Before the
Member Committee ("MC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051
held on March 17, 2025
In the matter of the Trading Member: SMC Global Securities Limited

CORAM

Shri. S Ravindran	-	Chairperson
Justice (Retd) Smt. Abhilasha Kumari	-	Committee Member
Prof. (Dr.) Mamata Biswal	-	Committee Member
Mr. Essaji Vahanvati	-	Committee Member
Shri. Ashishkumar Chauhan	-	Committee Member

ALSO PRESENT

Shri. Piyush Chourasia	-	Chief Regulatory Officer
Shri. Ankit Sharma	-	Chief Regulatory Officer
Smt. Renu Bhandari	-	Senior Vice President
Smt. Sonali Karnik	-	Vice President- Enforcement
Shri. Janardhan Gujaran	-	Vice President- Enforcement

BACKGROUND

1. **SMC Global Securities Limited** ("**SMC Global/ Noticee**") is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Markets ("**CM**") segment since September 1995, Futures and Options ("**F&O**") segment since June 2000, Currency Derivatives (**"CD"**) segment since August 2008, and Commodity Derivatives (**"COM"**) segment since October 2018.

2. The Exchange initiated a limited purpose inspection of the books of accounts and records of the Noticee during the period from May to July 2024, covering the period from January 01, 2022, to March 31, 2024. Post inspection, the Exchange issued a Show Cause Notice (**"SCN"**) dated December 04, 2024, to SMC Global for the observed non-compliances with the regulatory provisions. The Noticee vide email dated December 30, 2024, replied to the said SCN.

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

   3.1. Failure to ensure that the authorized persons are engaged only in permitted activities and are not undertaking any business which are disallowed including operating any schemes of unauthorized collective investments/portfolio management, promising indicative/ guaranteed/fixed returns etc.

   3.2. Failure to report clients mapped to the Authorized Persons

   3.3. Incorporation of contravening clauses in the clients' registration documents

   3.4. Delay in issuance of daily margin statements to clients

   3.5. Failure to keep appropriate evidence in respect of the orders placedby the clients

   3.6. Discrepancies in client registration documents pertaining to KYC of the clients

   3.7. Failure to inspect Authorized Persons as per the prescribed parameters

<u>REGULATORY PROVISIONS</u>

4. 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: -

   4.1. Failure to ensure that the Authorized Persons ("AP") are engaging only in permitted activities and are not undertaking any business which are disallowed including operating any schemes of unauthorized collective investments / portfolio management, promising indicative / assured / guaranteed / fixed returns etc.

   a. <u>Rule 3(b) of Chapter IV of NSEIL Rules</u>

   Misconduct

   (3) A trading member shall be deemed guilty of misconduct for any of the following or similar acts or omissions namely:

   (a) ....

(b) Violation: If it has violated provisions of any statute governing the activities, business and operations of the Exchange, trading members, and securities business in general.

b. Exchange Circular No. NSE/MEM/13429 dated November 9, 2009 (SEBI Circular No. MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009)

5. Conditions of Appointment

The following are the conditions of appointment of an authorized person:

a) The stockbroker shall be responsible for all acts of omission and commission of the authorized person.

b) All acts of omission and commission of the authorized person shall be deemed to be those of the stockbroker.

c) The authorized person shall not receive or pay any money or securities in its own name or account. All receipts and payments of securities and funds shall be in the name or account of stock broker.

7. Obligations of Stock Broker

a) The stock broker shall be responsible for all acts of omission and commission of his authorized person(s) and/or their employees, including liabilities arising there from.

e) *Stock broker shall conduct periodic inspection of branches assigned to authorized persons and records of the operations carried out by them.*

f) The client shall be registered with stock broker only. The funds and securities of the clients shall be settled directly between stock broker and client and all documents like contract note, statement of funds and securities would be issued to client by stock broker. Authorized person may provide administrative assistance in procurement of documents and settlement but shall not issue any document to client in its own name. No *fund/securities of clients shall go to account of authorized person.*

g) On noticing irregularities, if any, in the operations of authorized person, stock broker shall seek withdrawal of approval, withhold all moneys due to authorized person till resolution of investor problems, alert investors in the location where authorized person operates, file a complaint with the police, and take all measures required to protect the interest of investors and market.

c. Exchange Circular No. NSE/COMP/48536 dated June 9, 2021

The Authorized Person is prohibited from:

1. Accepting any receipt or payment/delivery of funds & securities of the clients. Authorised Person shall not collect or receive any funds or securities from the clients and shall not charge any amount from the clients, directly or indirectly, for the services rendered on behalf of the Member as an agent.

2. Employing any device, scheme or artifice or engage in any act or practice, including operating assured return schemes, unauthorised portfolio management & investment schemes etc, in contravention of the provisions of various SEBI/Exchange Rules & Regulation and circulars issued from time to time.

An Authorised person can only act as a facilitator and provide administrative assistance to the clients of the Member in accessing the trading platform of the Stock Exchange, failing which the Authorised person and its Directors/partners shall be liable for appropriate disciplinary actions including cancellation of their registration, debarment from the securities market etc.

Members are required to exercise adequate control and due diligence over the activities & transactions of their Authorised persons. Member shall conduct periodic inspection of their Authorised Persons and records of the operations carried out by them in accordance with Exchange circular dated October 18, 2019 (Ref. NSE/INSP/42448). On noticing irregularities, if any, Member shall take necessary measures as stipulated in the aforementioned

SEBI circular, including cancellation of the AP registration through ENIT and selecting the reason as "Disciplinary action" along with providing the necessary details.

Members should ensure that their Authorised Persons are engaging only in permitted activities and are not undertaking any business which are disallowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorised collective investments/portfolio management, promising indicative/ guaranteed/fixed returns etc. It is, hereby, reiterated that all the acts of omission and commission of the Authorized person and/or their Directors/Partners, employees etc., shall be deemed to be those of the Member and the Member shall be responsible for all such acts of its Authorised person(s) and/or their Directors/Partners, employees etc., including liabilities arising there from.

d. <u>Exchange Circular No. NSE/COMP/50030 dated October 21, 2021</u>

1. ..
2. ..
3. *Members are also hereby notified that they shall be mandatorily required to report any incidence, observed by them, involving assured returns or any unauthorized schemes operated by the AP, to the Exchange, within 2 working days. The reporting shall be made electronically through the link as provided in para 2 above i.e., https://enit.nseindia.com/MemberPortal/. Members, additionally, shall also take necessary measures, as mentioned in SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009, including filing of police complaint, upon noticing such incidence. Exchange may also require Members to obtain confirmation from their clients that there are no claims against such AP.*

4. *Members should undertake necessary due diligence & background screening of the applicants at the time of their onboarding as an AP. Members should restrict entities with names which may mislead clients/investors, including names with "Portfolio/wealth management/advisory" without a valid SEBI registration. The Exchange shall reject any AP application, where it is of the opinion that the name of the applicant is misleading or does not reflect the activities permitted to be undertaken by an AP.*

