rs.42.30 lakhs

b. The Noticee, in reply to the said SCN has stated that:

i. Clients, in most cases, directly deposit cheques in their bank account and do not even inform the branch or the HO about the same.

ii. A dedicated back-office team of the Noticee follows up with respective regions/branches and banks for the same regularly.

iii. However, despite the follow-ups, some un-reconciled amounts appeared in the suspense account.
iv. It is following up with the respective branches and banks for the same.
v. Further, the suspense account balance has been reduced to Rs.8.47 lakhs as on January 31, 2021, from Rs.42 lakhs as on December 2020.

c. The Committee finds as under:

i. The Noticee failed to reconcile the funds lying in the suspense account.
ii. The Noticee has attributed the non-reconciliation to the non-intimation by the clients of the deposits made.
iii. The Exchange, vide an email dated February 23, 2022, sought the suspense ledger to support its contention regarding reducing the suspense account balance. Based on the ledger provided by the Noticee, it was observed that the balance in the suspense account had been reduced to Rs.9.04 lakhs as on December 31, 2021.

d. Considering that there is no prescribed penalty, the Committee decided to warn the Noticee to ensure non-recurrence of the observed violations pertaining to non-reconciliation of funds lying in the suspense account with a direction to park funds lying in the suspense account in a separate Fixed Deposit.

6.9. **Issuance of daily margin statements to clients with incorrect details**

a. Upon verification of the daily margin statement issued by the Noticee to its clients, the Exchange observed that the Noticee recorded incorrect ledger balances in daily margin statements issued to 4 clients out of 5 total instances verified on a sample basis (80%) involving differences ranging between (-ve) Rs.1.26 lakhs to (-ve) Rs.60.00 lakhs.

b. In response to the said SCN, the Noticee has stated that:

i. It has a practice of issuing daily margin statements to all clients on the same day as per the requirement of the Exchange.
ii. In the reported instances, there was a bug in the back-office system. While generating statements on any given day, for an earlier date, Noticee's system showed balances of T+1 day instead of the balance as on the T-day.
iii. The said bug in the system has been notified to the software vendor for rectification, and the same will be resolved at the earliest.
iv. Further, fresh statements have been generated through the system and sent to clients.
v. The error was unintentional, and the Noticee has assured that the same will not recur in the future.

c. The Committee finds as under:

i. The Exchange Circular No. NSE/INSP/38154, dated June 27, 2018, provides that a daily margin statement shall be issued to clients at the end of the trading day. The Trading Member must include true and correct information concerning the clients' margin in the statements given to clients.
ii. By issuing daily margin statements with incorrect ledger balances, the Noticee has violated the provisions of the said circular.
iii. The Noticee has attributed errors in incorrect to system bugs. But the same is not acceptable as all Trading Members must verify data before issuing the same to the clients.

d. Considering the finding above, the Committee decided to levy a monetary penalty of Rs.40,000/- on the Noticee for violations pertaining to the issuance of daily margin statements with incorrect details.

6.10. **Incorrect reporting towards weekly holding statement**

a. Upon verification of the data submitted by the Noticee towards the weekly holding statement as on December 31, 2020, vis-à-vis the record of clients' holdings in the de-mat account as on December 31, 2020, the Exchange observed that the Noticee incorrectly reported data towards weekly holding statement, as under:

i. Securities available in the de-amt account but not reported in the weekly holding statement: in 74 instances involving Rs.5.47 crores
ii. Securities not available in the de-mat account but reported in the weekly holding statement: in 11 instances involving Rs.0.12 crores

b. In response to the SCN, the Noticee has provided instances wise reply as stated below:

i. It has a dedicated staff to look after reconciliation, and the team is doing the reconciliation of stock daily. However, most of the mismatches pointed out by the Exchange are unintentional and caused due to procedural errors.
ii. There is no malicious intention to mis-utilize the same for Noticee's own or any other purpose.

