Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra East, Mumbai – 400 051
held on October 31, 2022

In the matter of the Trading Member M/s. Joindre Capital Services Limited

CORAM

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

ALSO PRESENT

Ms. Priya Subbaraman	- Chief Regulatory Officer
Dr. Dinesh Kumar Soni	- Senior Vice President, Regulatory
Mr. Suresh Nair	- Vice President, Enforcement
Ms. Renu Bhandari	- Vice President, Inspection

BACKGROUND

1. **M/s. Joindre Capital Services Limited** ("**Noticee**") is a Trading Member registered with the National Stock Exchange of India Limited ("**NSEIL**"/"**Exchange**") and enabled for trading in the Capital Market ("**CM**") segment since February 1996, Futures and Options ("**F&O**") segment since June 2001, and Currency Derivatives ("**CD**") segment since September 2019.

2. The Exchange conducted a limited-purpose inspection of the Noticee's books and records to verify the data submitted by the Noticee for weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of June 25, 2021, and July 9, 2021, to ascertain the misuse of clients' funds. Post-inspection, the Exchange issued a show-cause notice ("**SCN**") dated February 24, 2022, seeking an explanation for the observed non-compliances with the applicable regulatory provisions. The Noticee, vide email dated March 31, 2022, replied to the said SCN.

INSPECTION OBSERVATIONS/VIOLATIONS

3. The observation/violation alleged in the SCN are summarized hereunder:

   3.1. Misuse of clients' funds to the extent of Rs.13.56 lakhs, and Rs.3.47 crores as of June 25, 2021, and July 9, 2021, respectively, thereby violating Principle 3 of the Enhanced Supervision of Stockbrokers.

   3.2. Incorrect data submitted for weekly monitoring of clients' funds -

      a. June 25, 2021: 3 areas involving differential amount ranging from (-ve) Rs.12.35 lakhs to Rs.19.99 lakhs

      b. July 9, 2021: 5 areas involving differential amount ranging from (-ve) Rs.1.03 crores to Rs.79.86 lakhs

PRESENT PROCEEDINGS BEFORE MCSGFC

4. The Exchange, vide its email dated October 20, 2022, granted the Noticee with an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. A. P Shukla (Compliance Officer), and Mr. Subhash Agarwal (Designated Director) appeared before the Committee and reiterated its written submissions dated March 31, 2022.

REGULATORY PROVISIONS

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

   5.1. **Misuse of clients' funds**

      a. Regulation 4.5 3 (e) of Exchange Regulations

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

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

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

3.3.3. Funds of credit balance clients used for margin obligations of debit balance clients and proprietary trading:

Principle:

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

If value of G is positive (i.e., A+B > C), then fund lying with the clearing corporation/clearing member (B) may contain proprietary and clients' fund. Hence, the value of clients' funds lying with the clearing corporation/ clearing member i.e. (C-A) shall be considered in the place of B

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

5.2. **Incorrect data submitted for weekly monitoring of clients' funds**

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

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:

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:

A-Aggregate of fund balances available in all client bank accounts, including the settlement account, maintained by the stockbroker across stock exchanges

B-Aggregate value of collateral deposited with Clearing Corporations and/or Clearing Member (in cases where the trades are settled through

Clearing Member) in form of cash and cash equivalents (fixed deposit (FD), bank guarantee (BG), etc.) (across stock exchanges). Only funded portion of the BG, i. e. the amount deposited by the 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)

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

CONSIDERATION AND FINDINGS

6. The observation/violation, the reply of the Noticee and the findings of the Committee are as under:

6.1. Misuse of clients' funds

6.1.1 The Exchange verified the data submitted by the Noticee for weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of June 25, 2021, and July 9, 2021, vis-à-vis the trial balance, client ledgers, bank statements, and records of the Exchange/Clearing Corporation/Clearing Member pertaining to margin requirement and collaterals maintained by the Noticee.

Upon verification, the Exchange observed that the Noticee used the funds of credit balance clients to meet the margin obligations of debit balance clients and proprietary trading to the extent of Rs.13.56 lakhs and Rs.3.47 crores as of June 25, 2021, and July 9, 2021, respectively, thereby violating Principle 3 of the Enhanced Supervision of Stockbrokers.