5. *As stipulated in Exchange circular NSE/COMP/48536 dated June 09, 2021, it is re-iterated that APs are not permitted to undertake activities such as providing assured/guaranteed return schemes, unauthorised portfolio management & investment schemes etc. as well as directly accepting or paying/delivering any funds and securities from/to the clients/investors. It is responsibility of the Members to ensure that all APs registered with them are complying with the regulatory requirements and do not undertake any non-permitted activities. Members shall be liable for all such acts of its APs and/or their Directors/Partners, employees etc., including liabilities arising therefrom.*

e. Exchange Circular No. NSE/COMP/50957 dated January 7, 2022

It is observed that members are engaged in businesses other than securities or commodity derivatives business like entering loan arrangement with clients/entities, collecting money in the form of deposit or otherwise by offering fixed/guaranteed/periodic returns orally or in writing, extending corporate guarantees etc. which is in contravention of Rule 8(3)(f) of SCRR.
…
In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below…

5. Engaging into activities/schemes of unauthorised collective investments/portfolio management, promising, or indicating fixed/guaranteed/regular returns/capital protection.

f. Exchange Circular No. NSE/INSP/51770 dated March 25, 2022

Below are some of the market practices, that have come to the notice of the Exchange and members are advised to refrain from engaging in such practices.
a. ..
b. ..
c. ..
d. Client registration documents: The current regulatory requirements stipulate mandatory collection of additional documents related to

financial details of the clients in case of trading in derivative segments, which includes a copy of the demat account holding statement of the client. In this regard, members are required to ensure adequate due diligence to ensure that the demat account holding statement reflects satisfactory financial position of the client before allowing them to trade in derivatives segment.

e. *Assured Return Schemes/ Unauthorised Portfolio Management Service: It has also come to the notice of the Exchange that certain members were engaging in activities/schemes of fixed / periodic payments, which are not permitted under the Byelaws, Rules & Regulations, and circulars of SEBI/Exchanges. It is reiterated that members are not permitted to undertake any business/activity that is not allowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorised collective investments/portfolio management, promising indicative/ guaranteed/fixed returns/payments etc*

4.2. <u>Failure to report clients mapped to the Authorised Persons</u>

a. <u>Exchange Circular No. NSE/COMP/49509 dated September 03. 2021</u>

In order to have additional information about the APS and to enhance the regulatory oversight over them, it has been decided, after mutual discussion with other Exchanges, to obtain and maintain the details of the clients that are mapped to the respective registered APS.

In view of the same, all the trading members are hereby required to upload the details of such clients, if any, as given in Annexure-A, against the respective APS in the Exchange database.

A provision for uploading client details, if any, at the time of new AP registration has also been provided. The mode of uploading the client data is provided in the user manual attached as Annexure -B. Members are advised to ensure that details of the clients reported should match with the Exchange UCC records.

b. <u>Exchange Circular No. NSE/INSP/42448 dated October 18. 2019</u>

ANNEXURE A- INDICATIVE SCOPE OF BRANCH /AP INSPECTION BY MEMBERS

22. The Report of Inspection shall, in addition to the above clearly comment on the following: -

a) ..

b) ..

c) Number of clients mapped to the AP/Branch.

4.3. **Incorporation of contravening clauses in the clients' registration documents**

a. Exchange Circular No. NSE/INSP/13606 dated December 03, 2009 (SEBI circular MIRSD/ SE /Cir-19/2009 dated December 03, 2009)

Non-mandatory Documents

9. Any term or condition other than those stated in the mandatory part shall form part of non-mandatory documents.

10. The clauses in the non-mandatory part shall not be in contravention of any of the clauses in the mandatory documents, as also the Rules, Regulations, Articles, Byelaws, circulars, directives, and guidelines of SEB/ and Exchanges. Any such contravening clause shall be null and void.

b. Exchange Circular No. NSE/INSP/14048 dated February 03, 2010

Annexure 1

Mandatory Documents

Point no. 3 - Mandatory documents as prescribed by SEBI.

All the documents under Mandatory documents should be as per format prescribed by SEBI. However, for existing clients if any additional voluntary clauses are forming part of mandatory documents and such clauses are not in conflict with any of the clauses in the model format , *rules, regulations, articles, byelaws, circulars , directives & guidelines of SEBI /Exchange, in such scenario trading member may not execute fresh documents.*

c. Exchange Circular No. NSE/INSP/18677 dated August 22, 2011 (SEBI Circular No: CIR/MIRSD/16/2011 dated August 22, 2011)

5. *It may be noted that any voluntary clause / document added by the stockbrokers shall form part of the non-mandatory documents. The stock broker shall ensure that any voluntary clause/document shall neither dilute the responsibility of the stock broker nor it shall be in conflict with any of the clauses in the mandatory documents, Rules, Byelaws, Regulations, Notices, Guidelines and Circulars issued by SEB/ and the stock exchanges from time to time. Any such clause introduced in the existing as well as new documents shall stand null and void.*

d. Exchange Circular No. NSE/INSP/48624 dated June 16, 2021(SEBI Circular No: SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021)

5.6. Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued.

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

Annexure A - GUIDELINES/CLARIFICATION ON MARGIN COLLECTION AND REPORTING

18. Are Members required to provide the margin - related information to clients?

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 a breakup 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.

An indicative format of the daily margin statement stipulating the minimum information to be provided to clients is enclosed as Annexure B.

f. Exchange Circular No. *NSE/INSP/53820 dated September 23, 2022*

Annexure A - FAQS – Settlement of Running Account of Client's Funds

8. Is there any threshold amount below which members may not be required to settle client's account?

No. Retention of any amount towards administrative / operational difficulties in settling the accounts of clients is not permitted.

4.4. **Delay in issuance of daily margin statements to clients**

a. Exchange Circular No. NSE/INSP/45134 dated July 25, 2020

Annexure A - GUIDELINES/CLARIFICATION ON MARGIN COLLECTION AND REPORTING

16. Are Members required to provide the Margin related information to clients?

Members should send margin-related information to their clients. An indicative format of daily margin statement stipulating the minimum information to be provided to clients is enclosed as Annexure B.

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.*

b. Exchange Circular Reference No.: NSE/INSP/45191 dated July 31, 2020

Annexure A - GUIDELINES/CLARIFICATION ON MARGIN COLLECTION AND REPORTING

16. Are Members required to provide the Margin related information to clients?
Members should send margin-related information to their clients. An indicative format of daily margin statement stipulating the minimum information to be provided to clients is enclosed with Circular as Annexure B.
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.

4.5. **Failure to keep appropriate evidence in respect of the orders placed by the clients**

a. Regulation 3.2.1 of NSEIL Regulations (CM Segment)

Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the system and shall keep relevant records or documents of the same and of the completion or other wise of these orders thereof.

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

b. Regulation 3.4.1 of NSEIL Regulations (F&O Segment)

Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the NEAT system and shall keep relevant records or *documents of the same and of the completion or otherwise of these orders thereof.*

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

c. Exchange Circular No. NSE/INSP/37301 dated March 26,2018(SEBI circular No: SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018)

Prevention of Unauthorised Trading by Stock Brokers

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

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

When a dispute arises, the broker shall produce the above-mentioned records for the disputed trades. However, for exceptional cases such as technical failure etc. where broker fails to produce order placing evidences, the broker shall justify with reasons for the same and depending upon merit of the same, other appropriate evidences like post trade confirmation by client, receipt/payment of funds/ securities by client in respect of disputed trade, etc. shall also be considered.

