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 August 17, 2023

In the matter of the Trading Member M/s. Motisons Shares Private Limited

CORAM:

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

ALSO PRESENT:

Mr. Piyush Chourasia	-	Chief Regulatory Officer
Dr. Dinesh Kumar Soni	-	Senior Vice President, Regulatory
Mr. Shailesh Adukia	-	Vice President – Enforcement
Mr. Janardhan Gujaran	-	Vice President – Enforcement

BACKGROUND

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

2. The Exchange conducted a limited purpose inspection of the books and records of the Noticee in December 2022 to verify the availability of client funds under the Enhanced Supervision of Stockbrokers as of November 18, 2022. Post-inspection, the Exchange issued a show-cause notice ("**SCN**") dated January 27, 2023, for the observed non-compliances with the regulatory provisions. The Noticee, vide its email dated February 16, 2023, replied to the said SCN.

INSPECTION OBSERVATIONS/VIOLATIONS

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

3.1 Violation of Principle 2 of the Enhanced Supervision of Stockbrokers to the extent of Rs.2.29 crores as of November 18, 2022

3.2 Incorrect data reported in the weekly monitoring of client funds in 6 areas involving difference ranging from (-ve) Rs.0.51 crore to Rs.4.04 crores between the actual and reported figures as of November 18, 2022

REGULATORY PROVISIONS

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

4.1 **Violation of Principle 2 of the Enhanced Supervision of Stockbrokers**

a. Regulation 4.5.3 (e) of NSEIL Regulations (CM and F&O Segments)

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

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:

3.3.2. Funds of clients used for margin obligation of proprietary trading:

Principle

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

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

4.2 **Incorrect data reported towards weekly monitoring of client 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:

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

B-Aggregate value of collateral deposited with clearing corporations and/or clearing member (in cases where the trades are settled through clearing member) in form of cash and cash equivalents (fixed deposit (FD), Bank guarantee (BG), etc.) (across Stock Exchanges). Only funded portion of the BG, i. e. the amount deposited by stockbroker with the bank to obtain the BG, shall be considered as part of B.

E-Aggregate value of proprietary non-cash collaterals i.e. securities which have been deposited with the clearing corporations and/or clearing member (across Stock Exchanges)

P-Aggregate value of proprietary margin obligation across stock exchanges

MC-Aggregate value of margin utilized for positions of credit balance clients across stock exchanges

MF-Aggregate value of unutilized collateral lying with the clearing corporations and/or clearing member across stock exchanges

b. Exchange Circular No. NSE/INSP/37395 dated April 2, 2018

All Trading Members are requested to note that w.e.f. April 2018 data towards monitoring of clients' funds is required to be submitted on a weekly basis. Members will have to submit the data as on the last trading day of every week on or before the next three trading days.

PRESENT PROCEEDINGS BEFORE MCSGFC

5. The Exchange, vide its email dated August 11, 2023, granted the Noticee an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. Ajay Saxena (Director & Compliance Officer) and Mr. Rajeev Jain (Director) attended the personal hearing and reiterated the written submissions.

CONSIDERATION & FINDINGS

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

6.1 **Violation of Principle 2 of the Enhanced Supervision of Stockbrokers**

6.1.1 The Exchange verified the data submitted by the Noticee towards weekly monitoring of client funds under the Enhanced Supervision of Stockbrokers, client ledgers, trial balance, bank account statements and cash collaterals available with exchanges/clearing corporations/clearing members as of November 18, 2022. Upon verification, the Exchange observed that the Noticee used the client funds to meet the margin obligation of proprietary trading to the extent of Rs.2.29 crores as of November 18, 2022, thereby violating Principle 2 of the Enhanced Supervision of Stockbrokers. The details of shortfall of client funds are as under:

Sr.	Particulars	Amount
A	Total of day-end balance in all client bank and settlement accounts	1,52,61,036.17
B	Total value of collateral deposited with Clearing Corporation/Clearing Member in the form of cash and cash equivalents	32,75,72,191.82
C	Total credit balances of all clients	34,10,86,309.65
G	**Value of 'G' = (A + B) - C**	17,46,918.34
E	Total value of own securities deposited with the Clearing Corporation and/or Clearing Member	1,53,80,421.86
F	Total value of non-funded portion of bank guarantee	5,00,00,000.00
P	Total value of proprietary margin obligation	9,00,08,223.09
I	**Shortfall of client funds I = P - (G + E + F)**	**2,28,80,882.89**

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

The Noticee verified in detail the utilization of client funds and sources of pay-in obligations of proprietary trading. It provided documents, viz. margin files, collateral files, daily margin statement, and holding valuation report to the Exchange for verification.