6.1.2 In reply to the SCN, the Noticee submitted as under: -

a. Firstly, there was unutilized bank balances in its own bank accounts amounting to Rs.9.47 crores and Rs.7.71 crores, as of June 25, 2021, and July 9, 2021, respectively, which could be utilized. The details are as under: -

Date	Bank Name & Account No.	Section Limit against Pledged FDR with the Bank (Rs.)	Overdraft taken for the Day Balance (Rs.)	Pending Funds Balance that can be used (Rs.)
25-06-21	Bank of India 008627100010437	9,26,67,750/-	5,00,00,000/- O/D	4,26,67,750/-
25-06-21	HDFC Bank Ltd. 00600340016771	3,79,05,000/-	40,08,778/- O/D	3,38,96,222/-
25-06-21	IDFC Bank Ltd. 10048034043	1,80,00,000/-	1,79,190/- Cr.	1,81,79,190/-
TOTAL				**9,47,43,162/-**
09-07-21	Bank of India 008627100010437	9,26,67,750/-	5,00,00,000/- O/D	4,26,67,750/-
09-07-21	HDFC Bank Ltd. 00600340016771	3,79,05,000/-	40,08,778/- O/D	3,38,96,222/-
09-07-21	IDFC Bank Ltd. 10048034043	1,80,00,000/-	1,73,75,343/- Dr	6,24,657/-
TOTAL				**7,71,88,629/-**

b. Secondly, the Noticee received the Exchange files (C_MG01_2_07667_25062021 and C_MG01_2_07667_09072021) for June 25, 2021, and July 9, 2021, at 11:30 p.m. and 12:10 a.m., respectively. Thus, it was unable to transfer the amount from its own bank accounts.

c. Thirdly, its office was working with limited staff and resources during the COVID-19 pandemic. Due to sudden demise in the family of its key personnel, the reporting was done by its junior employee, thereby resulting in incorrect calculation of the margin utilization for CM segment. The Noticee, vide email dated July 7, 2021, informed the Exchange and Bombay Stock Exchange.

d. Due to the aforesaid reasons, there was a negative balance as per the records of the Exchange.

6.1.3 The Committee finds as under: -

a. *The Noticee contended that the unutilized balances involving Rs.9.47 crores and Rs.7.71 crores as of June 25, 2021, and July 9, 2021, respectively, lying in its own bank account, could be utilized.*

As per Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, the total of day end balance in all client bank accounts includes the total of day end balance in all client bank accounts and settlement accounts across stock exchanges. The balances in the overdraft/loan against shares accounts shall not be considered. Hence, Noticee's contention to consider the balances in its own bank accounts, is not tenable.

b. *The Noticee contended that it received the Exchange files for June 25, 2021, and July 9, 2021, at 11:30 p.m. and 12:10 a.m., respectively, and thus was unable to transfer the amount from its own bank accounts.*

Upon verification of the Noticee's calculations as per file titled "Annexure A - Exhibits with Clarifications" provided by the Noticee, it is observed that the Noticee relied upon the figures of MG-13 file and not on the MG-01 file which the Noticee claims to have received late. Thus, the alleged delay is immaterial to the subject matter of the present proceedings. Hence, the Noticee's contention is not tenable.

c. *Incorrect calculation of the margin utilization for CM segment by its junior employee during COVID-19 pandemic*

All Trading Members must verify data prior to its submission to the Exchange to ensure compliance with regulatory provisions. Hence, the Noticee's contention is not tenable.

d. The Noticee violated the provisions of Regulation 4.5.3 (e) of the Exchange Regulations (CM and F&O Segments) and Clause 3.3.3 of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, by misusing the clients' funds.

e. As per Exchange Circular No. NSE/INSP/47457 dated February 25, 2021, if the misuse is above Rs.2 crores and less than Rs.10 crores and up to 50% of the net worth, the prescribed monetary penalty is up to 3%

of the misuse. Out of the two days of misuse, the highest misuse is Rs.3.47 crores as of July 9, 2021. The net worth of the Noticee was Rs.52.75 crores as of March 31, 2021.