4.6. **Discrepancies in client registration documents pertaining to online Know Your Client ("KYC") of the clients**

a. Exchange Circular No. NSE/INSP/23113 dated April 02, 2013 (SEBI Notification no. LAD-NRO/GN/2012-13/35/6998 dated March 22, 2013)

3 ii (a) The intermediary shall perform the initial KYC / due diligence of the client, shall upload the KYC information with proper authentication in the system of KRA, fumish the scanned images of the KYC documents to the KRA and retain the physical KYC documents.

b. <u>Exchange Circular NSE/INSP/60042 dated December 29, 2023</u>

The Exchange, in the recent past, has observed that some of the members are taking default consent for the trading preferences (Selection of Segment), either being auto populated or provided as a default option, with or without providing any option to the client to deselect/opt out of any such segment(s) at the time of onboarding.

By not obtaining the express consent and/or explicit confirmation from the clients regarding Trading preference in the Equity Derivatives/Currency Derivatives/Commodities Derivatives Segments during online account opening process, the members are not adhering to the guidelines issued vide aforesaid circulars w.r.t trading account opening including onboarding of the clients through online KYC.

In view of the above, it is reiterated that the members shall obtain express consent and/or explicit confirmation from the clients for the trading preferences in the Equity Derivatives/Currency Derivatives/Commodities Derivatives Segments by providing an option to the clients to only select/opt in at the time of onboarding of the client.

4.7. **<u>Failure to inspect Authorised Persons as per the prescribed parameters</u>**

a. <u>Regulation 4.5 of NSEIL (CM) Regulations and Regulation 4.5 of NSEIL(F&O) Regulations</u>

4.5. Code Of Conduct for Trading Members

4.5.1 Adherence to SEB/ Code of Conduct

The Trading Member shall at all times subscribe to the Code of Conduct as prescribed by the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992.

4. 5. 2 General Principles

(a) *..*

(b) *Adherence to Trading Practices: Trading Members shall adhere to the Rules, Regulations and Byelaws of the Exchange and shall comply with such operational parameters, rulings, notices, guidelines, and instructions of the relevant authority as may be applicable from time to time.*

(c) *..*

(d) *Capabilities: A Trading Member shall have and employ effectively the resources and procedures which are needed for the proper performance of his business activities.*

b. <u>Exchange Circular No. NSE/MEM/13429 dated November 9, 2009</u>

As per, SEB/ Circular MIRSD/ DR-I/ Cir- 16 /09 dated November 06, 2009 annexed to Exchange Circular No. NSE/MEM/13429:

7. Obligations of Stock Broker

a) The stock broker shall be responsible for all acts of omission and commission of his AP(s) and/or their employees, including liabilities arising there from.

b) ..

c) ..

d) ..

e) Stock broker shall conduct periodic inspection of branches assigned to authorised persons and records of the operations carried out by them.

f) ..

g) On noticing irregularities, if any, in the operations of AP, stock broker shall seek withdrawal of approval, withhold all moneys due to AP till resolution of investor problems, alert investors in the location where authorized person operates, file a complaint with the police, and take all measures required to protect the interest of investors and market

c. *<u>Exchange Circular No. NSE/ INSP /42448 dated October 18, 2019</u>*

The indicative scope of the Inspection to be carried out is outlined in Annexure A.

Members are advised to put in place adequate mechanisms to review the inspection reports and take suitable actions to ensure non-recurrence of any irregularities observed. Members shall on an annual basis place an MIS before their Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) on the number of inspections undertaken, irregularities observed, and action taken.

Annexure-A

INDICATIVE SCOPE OF BRANCH AP INSPECTION BY MEMBERS

Members while undertaking the inspection of Branches and AP offices shall examine that all applicable regulatory requirements have been complied with including following indicative parameters:

1. *Whether all clients are registered directly with stockbroker only.*

2. *Adequate systems, including voice recording (wherever applicable) are put in place for recording of order placement from clients.*

3. *..*

4. *There are no cash dealings at the AP/Branch office.*

12. *The Branch/AP has not dealt with any other trading member/AP on behalf of its clients / self on the same Stock Exchange*

13. *The Branch/AP has not dealt with any unregistered intermediary on behalf of its clients / self.*

17. *Trading activities/Turnover at the AP/Branch location is monitored and necessary actions/investigations are undertaken in case of inactive AP/Branch location. Member shall, wherever*

required, de-activate all trading terminals extended to AP/Branch location which are inactive for more than 6 months & update Exchange records. Appropriate due diligence to be undertaken in case of re-activation of such terminals.

The Branch/AP has the necessary infrastructure like adequate office space, equipment, and manpower to effectively discharge the activities on behalf of the member.

18. ..

19. Proper segregation and demarcation is maintained at AP/Branch office in case terminal of a different Member is operated or any permissible activity other than the broking business is carried out.

20. The Branch/AP records/data are properly maintained with confidentiality in a secure manner including sufficient backup.

21. In case of change/shifting of location of AP/Branch, the following is ensured: -

a) All clients mapped to the AP/Branch have been notified at least thirty days before the change.
b) ….
c) . …

22. The Report of Inspection shall, in addition to the above clearly comment on the following: -

a) *The functioning of the AP/Branch. The various activities undertaken by the AP/Branch.*
b) *Number of Employees of the AP/Branch.*
c) *Number of clients mapped to the AP/Branch.*
d) *Process of Client registration and on boarding.*
e) *Order placing mechanism at AP /Branch level.*
f) *Role of Branches/APs with respect to pay-in & payout of funds/securities with clients*

d. <u>Exchange Circular No. NSE/COMP/48536 dated June 09, 2021</u>

Member's attention is drawn to Exchange Circular No. NSE/COMP/48536 dated June 09, 2021, regarding compliance of applicable regulatory requirements of APs:

The Authorized Person is prohibited from:

1. *Accepting any receipt or payment/delivery of funds & securities of the clients. Authorised Person shall not collect or receive any funds or securities from the clients and shall not charge any amount from the clients, directly or indirectly, for the services rendered on behalf of the Member as an agent.*

2. *Employing any device, scheme or artifice or engage in any act or practice, including operating assured return schemes, unauthorised pottfolio management & investment schemes etc., in contravention of the provisions of various SEBI/Exchange Rules & Regulation and circulars issued from time to time. Members are required to exercise adequate control and due diligence over the activities & transactions of their Authorized persons.*

An AP can only act as a facilitator and provide administrative assistance to the clients of the Member in accessing the trading platform of the Stock Exchange, failing which the AP and its Directors/partners shall be liable for appropriate disciplinary actions including cancellation of their registration, debarment from the securities market etc.

Members are required to exercise adequate control and due diligence over the activities & transactions of their APS. Member shall conduct periodic inspection of their APS and records of the operations carried out by them in accordance with Exchange circular dated October 18, 2019 (Ref NSE/INSP/42448NSE/1NSP/42448). On noticing irregularities, if any, Member shall take necessary measures as stipulated in the aforementioned SEB/ circular, including cancellation of the AP registration through ENI T and selecting the reason as "Disciplinary action" along with providing the necessary details.

Members should ensure that their APS are engaging only in permitted activities and are not undertaking any business which are disallowed *under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorized collective investments/portfolio management, promising indicative/guaranteed/fixed returns etc. It is, hereby, reiterated that all the acts of omission and commission of the AP and/or their Directors/Partners, employees etc., shall be deemed to be those of theember and the Member shall be responsible for all such acts of its Authorised Person(s) and/or their Directors/Partners, employees etc., including liabilities arising there from.*

e. <u>Exchange Circular No. NSE/COMP/56947 dated June 02, 2023</u>

1. ..