Securities available in the de-amt account but not reported in the weekly holding statement

i. In 9 instances involving Rs.90,650/- i.e., 0.17% of the total amount involved, corporate action was received but not captured in the back office.

ii. In 1 instance involving Rs.9,977/- i.e., 0.02% of the total amount involved, the rejection record of transfer from CUSA to the client's account was not updated in the back office.
iii. In 1 instance involving Rs.4,950/- i.e., 0.01% of the total amount involved, shares were held in BSE/NSE pool due to inter depository transfer restrictions in the back-office.
iv. In 5 instances involving Rs.6,018/- i.e., 0.01% of the total amount involved, fractional corporate actions received were not recorded in the back office.
v. In 51 instances involving Rs.32,09,364/-, i.e., 5.86% of the total amount involved, the own de-mat account is not operated for the broking operations.
vi. In 2 instances involving Rs.5,773/- i.e., 0.01% of the total amount involved, the records were erroneously captured in the holding statement.
vii. In 1 instance involving Rs.25,173/- i.e., 0.05% of the total amount involved, there was a mismatch.
viii. In 3 instances involving Rs.5,13,91,920/- i.e., 93.86% of the total amount involved, shares received towards the buy-back offer were not captured as the obligation was settled directly in the client account.
ix. In 1 instance involving Rs.9,785/- i.e., 0.02% of the total amount involved, stocks received in the pool account were not captured in the back office.

<u>Securities are not available in the de-mat account but are reported in the weekly holding statement.</u>

i. In 5 instances involving nil balance, delisted scrips' records were removed from the BO holdings, which were earlier reported in the holding.
ii. In 1 instance involving Rs.4,950/-i.e., 0.4% of the total amount involved, due to inter-depository transfer restrictions in the back-office, shares held in BSE Exchange NSDL Pool Account (10004177) were shown in CUSA account.
iii. In 1 instance involving Rs.12,00,598.9/- i.e., 97.0% of the total amount involved, Exchange has incorrectly calculated shares received towards internal shortages from seller client - COM09 and transferred it to respective buyer clients.
iv. In 1 instance involving Rs.140/- i.e., 0.01% of the total amount involved, records were erroneously captured.
v. In 2 instances involving Rs.30,969/- i.e., 2.50% of the total amount involved, there was a mismatch.
vi. In 1 instance involving nil balance, there are differences in SLB segment receivables.

c. The Committee finds that:

i. The Exchange Circular No. NSE/INSP/39393, dated November 13, 2018, provides that the Trading Members must upload a day-wise holding statement in the prescribed standard format, for all calendar days of the week, on or before the next four trading days of the subsequent week. The Trading Members must ensure that the data submitted towards the weekly holding statements are true and correct.
ii. By submitting incorrect data in the weekly holding statement in 85 instances, the Noticee has violated the provisions of the said circular.
iii. Noticee has accepted the inspection observation and attributed the same to non-reporting of own shares, shares received in corporate action and under buy-back offer not recorded in back-office, incorrect-capturing of shares received in Pool/CUSA and non-reporting of delisted shares.
iv. Thus, the violation persists.

d. Considering the findings above, the Committee decided to levy a monetary penalty of Rs.50,000/- on the Noticee for the observed violations pertaining to incorrect reporting towards weekly holding statements.

6.11. **Incorrect reporting toward weekly monitoring of clients' funds**

a. Upon verification of the data submitted by the Noticee towards weekly monitoring of clients' funds under Enhanced Supervision of Stockbrokers as on July 17, 2020, and December 24, 2020, the Exchange observed that the Noticee incorrectly reported funds balances under 6 heads, namely total of day-end balance in all client bank accounts, collateral deposited with the Exchanges in the form of cash and cash equivalents, total credit balance of all clients, total debit balance of all clients, margin utilized for positions of credit balance clients and free/unblocked collateral deposited with clearing corporation.

b. In response to the said SCN, the Noticee has stated that:

i. The back-office system generates bills on the same day for RMS purposes, but since it follows the settlement day billing pattern for accounting purposes, the bills were posted on a T+2 days basis in the CM segment and T+1 days in the CD segment. Thus, the system did not consider these client codes for reporting purposes.
ii. The Noticee has given an area-wise response for the violations observed.
iii. No specific submission was made for the total day-end balance in all client bank accounts.
iv. For collateral deposited with the Exchanges in the form of cash and cash equivalents, the difference occurred due to the non-consideration of MCX deposit balances during the inspection. Documentary evidence

for the same was not received from MCX despite reminders and follow-ups.

v. For the total debit and credit balances, the differences were due to consideration of balances of institutional clients and non-consideration of suspense account balances.

vi. For margin utilized for positions of credit balance clients, the difference occurred as the Noticee reported total margin obligation balance instead of reporting a minimum of credit balance and margin obligation balance. Further, even after considering the same, the value of 'G' remains in surplus. The same was caused due to a system error which has been rectified to capture correct balances in the system.

vii. For free/unblocked collateral deposited with the clearing corporation, the difference occurred as the file sent by the clearing member reflects higher figures. The Noticee has informed and has sought correct files from the clearing member regarding the same. It has been reported that the clearing member provided higher figures due to issues in implementing the pledge/re-pledge system.