6.1.4 Given the finding as mentioned above the Committee decided to levy a monetary penalty of Rs.10,41,000/- (3% of Rs.3.47 crores) for the observed violation in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

6.2. **Incorrect submissions for weekly monitoring of clients' funds**

6.2.1. The Exchange verified the data submitted by the Noticee for weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of June 25, 2021, and July 9, 2021, vis-à-vis the trial balance, client ledgers, bank statements, and records of the Exchange/Clearing Corporation/Clearing Member pertaining to margin requirement and collaterals maintained by the Noticee. Upon verification, the Exchange observed that the Noticee submitted incorrect data for weekly monitoring of clients' funds as under: -

a. June 25, 2021: 3 areas involving differential amount ranging from (-ve) Rs.12.35 lakhs to Rs.19.99 lakhs

b. July 9, 2021: 5 areas involving differential amount ranging from (-ve) Rs.1.03 crores to Rs.79.86 lakhs

6.2.2. In reply to the SCN, the Noticee submitted as under:

June 25, 2021

a. Collateral deposited with the Clearing Corporation/Clearing Member in the form of cash and cash equivalents

The Exchange did not consider the deposits of Rs.1.25 lakhs lying with the Bombay Stock Exchange.

b. Credit balance of all clients

The Exchange did not consider the portfolio management services bank balance and SEBI margin trading facility (net balance) of Rs.15.97 lakhs and Rs.3.73 lakhs, respectively.

c. Margin utilized for the positions of credit balance clients

The Exchange considered Column No. H while the Noticee considered Column No. G of the MG-13 file.

July 9, 2021

d. End of the day balance in the client bank and settlement accounts

The Noticee considered the end of the day balance of Rs.1.45 crores while the Exchange considered the clear balance of Rs.71.04 lakhs in HDFC Client Account No. 006002740000560 in its calculation. The Exchange failed to consider the bank balance of Rs.5.96 lakhs in IndusInd BK-HQ Value Fund Portfolio Management Services Account No. 2505506041655.

e. Collateral deposited with the Clearing Corporation/Clearing Member in the form of cash and cash equivalents

The Noticee considered the "available after 50:50" column from the Bombay Stock Exchange deposits file in its calculation while the Exchange considered the "Utilized towards MLN" column.

f. Credit balance of all clients

The Exchange did not consider the portfolio management services bank credit balance.

g. Margin utilised for the positions of the credit balance clients

The Exchange considered Column "H" while the Noticee considered Column "G" of MG-13 file.

h. Free/unblocked collateral deposited with Clearing Corporation/Clearing Member

Collaterals in the Bombay Stock Exchange cash and derivatives segments worth Rs.1.25 lakhs and Rs.37.50 lakhs, respectively, are not free collateral as per the Bombay Stock Exchange statement.

6.2.3. The Committee finds as under:

June 25, 2021

a. Collateral deposited with the Clearing Corporation/Clearing Member in the form of cash and cash equivalents

The Noticee contended that a deposit of Rs.1.25 lakhs lying with the Bombay Stock Exchange was not considered by the Exchange. Upon examining the IFSD files, it is observed that the Noticee's contention is valid. Hence, the violation does not persist.

b. Credit balances of all clients

i. *The Noticee contended that the Exchange did not consider portfolio management services bank balance.*

As per Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, the total credit balance of all clients is the 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 if posted in the client ledger if any). Accordingly, Noticee's contention of considering PMS bank balance is irrelevant as the said area pertains to clients' ledger balance and not funds available in bank account. Hence, the Noticee's contention is not tenable.

ii. *The Noticee contended that the Exchange did not consider the net effect of SEBI margin trading facility.*

As per Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, debit balance of all clients in margin trading facility must not be adjusted against the credit balance of the same client in non-margin trading facility. Hence, the Noticee's contention is not tenable.

c. Margin utilized for positions of credit balance clients

The Noticee contended that it considered Column 'G' of MG-13 in its calculation. As per Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, the figure for client margin obligation in the Exchange for the CM segment can the obtained from the MG-13 (Initial Margin/VAR + Extreme loss margin + MTM loss + additional/adhoc margin). The Noticee's contention is not tenable as Column 'H' is considered in the calculation instead of Column 'G' of MG-13 file.

July 9, 2021

d. End of the day balance in all client bank and settlement accounts

i. The Noticee contended that it considered the end of the day balance while the Exchange considered the clear balance of the HDFC Client Account No. 006002740000560 in its calculation

Upon verification of the HDFC client bank account statement vis-à-vis the end of the day balance as per Annexure 8 submitted by the Noticee, it is observed that the closing balance as of July 9, 2021, included uncleared cheques which should have been adjusted against the credit balance while calculating the total end of the day balance. Hence, the Noticee's contention is not tenable.

ii. The Noticee contended that Exchange failed to consider the bank balance of Rs.5.96 lakhs.