2. ..

3. At all points in time, Trading Members shall exercise adequate control and due diligence over the activities, conduct and transactions of their APs by conducting surprise and periodic Inspections and taking regular feedback from the clients of the APs. In case any anomaly is identified, Trading Members shall take necessary disciplinary actions against their APs. Further, Trading Members shall be vicariously and severally liable for any violation committed by their APs including operating any schemes of unauthorized collective investments/portfolio management and promising indicative/guaranteed/fixed returns etc. The Indian Contract Act, 1872 defines an 'Agent' in Section 182 as a person employed to do any act for another or to represent another in dealing with third persons. Accordingly, all provisions of Indian Contract Act, 1972 with respect to 'Agent' shall be applicable to Trading Members and APs associated with them.

a) It is further reiterated, that Trading Members shall be held responsible and accountable for all acts of omission and commission of their APs and/or employees at their branches including any arrangements entered by the AP/employees with the clients of the Trading Member including: a) Any unauthorized trading on behalf of the investors

b) b) Participation in any scheme of price manipulation willingly or unwillingly

c) c) Allowing investors to trade in instruments or amounts beyond limits specified in the SEBI/Exchange regulations/circulars.

8. *As directed in the Exchange circular no. NSE/COMP/50030 dated October 21, 2021, Trading Members shall report any incident observed by them involving assured returns or any unauthorized schemes operated by the AP to the Exchange within two working days. Trading Members, shall also take necessary measures, as mentioned in SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009, including withdrawal of approval, withhold moneys due to the APs until resolution is offered to the investor problems, alert messages are sent to the investors in the location where AP operates, complaint is filed with the police station concerned, and all measures required are taken to protect the interest of investors and market. Exchange may also require Trading Members to obtain confirmation from their clients that there are no claims against such AP/s. Exchange may further ask for Press releases/advertisements regarding any disciplinary action taken by the Trading Member against the APIs.*

CONSIDERATION AND FINDINGS

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

5.1 Failure to ensure that the authorized persons are engaged only in permitted activities and are not undertaking any business which are disallowed including operating any schemes of unauthorised collective investments /portfolio management, promising indicative/ guaranteed/fixed returns etc.

5.1.1. The Exchange verified the bank statement (HDFC Bank account no. 50200024442252) of the Noticee's Authorised Person Mr. Gaurav ("**AP-1**") and Unique Client Code (UCC) data of the Exchange. Upon verification, the Exchange observed that the Noticee's AP-1, made periodic payments directly from his personal bank account to the clients mapped under the Noticee's AP-1 in case of 18 instances involving Rs. 14.34 lakhs. Further, a periodic fixed amount was also paid to Mr. Amit Kumar involving Rs. 3.85 lakhs, who is not a client of the Noticee. The Exchange vide email dated July 24, 2024, sought clarification from the Noticee regarding the payments made to the clients. However, the Noticee failed to provide any clarification.

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

a. The transactions were conducted in a personal capacity and the individuals involved are family members or relatives of the Noticee's AP-1 and the same is confirmed by the AP-1. In support the Noticee submitted AP-1 letter confirming the same and letters from the clients and non-client confirming that funds were done in personal capacity.

b. Details of the relationships between the Noticee's AP Mr. Gaurav and the individuals are as below:

Name	Relation	Client (Yes/No)	Amount Paid
Manju Devi	Mother	Yes	10,50,000
Amit Kumar	Brother-In-Law	No	3,85,000
Pooja Gupta	Sibling	Yes	2,35,000
Sanchit Gupta	Maternal Cousin	Yes	1,49,000
Total			**18,99,000**

c. These transactions were entirely personal and unrelated to any activities involving unauthorized collective investment schemes, portfolio management, or guaranteed/ assured return.

5.1.3. The Committee finds as below:

a. The Noticee claimed that the transactions were conducted in personal capacities and the individuals involved are family members or relatives and in support submitted the letters from the Noticee's AP-1, client and non-clients confirming the same.

i. Upon verification of letters of AP-1, clients, and non-client, it was observed that, in 17 instances pertaining to two clients (Ms. Manju Devi and Ms. Pooja Gupta) and 1 non-client (Mr. Amit Kumar) involving Rs. 16.70 lakhs, the clients and non-client confirmed that the funds were made in their personal capacity. Considering, the clients and non-client confirmed that the transactions between AP-1 and clients were carried out in personal capacity no violation persists in the case of 17 instances.

ii. Further in case of 10 instances pertaining to 1 client (Mr.Sanchit Gupta, UCC: JVS0631) involving Rs. 1.49 lakhs, it was observed that the client in his letter provided justification (viz, transactions with family members or relatives in personal capacity) only for Rs. 1.39 lakhs as against actual funds paid by the Noticee's AP to the client amounting to Rs. 1.49 lakhs. Hence, in the absence of proper clarifications and documentary evidence, the violation persists for the remaining amount of Rs. 10, 000/-

b. The Noticee violated Exchange circular No. NSE/COMP/48536 dated June 09, 2021, which expressly prohibits an Authorised Person from accepting any receipt or payment of funds from clients. The said circular also casts a responsibility on the Trading Member to ensure that its Authorised Persons engage only in permitted activities and do not undertake any business disallowed under the Byelaws, Rules & Regulations, and circulars of SEBI/Exchanges, including operating schemes promising indicative/guaranteed/fixed returns. Thus, the Noticee failed to ensure that its AP engaged only in permitted activities and failed to supervise the activities and transactions of its AP thereby violating Exchange circular No NSE/COMP/48536 dated June 09, 2021.

5.1.4. Given the findings as above, and considering transactions were personal in nature with all 4 clients that were related to AP, the Committee decided to warn the Noticee to ensure non recurrence of the observed violation and direct the Noticee to not indulge in any fund/securities dealing with clients by Authorised Persons and submit declaration that no client funds are lying with the Authorised Persons as on the date within 30 days from the date of communication of order.

5.2 Failure to report clients mapped to the Authorised Persons (APs)

5.2.1. The Exchange verified the details of the clients mapped to the Noticee 's AP-1 and VGS Wiser Pvt. Ltd. **("AP-2")** as uploaded by the Noticee during its periodic submissions to the Exchange vis-à-vis details submitted by the Noticee during inspection. Upon verification, the Exchange observed that the Noticee failed to report clients mapped to the AP, as under:

AP-1

- 25 clients mentioned in the list of clients provided during inspection were not reported by the Noticee during its periodic submissions to the Exchange.

- 231 clients reported in the periodic submissions to the Exchange were not mentioned in the list of clients provided during inspection.

- The total number of clients mapped to AP-1 as provided during inspection was 508 vis-à-vis total number of clients mapped to AP-1 as per periodic submissions was 714.

AP-2

- 190 clients mentioned in the list of clients provided during inspection were not reported by the Noticee during its periodic submissions to the Exchange.

- 13 clients reported in the periodic submissions to the Exchange were not mentioned in the list of clients provided during inspection.

- The total number of clients mapped to AP-2 as provided during inspection was 741 vis-à-vis total number of clients mapped to AP-2 as per periodic submissions was 564.