viii. The Noticee has assured non-recurrence of the observed violations in the future.

c. The Committee finds that:

i. Exchange Circular No. NSE/INSP/33276, dated September 27, 2016, being the guidelines on Enhanced Supervision for Stockbrokers, requires the Members to submit the details towards weekly monitoring of clients' funds.

ii. The said circular casts an obligation on the Members to ensure that the submitted data is correctly verified at the Member's end.

iii. The Noticee has accepted the inspection violations and has attributed the same to deposits available in MCX for which no documentary evidence has been provided, the inclusion of the balances of institutional clients, reporting of total margin obligation instead of the minimum of credit balance and margin balance and receipt of file with incorrect details from Clearing Member.

iv. Noticee has failed in its obligation to submit correct data to the Exchange and thus, violated the provisions of the said Circular of the Exchange.

v. The Noticee's contentions are not acceptable as all Trading Members are expected to verify data at their end prior to submission to the Exchange to ensure compliance with regulatory provisions.

d. Considering the findings above, the Committee decided to levy a monetary penalty of Rs.25,000/- on the Noticee for the observed violations pertaining to incorrect reporting towards weekly monitoring of clients' funds.

6.12. **Incorrect reporting towards monthly monitoring of clients' funds and securities**

b. Upon verification of the Noticee's submission towards monthly monitoring of clients' funds and securities under Enhanced Supervision of Stockbrokers as on December 31, 2020, vis-à-vis the active clients' list, trial balance, register of securities, de-mat holding statement, and UCC records of the Noticee, the Exchange observed that the Noticee incorrectly reported funds and securities balances as under:

i. Mismatch in funds' balance as per Noticee's submission vis-à-vis Noticee's trial balance – in 7099 instances involving Rs.4.76 crores.
ii. Mismatch in securities' balance as per Noticee's submission vis-à-vis Noticee's back-office holdings – in 134 instances involving Rs.46.83 lakhs
iii. Mismatch in securities' balance as per Noticee's submission vis-à-vis securities in the de-mat account – in 46 instances involving an amount of Rs.46.83 lakhs.
iv. Mismatch in securities' balances as per Noticee's submission vis-à-vis securities' as per Noticee's weekly holding statement – in 159 instances involving an amount of Rs.50.96 lakhs.

c. The Noticee, in response to the SCN has provided an instance-wise reply as under:

Mismatch in funds' balance as per Noticee's submission vis-à-vis Noticee's trial balance

i. In 14 instances (0.19%), since only the active accounts are to be reported in the Exchange portal as per SEBI circulars, the closed accounts were not reported
ii. In 6788 instances (95.62%), since Exchange wise fund balances are to be reported in the Exchange portal, the fund balances of the said clients were not uploaded as they were registered only with BSE
iii. In 18 instances (0.25%), since Exchange wise fund balances are to be reported in the Exchange portal, the fund balances of the said clients were not uploaded as they were registered with NSE post-December 2020.
iv. In 266 instances (3.75%), funds were received at the end of the month, and thus, unclear balances were not captured in the report.
v. In 13 instances (0.18%), balances were not captured in the report due to bill reversal entry, SLBM trade, etc.

Mismatch between the securities' balances reported by the Noticee and its back-office holding

i. In 76 instances involving Rs.33,68,205/-, i.e., 71.9% of the total amount, the shares (Yes Bank) were under lock-in period, therefore were not captured in the back office.
ii. In 31 instances involving Rs.7,19,576/-, i.e., 0.46% of the total amount; clients registered only in BSE were not uploaded, as the SEBI circular requires Exchange-wise securities balances to be reported.
iii. In 5 instances involving Rs.22,000/-, i.e., 15.36% of the total amount, securities of Nippon India were delisted and removed from the BO holdings.
iv. In 6 instances involving Rs.5,285/-, i.e., 0.11% of the total amount due to reconciliation error, securities were incorrectly captured in the HS file.
v. In 4 instances involving Rs.1,01,000/-, i.e., 2.15% of the total amount, Bond MF transactions were not captured in the back office
vi. In 3 instances involving nil balance, the ISINs have been delisted
vii. In 3 instances involving Rs15,513/-, i.e., 0.33% of the total amount, there was a mismatch
viii. In 6 instances involving Rs.1,25,681/-, i.e., 2.68% of the total amount, the scrips were delisted, and the record was removed from the BO holding
ix. In 1 instance involving Rs.3,26,336/-, i.e., 6.9% of the total amount, unlisted corporate actions were not captured.