Upon examining the Annexure 9 provided by the Noticee, it is observed that the bank balance of Rs.5.96 lakhs pertain to IndusInd BK-HQ Value Fund Portfolio Management Services Bank

Account No. -250556041655. As per Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, fund balances available in all client bank and settlement accounts maintained by the Trading Member can be considered towards the total end of the day balance. Thus, portfolio management services bank account balance is not considered in the calculation. Hence, the Noticee's contention is not tenable.

e. Collateral deposited with Clearing Corporation / Clearing Member in the form of cash and cash equivalent

The Noticee considered the "available after 50:50" column from the Bombay Stock Exchange deposits file in its calculation while the Exchange considered the "utilised towards MLN" column.

On verification of Total Liquid Asset Break Up Report of ICCL submitted by Noticee, it is observed that Noticee's claim is valid as fixed deposits of Rs. 37.50 lakhs is towards MLN. Hence, no violation persists.

f. Credit balances of all clients

The Noticee included the portfolio management services bank credit balance is its calculation.

As per Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, portfolio management services bank credit balance is not included in the value of creditors. Hence, the Noticee's contention of considering PMS bank balance is not tenable as the said area pertains to client ledger balance and not funds available in bank account.

g. Margin utilized for positions of credit balance clients

The Noticee contended that it considered Column 'G' of MG-13 in its calculation.

As per Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, the figure for client margin obligation in the Exchange for the CM segment can be obtained from the MG-13 (Initial Margin/VAR + Extreme loss margin + MTM loss + additional/adhoc margin) which is

available in Column 'H'. Hence, the Noticee's contention is not tenable as it incorrectly considered Column 'G' of MG-13 file while reporting the said area.

h. Free/unblocked collateral deposited with Clearing Corporation/Clearing Member

The Noticee contended that collaterals in the Bombay Stock Exchange cash and derivatives segments worth Rs.1.25 lakhs and Rs.37.50 lakhs, respectively, are not free collateral as per the Bombay Stock Exchange statement.

Upon verification of Total Liquid Asset Break Up Report of ICCL submitted by Noticee, it is observed that Noticee's claim is correct as fixed deposits of Rs. 37.50 lakhs is towards MLN and accordingly cannot be considered as free/unblocked collaterals. Hence, no violation persist to the extent of Rs.37.50 lakhs. However, cash deposit of Rs.1.25 lakhs is free and unblocked and the Noticee should have reported the same. Hence, violation persist to the extent of Rs.1.25 lakhs.

i. The violation/observation stands reduced from 3 areas to 2 areas as of June 25, 2021, involving differential amount ranging from (-ve) Rs.12.35 lakhs, to Rs.19.99 lakhs; and from 5 areas to 4 areas as of July 9, 2021, involving difference ranging from (-ve) Rs.1.03 crores to Rs.79.86 lakhs.

6.2.4. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,00,000/- for the observed violation in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021

DECISION

7. In view of the above, the Committee levies the following penalties as indicated against each of the violations mentioned below:

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular No. NSE/INSP/47457 dated February 25, 2021	Penalty
a.	The Noticee misused the clients' funds to the extent of as of Rs.13.56 lakhs, and Rs.3.47 crores as of June 25, 2021, and July 9, 2021, respectively Highest misuse Rs.3.47 crores as of July 9, 2022 Net worth: Rs.52.75 crores as of March 31, 2021	Monetary penalty up to 3% of misuse	Rs.10,41,000/-
b.	The Noticee submitted incorrect data to the Exchange for weekly monitoring of clients' funds as of: a. June 25, 2021: 2 areas involving differential amount ranging from (-ve) Rs.12.35 lakhs and Rs.19.99 lakhs, respectively b. July 9, 2021: in 4 areas involving differential amount ranging from (-ve) Rs.1.03 crores, to Rs.79.86 lakhs	Warning to Rs.1,00,000/-	Rs.1,00,000/-
TOTAL			**Rs.11,41,000/-**

8. The Noticee shall pay a monetary penalty of Rs.11,41,000/- (Rupees Eleven Lakhs Forty-One Thousand only).

Sd/-
Mona Bhide
(Chairperson)

Sd/-_
K Narasimha Murthy
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Chairperson)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: April 25, 2023