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

a. AP-1 discontinued broking business in September 2022 and transferred its clients and operations to AP-2 under mutually agreed terms. The transition involved operational challenges such as client re-mapping and system adjustments, which resulted in the observed discrepancies.

b. With respect to AP-2 - The 190 clients mentioned in the list are in the process of being transferred from AP-1 during the inspection period. While these clients were removed from AP-1, some additions to AP-2 were missed due to clerical oversight. The Noticee submitted a reconciled and complete client list of AP-2 as of December 26, 2024.

5.2.3. The Committee finds as below:

a. The Noticee accepted the inspection observation and attributed the same to clerical oversight and system issues. Hence the violation persists.

b. Upon verification of updated file shared by the Noticee in its reply to the SCN, it was observed that the Noticee reported 723 clients, whereas the Exchange records reflected only 426 clients mapped to the AP-2 as of December 26, 2024.

c. As per Exchange Circular NSE/COMP/49509 dated September 03, 2021, to enhance the regulatory oversight over authorised persons, trading members are required to upload the details of clients mapped to the respective registered APs. By failing to report clients mapped to the APs' correctly to the Exchange the Noticee has violated the provisions of Exchange Circular No. NSE/COMP/49509 dated September 03, 2021, and Exchange Circular No. NSE/INSP/42448 dated October 18. 2019 in true letter and spirit.

5.2.4. Given the findings mentioned above, as per Sr. No. 18 of Annexure 1.3 of the Exchange circular No. NSE/INSP/73792 dated April 17, 2026, the Committee decided to advise the Noticee to ensure non-recurrence of the observed violation.

5.3 Incorporation of contravening clauses in the clients' registration documents

5.3.1. The Exchange verified the clients' registration documents maintained by the Noticee for 40 clients, viz. 25 clients mapped to AP-2 and 15 clients mapped to AP-1. Upon verification, the Exchange observed that the Authorizations for maintaining Running Account documents containing the following contravening clauses:

In case of 26 clients:

On actual settlement date you may retain the requisite stocks/funds towards any outstanding obligation and may also retain additional margin requirement on the day of settlement to take care of my margin obligation arising in the next 5 trading days, calculated in the manner specified by respective Exchanges.

In case of 16 clients:

I/We further authorize you to retain an amount up to Rs. 1,000/- (net amount across segment and across stock exchanges) in order to avoid administrative/operational difficulties in settling my/our account. The same can be release on my/our specific request.

In case of 8 clients:
I/We further authorize you to retain an amount of 10,000/- (net across segment and across stock exchange) in order to avoid administrative/operational difficulties in settling my/our account. The same can be release on my/our specific request.

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

a. The contravening clauses identified in certain client documents originated from an outdated and obsolete format that was inadvertently used. This oversight was unintentional and not a deliberate act. Furthermore, these clauses have never been invoked or enforced against any client, and their inclusion did not result in any non-compliance or operational issues.

b. As a corrective measure, the Noticee has communicated to the clients that the clauses in question are obsolete and not applicable.

5.3.3. The Committee finds as below:

a. The Noticee accepted the inspection observation and attributed the same to unintentional oversight wherein contravening clauses were included in client documents due to the use of an outdated format. The Noticee claims to have taken corrective measures post inspection by informing all the 24 clients that the clauses were obsolete and were not applicable. Upon verification of the email logs, it was observed that mails informing certain clauses were obsolete and not applicable were sent to 23 out of 24 clients, except client having client code YYS0091. Hence, the violation persists.

b. Exchange Circular No. NSE/INSP/53820, dated September 23, 2022, inter-alia states that retention of any amount towards administrative / operational difficulties in settling the accounts of clients is not permitted. Also, by maintaining Running Account documents containing contravening clauses, the Noticee has violated the provisions of the abovementioned circular in true letter and spirit.

5.3.4. Given the findings mentioned above, as per Sr. No. 92 of Annexure 1.1 of Exchange Circular the Exchange circular No. NSE/INSP/73792 dated April 17, 2026, the Committee decided to advise the Noticee to ensure non-recurrence of the observed violation.

5.4 Delay in issuance of Daily Margin Statement to clients

5.4.1. The Exchange verified the logs maintained by the Noticee for issuance of daily margin statements sent to clients. Upon verification, the Exchange observed that there was a delay in the range of 1 day to 3 days in issuing daily margin statements to clients in 100 instances out of 100 sample instances verified i.e., 100% of the instances verified.

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

a The Noticee adhered to the regulatory requirement of issuing daily margin statements at the end of each trading day, as stipulated in Exchange Circular No. NSE/INSP/45134 dated July 25, 2020. Being a registered stockbroker across multiple exchanges and segments (NSE, NCDEX, MCX), where trading extends until 11:55 P.M., the issuance of margin statements is dependent on the receipt of daily clearing files, which typically arrive around midnight or early the next morning. Therefore, interpreting "end of day" strictly as midnight is operationally impractical across all segments. To ensure clarity, the Member issues a single consolidated margin statement to clients.

b In 93 instances, margin statements were issued on the next day of calendar, which aligns with industry practice and operational timelines given the late trading hours.

c In 7 instances, the delay extended to three calendar days due to weekends (non-trading days). However, when adjusted for non-working days, these statements were effectively issued within T+1 trading day, thereby complying with the regulatory intent of issuing statements before the commencement of the next trading session.

5.4.3. The Committee finds as below:

a. In case of 70 instances pertaining to clients registered in commodity segment, it was observed that in case of 65 instances and 5 instances, daily margin statements were issued with delays of one day to three days, respectively, due to arrival of the weekend. However, the Noticee failed to furnish email logs showing the exact timing of sending the daily margin statement. Thus, in the absence of proper verifiable documents, the claim of the Noticee regarding "sending of daily margin statement before the start of the next trading session" could not be verified. Hence, the violation persists.

b. In case of 30 instances pertaining to clients not registered on the commodity segment, the Noticee claimed to have issued the daily margin statement by end of the day. However, the Noticee has also not provided the logs of the emails through which it can be verified that Daily Margin Statements were duly sent on the same day. Thus, in the absence of proper verifiable documents, the violation persists.

c. Thus, the violation persists in 100 out of 100 instances verified (100% of the samples verified)

d. Exchange Circular No. NSE/INSP/45134 dated July 25, 2020, stipulates that 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. Further, as Exchange Circular No.: NSE/INSP/45191 dated July 31, 2020, provides that members are required to send margin-related information to their clients. ….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. By delaying the issuance of the daily margin statements to its clients, the Noticee violated both the aforementioned Exchange Circulars.

5.4.4. Given the findings mentioned above, the Committee decided to levy monetary penalty of Rs. 40,000/- for the observed violation in terms of Sr. No B (57) of Schedule I of the Exchange Circular No. NSE/INSP/53530 dated September 02, 2022, read with Exchange circular No. NSE/INSP/73792 dated April 17, 2026.

5.5 Failure to keep appropriate evidence in respect of the orders placed by the clients

5.5.1. The Exchange verified the records of pre-order confirmation of the trades placed for the clients by the Noticee's AP-1 and AP-2. Upon verification, the Exchange observed as below:

AP-2

a. Upon verification of voice recordings in case of 100 sample instances pertaining to 25 clients mapped to the AP-2, the Exchange observed the following discrepancies in 29 instances pertaining to 15 clients:

- In 1 instance the order was placed by another person (male voice) whereas the Unique Client Code (UCC) is in the name of Ms. Anita Khanna (YYS0073). Hence it was observed that the order was not placed by the client in her account.