Mismatch in securities' balance as per Noticee's submission vis-à-vis securities in the de-mat account

i. In 1 instance involving Rs.34,93,887.6/-, i.e., 74.59% of the total amount, all securities are under lock-in and were thus, not captured.
ii. In 29 instances involving Rs.7,17,576/-, i.e., 15.32% of the total amount, clients registered only with BSE were not reported in the portal, as the SEBI circulars require Exchange wise securities balances to be reported.
iii. In 1 instance involving Rs.1,01,000/-, i.e., 2.15% of the total amount, bond/MF transactions were captured
iv. In 1 instance involving Rs.5,587/-, i.e., 0.11% of the total amount, corporate action received was not captured in the back-office.
v. In 1 instance involving Rs.9,926/-, i.e., 2.11% of the total amount, the rejection record for transfer from CUSA to clients' accounts is not recorded in the back office.
vi. In 1 instance involving Rs.4,985/-, i.e., 0.10% of the total amount, shares held in the BSE Exchange NSDL Pool Account (10004177) were

shown in CUSA account due to inter depository transfer restrictions in the back office.

vii. In 1 instance involving Rs.44.8/-, the corporate actions were erroneously captured in the holding file due to some error.

viii. In 1 instance involving Rs.3,50,336/-, i.e., 7.48% of the total amount, the scrip for Nippon India has been delisted, and thus, the same was removed from BO Holdings.

ix. In 6 instances involving nil balance, mismatch occurred as scrips/ISINs were delisted, reconciliation errors occurred, etc.

Mismatch in securities' balances as per Noticee's submission vis-à-vis securities' as per Noticee's weekly holding statement

i. In 77 instances involving Rs.34,74,101/- i.e., 68.16% of the total amount, all the shares are in the lock-in period, and therefore they were not captured in the monthly reporting file

ii. In 50 instances involving Rs.4,60,278/- i.e., 9.03% of the total amount, the SEBI circular requires Exchange wise funds balance to be reported on the Exchange portal. Therefore, these clients who were registered only with BSE were not included.

iii. In 6 instances involving Rs.2,14,828/- i.e., 4.21% of the total amount, Bond/ MF transactions were not captured in the BO.

iv. In 1 instance involving Rs.116.6/-, corporate actions received were not captured. The same was rectified after reconciliation.

v. In 2 instances involving Rs.76,737/- i.e., 1.50% of the total amount, records of delisted scrips were removed from the HS file.

vi. In 1 instance involving Rs.4,680/- i.e., 0.09% of the total amount, scrips were erroneously captured and were rectified after reconciliation.

vii. In 5 instances involving Rs.48.1/-, the error pertains to the unlisted Essar Steel Ind New ISIN.

viii. In 1 instance involving Rs.1,38,112/- i.e., 2.70% of the total amount, L&T Banking & PSU debt fund growth options were not captured.

ix. In 12 instances involving Rs.5,73,974/- i.e., 11.26% of the total amount, Nippon India has been delisted and removed from the BO holdings.

x. In 1 instance involving Rs.1,53,600/- i.e., 3.01% of the total amount, the error pertains to sub-broker security deposits kept in a client account and therefore were not reported.

d. The Committee finds that:

i. The Exchange Circular No. NSE/INSP/33276, dated September 27, 2016, being guidelines on Enhanced Supervision for Stockbrokers, provides that

7.1The Stock Exchanges shall put in place a mechanism and ensure that stockbrokers upload the following data on a monthly basis for every client onto each Stock Exchange system where the broker is a member
7.1.1. Exchange-wise end of day fund balance as per the client ledger, consolidated across all segments and also net funds payable or receivable by the broker to/from the client across all Exchanges
7.1.2. end of day securities balances (as on the last trading day of the month) consolidated ISIN wise (i.e., the total number of ISINs and number of securities across all ISINs)

ii. The said circular casts an obligation on the Members to verify the correctness of data before its submission to the Exchange.
iii. The Noticee has accepted the observed violations and has attributed the incorrect reporting mainly under the following reasons, which are not acceptable

a. A closed account has not been reported
b. clients being registered only on BSE
c. unclear balances not captured
d. clients not reported due to reversal of trades or being inactive
e. non-reporting of mutual funds, bonds, delisted securities, and securities that were under lock-in
f. some reconciliation error erroneously captured
g. unlisted corporate action not captured
h. Inter Depository transfer restriction

iv. Noticee's contentions are not acceptable as the SEBI circular dated September 26, 2016, clearly specifies that the client balances across all Exchanges have to be reported.
v. Further, non-reporting or incorrect data reporting due to any unintentional error has far-reaching regulatory implications and is thus, unacceptable. Members must register complete and correct data as required under the circular to the Exchange.

e. Considering the findings as above, the Committee decided that a monetary penalty of Rs.50,000/- be levied on the Noticee for the observations pertaining to incorrect reporting towards monthly monitoring of clients' funds and securities.