Client Code	Client Name	Date of Trade
YYS0073	ANITA KHANNA	03-05-2023

- In 1 instance, the client requested the dealer of the Noticee to seek confirmation from one Mr. Sumit Tyagi regarding the quantity to be purchased. Mr. Sumit Tyagi is one of the directors of AP-2. Hence, it is observed that the client was executing the trades at the behest of the AP.

Client Code	Client Name	Date of Trade
JVS0514	SUNITA AGRAWAL	05-10-2023

- In 26 instances of trade dates pertaining to 12 clients, the Noticee failed to provide appropriate pre-order confirmation in respect of the orders placed by the clients.

AP-1

b. The Exchange requested the Noticee to provide appropriate order evidence in respect of the order placement records of 34 instances pertaining to 15 clients mapped to the AP-1. However, the Noticee failed to provide any evidence.

c. The Exchange received complaint from one of the clients of the Noticee, Mr. Prahlad Dutt Aggarwal (Client Code: JVS0695) regarding unauthorized trading in his account by his relationship manager. Pursuant to the complaint, the Exchange verified the pre-order confirmation of the trades placed for the client by the Noticee. Upon verification of the call recordings of the orders, the Exchange observed that the relationship manager promised the client of assured profit and the trades were executed without client instructions as the client had limited or no understanding of the trades and the associated risks, the client was entering into and was unaware of the potential losses.

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

a. In 1 instance, (UCC: YYS0073; Trade Date: 03-05-2023), order placements instructions were provided by the client's spouse, Mr. Tilgun Khanna, based on a valid authorization letter from Ms. Anita Khanna.

b. In 1 instance, (UCC: JVS0514; Trade Date: 05-10-2023), the client selected the scrip and price but sought confirmation on the order quantity due to margin constraints. The Client requested the dealer to consult Mr. Sumit Tyagi, Director at AP-2, for verification. This was part of standard client service to ensure informed decision-making.

c. In 26 instances of AP-2 and 34 instances of AP-1 –
The Noticee conducted a detailed search through physical and audio records to retrieve order placement details and successfully located and compiled all relevant records.

d. In 1 instance (UCC: JVS0695), trades were executed with the client's consent, confirmed via multiple communication channels. Although a complaint was later filed, arbitration ruled in favor of the Noticee based on comprehensive evidence. A subsequent appeal led to a split decision, attributing shared responsibility due to the client's age and health. Further the matter is isolated and does not reflect systemic misconduct.

5.5.3. The Committee finds as below:

a <u>1 instance (UCC: YYS0073; Trade Date: 03-05-2023) –</u>
The contention of the Noticee is not acceptable as the authority letter submitted by the Noticee was not dated. Further, as per the Exchange circular No. NSE/INSP/37301 dated March 26, 2018 (SEBI Circular NO. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, all the Trading Members are required to execute trades of clients only after keeping evidence of the client placing such order. In the absence of proper proof of pre-order placement requests from clients ,the violation persists.

b <u>1 instance (UCC: JVS0514; Trade Date: 05-10-2023) –</u>
Upon verification of call recording it was observed that the client discussed the pre-conversation with Mr. Sumit Tyagi (Director of AP-2) regarding final order placement, without any discussion on margin availability. Additionally, the authority letter provided by the Noticee, does not contain any specific date on which such letter was issued by its client, also the same was not provided during the inspection. Hence, the contention of the Noticee is not acceptable and violation persists.

c <u>24 instances:</u>
The physical and audio records submitted by the Noticee in response to SCN were found to be correct. Hence, no violation persists in 24 instances.

d <u>In 11 instances</u>:
The Noticee claimed that trades were executed via auto square-off timer, and hence prior order confirmation was not required. However, the Noticee failed to provide the detailed reason for auto square-off positions and the communication logs for intimation sent to clients upon auto square off and any other supporting document to substantiate its contention. Hence, violation persists in this regard.

e <u>34 instances :</u>
Upon verification of physical records submitted by the Noticee, it was observed that the Noticee has not submitted the physical written evidence of dated pre- order placement requests during inspection in 32 out of 34 instances~~.~~ In the remaining 2 instances [UCC: JVS0644 (17-Mar-2022) and JVS0644 (21-Feb-2022)], no evidence of pre-order placement was

submitted. In the absence of proper verifiable documents, the violation persists in all 34 instances.

f <u>1 instance Client code: JVS0695:</u>

Upon verification of the voice recording and the appellate tribunal's order, it was observed that the Relationship Manager was dictating the client's order placement in the F&O segment, with the client merely following instructions. Paragraph 25 of the appellate tribunal's order also notes that the Relationship Manager should not have advised the client to trade in F&O segment. Hence, violation persists in this regard.

g In view of the above findings, violation persists in 48 out of 72 instances.

h As per Exchange Regulation 3.2.1 of NSEIL Regulations (CM Segment) and Regulation 3.4.1 of NSEIL Regulations (F&O Segment), trading members must obtain appropriate confirmed order instructions from clients before placing orders and maintaining relevant records and Exchange Circular NSE/INSP/37301 dated March 26, 2018, stipulates that Trading Members must retain legally verifiable evidence of client order placement, which may include physical signed records, voice recordings, emails, SMS logs, or any other legally verifiable record.

5.5.4. As per Exchange Circular Sr. No. B (63) of Schedule I of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022, the prescribed penalty for the said observation is Rs. 25,000/- and Direction to comply with the requirement of keeping appropriate evidence for orders placed by client within 30 days from the date of communication read with Exchange circular No. NSE/INSP/73792 dated April 17, 2026.

5.6 <u>Discrepancies in client registration documents pertaining to online know your client ("KYC") of the clients.</u>

5.6.1. The Exchange verified the client registration documents of 25 clients mapped to AP-2, and 15 clients mapped to AP-1 on a sample basis. Upon verification it was observed as under.

a. In 19 instances, the clients' signature is taken by default on all the non-mandatory clauses of the client registration document viz.

- Demat Account Opening Form

- Running A/c Authorization
- Sanction of trading limit
- Authority Letter
- Authority Letter to Send Documents Electronically
- Intraday / High Multiplier Facility
- Consent for MTF
- Mutual Fund Service System Facility
- BSE STAR MF / MFSS facility

b. In 19 instances, the clients' signature is taken by default for trading preferences on all segments across all Exchanges.

c. In 19 instances, the option to choose margin trading facility is marked as 'Yes' by default.

d. In 19 instances, the quarterly settlement is auto selected by the system instead of providing an option to the client to select either monthly or quarterly running account settlement.

e. The 19 account opening forms also included a disclaimer that "Online account opening with the Noticee is contingent upon your acceptance of the provided terms. If you prefer to open your account in person, please visit our nearest office".
The disclaimer is given only for the below mentioned 6 categories

I am an Indian citizen
I am a tax resident of India only
I am not a PEP or related to PEP
I want to use MTF facility
I want to open a non BSDA account
I want to activate DDPI

f. Out of the above 19 instances, in 7 instances, the clients' signatures have not been captured in non-mandatory clauses. Instead, were captured on the bottom right of all pages of the account opening form.

Client Code	Client Name
JVS0647	BHAVNA MAHENDRU
JVS0623	OMENDRA SINGH

JVS0627	ASHWANI GUPTA
JVS0635	KANTA GUPTA
JVS0643	SUGYANI KUMARI DALAI
JVS0644	RAKESH CHANDRA MISHRA
JVS0646	KAMAL GAUTAM

g. In 2 instances, proof of financial information was not obtained from the clients.

Client Code	Client Name
JVS0506	DINESH KUMAR SHARMA
JVS0465	RIKKY AGARWAL

h. In 1 instance, Noticee obtained authorization for mandate processing charges amounting to Rs.50,000/-

Client Code	Client Name
JVS0647	BHAVNA MAHENDRU

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

a. Members have implemented both Physical and Online KYC processes. The Physical KYC remains available to all clients without restriction. The Online KYC was introduced in line with SEBI's circular dated April 24, 2020, and allows clients to deselect any pre-selected services. Clients who opted out of certain services were guided to complete onboarding via the Physical KYC route, ensuring their preferences were respected. Clients using the online process were fully informed of the terms and options available.

b. Further the system enhancements are an ongoing process, and certain functionalities are under refinement, consistent with the iterative nature of digital platform development. The online onboarding process was demonstrated during a joint SEBI/Exchange inspection in October 2024 (post the inspection period of this SCN), and no discrepancies were noted. This indicates that the Noticee has refined its process to align with regulatory expectations.

c. The Exchange segment selection, Margin Trading Facility (MTF) feature in the Online KYC process has been updated with dynamic options, allowing clients to explicitly opt-in during account opening. A disclaimer is provided stating that clients accepting terms proceed online, while those preferring personalized service may visit a physical branch.

d. The sampled KYCs pertaining to year 2021 shows digital signatures captured at the bottom-right corner of pages instead of near specific clauses. This was due to the technical design of the platform, which aimed to replicate physical KYC forms. At that time, it was not feasible to capture digital signatures on each clause. The updated system now affixes cropped images of wet signatures to each opted clause, along with digital signatures at the bottom of pages.

e. Regarding “Financial information Proof in 2 instances” - UCC: JVS0506, a 6-month bank statement was submitted as part of KYC documentation. For UCC: JVS0465, since the derivative segment was activated later, the client submitted a copy of Income Tax Return.

f. The mandate processing charge authorization was a one-time initiative during the COVID-19 period to facilitate NACH transactions. This charge applied only to DP services and was not implemented for broking services. The practice has since been removed from current KYC forms. The observations raised reflect isolated technical or procedural anomalies, not systemic lapses. Supporting evidence, including screenshots and detailed records, has been provided to demonstrate the operational integrity of the online KYC platform.

5.6.3. The Committee finds as below:

a. Upon verification of the screenshots of the KYC process as provided by the Noticee for 19 clients, it was observed that the Noticee has implemented the rectifications in the online KYC form in several areas, including:

i Clients have the option to select trading segments.
ii Mandatory submission of financial proof for the derivatives segment.
iii Coverage of six mandatory clauses related to personal information.

b. However, certain key points as claimed by the Noticee were not addressed in the screenshots of KYC process, for all the 19 instances as mentioned below:

   i. The option to choose margin trading facility, which is marked as 'Yes' by default.
   ii. The option of quarterly settlement is auto selected by the system instead of providing an option to the client to select either monthly or quarterly running account settlement.
   iii. Capturing of signature against each clause in the KYC form.

c. SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020, permits the use of online KYC and Video In-Person Verification (VIPV) by registered intermediaries. VIPV must be conducted by authorized officials trained for the purpose, with informed consent from the client, and the activity log and credentials must be stored for retrieval.

   Therefore, while the Noticee has adopted online KYC, it is their statutory duty to comply with all requirements of the circular. The Noticee has failed to provide the option to clients to choose margin trading facility in the online KYC form, option to capture client signature against each clause of the KYC form, providing an option to the client to select either monthly or quarterly running account settlement in the online KYC form. Hence, violation persists.

d. <u>In 2 instances, proof of financial information was not obtained from the clients.</u>

   i <u>01 instance, client code: JVS0506:</u>
   The Noticee has provided the bank statement of previous 6 months as proof of financial information. Thus, the contention of the Noticee is tenable and no violation persists in this regard.

   ii <u>01 instance, client code : JVS0465:</u>
   Upon verification of the KYC documents, it was observed that the client opted for F&O segment during the onboarding process on April 16, 2018, without submitting proof of financial information. Hence, violation persists in this regard.

e. <u>In 1 instance, client code : JVS0647 the "Notice obtained authorization for mandate processing charges amounting to Rs.50,000/-":-</u>

The Noticee accepted the violation and confirmed that the clause pertaining to 'processing charges' have been removed post inspection. However, post inspection compliance does not absolve the Noticee from the violation committed. Hence, violation persists.

5.6.4. Given the procedural nature of the violations mentioned above, the Committee decided to warn the Noticee to ensure non- recurrence of the observed violation.

5.7 <u>Failure to inspect Authorized persons as per the prescribed parameters</u>

5.7.1. The Exchange verified the inspection reports of AP-1 dated February 20, 2022, and AP-2 dated November 15, 2023, submitted by the Noticee to the Exchange.

a. Upon verification, the Exchange observed that the Noticee has failed to record the observations as above mentioned in paragraph No. 5.1, 5.2 and 5.5 and thereby failed to inspect the operation of Authorized Persons as per the parameters prescribed by the Exchange for Authorized Persons inspection.

b. The Noticee cancelled the registration of AP-1 on September 22, 2022, on the ground that – *'AP wishes to discontinue broking business and carry some other business'*. However, the Noticee failed to identify the unregistered activities of the AP-1 as mentioned in above paragraphs No.5.1, 5.2 and 5.5.

c. The Exchange observed that Mr. Vishal Rajwanshi, director of the AP-2 was an employee of the AP-1. However, while cancelling registration of the AP-1 in September 2022, the Noticee allowed AP-2 to continue as a registered Authorized Person of the Noticee. Hence, Noticee failed to conduct due diligence while appointing AP-2.

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

a. Regarding observation 4.1 of SCN ("unpermitted activities of AP-1 due to making payments to clients") - The transactions under scrutiny were personal in nature and not linked to any unauthorized or disallowed business activities.

b. Regarding observation 4.2 of SCN ("non-reporting of client mapped to APs") - The discrepancies in client mapping were unintentional and arose due to technical and procedural constraints during the transfer of clients from AP-1 to AP-2. These were not deliberate and do not indicate non-compliance.

c. Regarding observation 4.5 of SCN ("non-maintenance of evidence for pre-order placement") – the Noticee conducted a thorough search of physical documents and audio call logs to retrieve the exact order placement records. All relevant records have now been compiled and annexed for review. Both Authorized Persons maintain records of client orders.

d. Regarding "Cancellation of AP Registration AP-1 - The registration was cancelled in September 2022 based on Mr. Gaurav's decision to discontinue broking and pursue other business interests. The cancellation was voluntary and not related to any alleged unregistered activities. The allegations were based on incomplete information, and the clarifications now provided confirm that no unauthorized conduct occurred.

e. Regarding "Appointment of Mr. Vishal Rajwanshi as a director of AP-2 was an employee of the AP-1. Mr. Vishal Rajwanshi involvement in both entities was part of a transitional arrangement initiated when Mr. Gaurav decided to exit the broking business in early January 2022. Mr. Gaurav requested AP-2 to take over his operations, and Mr. Vishal Rajwanshi's dual role ensured smooth transition, regulatory compliance, and client coordination. This is standard practice during business transitions and supporting documents, including bills and bank statements reflecting the transfer of assets from AP-1 to AP-2, have been duly provided.