DECISION OF THE COMMITTEE

7. Given the above, the Committee has levied the following penalties as indicated against each of the violations mentioned below:

S. No.	Violation Observed and details.	Prescribed Penalty as per Exchange Circular Nos.	Penalty Imposed

		NSE/INSP/36248 dated November 6, 2017, NSE/INSP/37273 dated March 23, 2018, and NSE/INSP/45899 dated September 30, 2020	
1.	Misuse of clients' funds of Rs. 28.28 crores as on July 14, 2020, and Rs.3.40 crores as on July 17, 2020.	Rs. 1,00,000/- or 1% of the amount involved, whichever is higher.	Rs.3,40,000/- (1% of Rs.3.40 crores)
2.	Use of clients' bank accounts for purposes other than specified involving Rs. 5 crores in 1 out of 2,58,596 total sample instances verified (0.0004%) as on July 14, 2020.		
3.	Use of client unpaid securities accounts in 24 out of 131 total instances verified on a sample basis (18.32%) involving Rs.57.79 crores.	No prescribed penalty	Warning
4.	Engagement in a business other than that of securities involving personal financial liability involving a loan of Rs.1.16 crores and an unrecovered loan amount of Rs. 0.33 lakhs since F.Y 2017-18	No prescribed penalty	Warning
5.	Funding of clients' transactions in 3 instances out of 35 total instances verified on a sample basis (8.57%) involving Rs.0.63 crores	Where non-compliance is observed in more than 5% instances, or an amount exceeds Rs. 1 crore - Rs. 50,000/- For repeat violation: Increase penalty amount by 50%	Rs.75,000/- (Rs.50,000/- + escalation of 50% i.e., Rs.25,000/-)
6.	Non-settlement of clients a. Active clients: in 4 instances out of 100 instances verified on a sample basis (4%) involving Rs. 31.18 lakhs b. Inactive clients: 797 clients out of 10,499 total clients verified on a sample basis (7.59%) involving Rs.1.48 crores	In excess of 5% and up to 10% of the number of instances – Rs. 45,000/- For repeat violations, Increase the penalty amount by 50%	Rs.67,500/- (Rs.45,000/- + escalation of 50% i.e., Rs.22,500/-)
7.	False reporting of margin collected from clients in 2 instances out of 75 total sample instances verified (2.67%) involving Rs.14,011/-	100% of the falsely reported amount and suspension of trading for 1 day in the respective segment.	Warning (On account of non-materiality)

8.	Non-reconciliation of finds lying in suspense account as on December 31, 2020	No prescribed penalty	Warning + Direction to park the funds in separate Fixed Deposit.
9.	Incorrect details in the daily margin statement issued to clients in 4 instances out of 5 total instances verified on a sample basis (80%)	In excess of 10% of the number of instances – Rs. 40,000/-	Rs.40,000/-
10.	Incorrect reporting towards weekly holding statement as on December 31, 2020: Securities available in the de-mat but not reported: 74 instances involving Rs.5.47 crores Securities not available in the de-mat but reported: 11 instances involving Rs.0.12 crores	Warning to 1 lakh	Rs.50,000/-
11.	Incorrect reporting towards the weekly monitoring of clients' funds as on July 17, 2020, and December 24, 2020	Warning to 1 lakh	Rs.25,000/-
12.	Incorrect reporting towards monthly monitoring of clients' funds and securities as on December 31, 2020	Warning to 1 lakh	Rs.50,000/-
		TOTAL	**Rs.6,47,500/-**

8. The Noticee shall pay a monetary penalty of Rs.6,47,500/- (Rupees Six Lakhs Forty-Seven Thousand Five Hundred only).
9. The Noticee is directed to note the non-monetary penalties mentioned above and ensure non-recurrence of the observed violations.

Sd/-
Ms. Mona Bhide
(Chairperson)

Sd/-
Mr. K Narsimha Murthy
(Committee Member)

Sd/-
Ms. Anuradha Rao
(Committee Member)

Sd/-
Mr. Ranganayakulu Jagarlamundi
(Committee Member)

Date: June 6, 2022