5.7.3. The Committee finds as below:

a. The Exchange verified the inspection report of all the Noticee's APs. Upon verification, the Exchange observed that the Noticee, either incorrectly reported the status of non-compliances as 'complied' in certain parameters in the AP inspection report or has failed to point out the non-compliances in the AP inspection reports, the same is produced as below:

i <u>Observation pertaining to "unpermitted activities of Noticee's AP-Gaurav Kumar due to making payments to clients":</u>

The Noticee was unable to justify the payments made by its AP Gaurav Kumar to client Sanchit Gupta (UCC: JVS0631) involving Rs. 1,49,000/-, since in its declaration letter, client Sanchit Gupta has mentioned an amount of Rs. 1,39,000/- received from the Noticee's AP instead of Rs. 1,49,000/- as claimed paid by the Noticee's AP to client Sanchit Gupta. In the absence of proper reply along with reasons and other documentary evidence, the violation persists.

ii <u>Observation pertaining to "non-reporting of client mapped to APs":</u>
The Noticee has accepted the inspection violation and has attributed the same to clerical oversight, including client re-mapping and adjustments in back-office systems during transfer of clients by AP- Gaurav Kumar to AP- VGS Wiser Pvt. Ltd. However, the Noticee failed to point out the said observation in its Inspection Report. Hence, violation persists in this regard.

iii <u>Observation pertaining to "non-maintenance of evidence for pre-order placement":</u>
The Noticee observed that in 21 out of 72 instances, the Noticee has neither submitted the physical written evidence of pre- order placement, nor has they provided any evidence of pre-order placement. In the absence of any documentary evidence, the violation persists.

iv <u>Observation pertaining to "Cancellation of AP Registration of AP Mr. Gaurav":</u>
Upon verification of the Bank statement and Bill provided by the Noticee, it was observed that the Noticee's AP-Mr. Gaurav has transferred its business to the Noticee's AP VGS and cancelled the

AP registration of Noticee's AP-Mr. Gaurav . The Noticee had submitted the reason for cancellation without selecting "Disciplinary action" despite the AP being involved in unauthorized / non-permitted activities as mentioned in the SCN. Such an act of the Noticee is violative of the Exchange circular No. NSE/COMP/48536 dated June 09, 2021which stipulates " *On noticing irregularities, if any, Member shall take necessary measures as stipulated in the aforementioned SEBI circular, including cancellation of the AP registration through ENIT and selecting the reason as "Disciplinary action" along with providing the necessary details"..*

v Observation pertaining to "Appointment of Mr. Vishal Rajwanshi as a director of AP VGS whereas he was previous employee of AP Gaurav Kumar":
The contention of the Noticee that Mr. Vishal Rajwanshi was discharging the dual responsibilities of two separate authorized persons ('AP') at the same time is violative of the Exchange Circular No. NSE/COMP/ 56947, dated June 02, 2023, which provides that "*Trading Members shall ensure that Director/Partner of AP is not associated as Director/Partner with other AP registered with the Exchange*". Thus, the appointment of Mr. Vishal Rajwanshi as a director of VGS whereas he was previous employee of AP Gaurav Kumar is not in line with the regulatory requirement. Hence, violation persists in this regard.

b. The aforementioned acts of the Noticee are alleged to be violative of the indicative scope of the Inspection to be carried out as outlined by the Exchange Circular No. NSE/INSP/42448 dated October 18, 2019.

5.7.4. Given the findings mentioned above, the Committee decided to warn the Noticee to ensure non- recurrence of the observed violation.

DECISION

6. 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 action as per Exchange Circular No NSE/INSP/53530 and Exchange circular No. NSE/INSP/73792 dated April 17, 2026	Monetary penalty/ Material/ Financial disincentive	Action post considering the Noticee's submissions and the Committee's findings
1	The Noticee's AP engaged in unpermitted activities	No Prescribed Penalty	-	Warning + Direction to desist from indulging in any funds/ securities dealings with clients by APs and submit declaration that no client funds are lying with the APs as on date within 30 days from communication.
2	Non-Reporting of clients mapped to Authorized Persons	Non reporting/ partial reporting of UCC details mapped to the APs- Advise *(Annexure 1.3 Sr. 18 of the Exchange Circular No. 70746 dated October 10, 2025)*	-	Advice
3	Incorporation of contravening clauses in the clients' registration documents.	a. Advise along with directions to rectify- where the Contravening clause has not been acted upon by the broker when not permitted. b. Other cases- Rs. 10,000/- for procedural clauses and 25,000/- for critical clauses. *(Annexure 1.1 Sr. 61 of the Exchange Circular No. 70746 dated October 10, 2025))*	-	Advice

Sr. No.	Committee's Findings	Prescribed action as per Exchange Circular No NSE/INSP/53530 and Exchange circular No. NSE/INSP/73792 dated April 17, 2026	Monetary penalty/ Material/ Financial disincentive	Action post considering the Noticee's submissions and the Committee's findings
4	Delay in issuance of Daily Margin Statement to clients in all 100 instances (100%) during February 13, 2024, to February 23, 2024.	In excess of 10% of number of instances – Rs. 40,000 *(As per Exchange Circular Sr. No. B (57) of Schedule I of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022*	Monetary penalty	Rs. 40,000/-
5	Non-maintenance of appropriate evidence of orders placed	As per Exchange Circular Sr. No. B (63) of Schedule I of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022, the prescribed penalty for the said observation is Rs. 25,000/- and Direction to comply with the requirement of keeping appropriate evidence for orders placed by client within 30 days from the date of communication	Monetary penalty	Rs. 25,000/- + Direction to comply with the requirement of keeping appropriate evidence for orders placed by client within 30 days from the date of communication
6	Discrepancies in client registration documents pertaining to online know your client ("KYC")	No prescribed penalty	-	Warning
7	Failure to inspect authorized persons as per the prescribed parameters	No prescribed penalty	-	Warning

Sr. No.	Committee's Findings	Prescribed action as per Exchange Circular No NSE/INSP/53530 and Exchange circular No. NSE/INSP/73792 dated April 17, 2026	Monetary penalty/ Material/ Financial disincentive	Action post considering the Noticee's submissions and the Committee's findings
		Total		Rs. 65,000 + Direction

7. The Noticee is directed as under:

   a. To pay a monetary penalty of Rs. 65,000/- (Rupees Sixty-five Thousand only).
   b. To desist from indulging in any funds/ securities dealings with clients by APs and submit declaration that no client funds are lying with the APs as on date within 30 days from communication.
   c. To comply with the requirement of keeping appropriate evidence for orders placed by client within 30 days from the date of communication
   d. To note the non-monetary penalties mentioned above and ensure non-recurrence of the observations/violations.

Sd/-	Sd/-	Sd/-
Abhilasha Kumari	Essaji Vahanvati	Ashishkumar Chauhan
(Committee Member)	(Committee Member)	(Committee Member)

Date: May 06, 2026