6.1.3 The Committee finds as under:

a. The Committee notes that the Noticee did not make any specific submission to the violation alleged in the SCN.

b. Upon verification of the documents, viz. margin and collateral files, provided by the Noticee, it is observed that the Noticee used the client funds to meet the margin obligations of proprietary trading to the extent of Rs. 2.29 crores as of November 18, 2022.

c. Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, is issued to monitor the client funds lying with the Trading Member by the Exchange through a sophisticated alerting and reconciliation mechanism to detect and prevent any shortfall of client fund. As per the said circular, the sum of proprietary funds and securities lying with the Clearing Corporation/Clearing Member should be greater than or equal to proprietary margin obligations. The Noticee violated the regulatory provisions mentioned above by using the client funds to meet the margin obligations of proprietary trading.

d. The Noticee is a repeat violator. The Committee, vide its letter dated October 6, 2022, levied a monetary penalty of Rs.1 lakh for shortfall of client funds to the extent of Rs.0.18 crore as of May 16, 2022.

e. As per Exchange Circular No. NSE/INSP/53530 dated September 2, 2022, in the case of repeat violation and misuse amount of less than Rs.10 crores, a monetary penalty of 4% of the misuse amount or Rs.4 lakhs whichever is higher plus no new client up to six months is applicable.

6.1.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.9,15,235/- (4% of Rs.2,28,80,883/-) rounded off at Rs.9,15,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

6.2 **Incorrect data reported in the weekly monitoring of client funds**

6.2.1 The Exchange verified the data reported by the Noticee in the weekly monitoring of client funds under the Enhanced Supervision of Stockbrokers vis-à-vis the trial balances, bank statements and collaterals available with the Clearing Member/Clearing Corporation, and margin files of the Exchange as of November 18, 2022. Upon verification, the Exchange observed that the Noticee reported incorrect data to the Exchange in 6 areas involving difference ranging from (-ve) Rs.0.51 crore to Rs.4.04 crores between the actual and reported figures as of November 18, 2022. The details are as under:

Sr.	Particulars	Exchange Calculation (Rs.)	Noticee's Submission (Rs.)	Difference (Rs.)
A	Total of day-end balance in all client bank and settlement accounts	15,261,036.17	15,270,918.17	(9,882.00)
B	Total value of collateral deposited with Clearing Corporation/Clearing Member in the form of cash and cash equivalents	327,572,191.82	328,882,901.33	(1,310,709.51)
E	Total value of own securities deposited with the Clearing Corporation and/or Clearing Member	15,380,421.86	20,559,979.97	(5,179,558.11)
P	Total value of proprietary margin obligation	90,008,223.09	94,674,798.00	(4,666,574.91)
MC	Total value of margin utilized for positions of credit balance clients	122,305,400.43	115,334,363.62	6,971,036.81
MF	Total value of free/unblocked collateral deposited with Clearing Corporation/Clearing Member	220,266,677.69	179,860,665.36	40,406,012.33

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

a. Total end of the day balance in all client and settlement bank accounts (A)

The Noticee updated the details of A/c. No. 57500000993289 maintained with HDFC Bank on the portal of the Exchange with the title 'Any Other Bank' instead of 'Settlement Bank'. The Noticee provided the bank statement of A/c. No. 57500000993289 maintained with HDFC Bank reflecting a balance of Rs.9,882/-.

b. Total value of collateral deposited with Clearing Corporation/Clearing Member in the form of cash and cash equivalent (B)

The Noticee reported the collateral based on the files received from the Clearing Corporation. It provided margin file, collateral file and daily margin statement to the Exchange for verification.

c. Total value of own securities deposited with the Clearing Corporation/Clearing Member (E)

The Noticee calculated the value of own securities deposited with the Clearing Corporation/Clearing Member based on the market value of the closing stock as of November 18, 2022. It provided the holding valuation report of proprietary account to the Exchange for verification.

d. Total value of proprietary margin obligation (P)

As per the margin file received from the Clearing Corporation, the proprietary margin obligation is Rs.9.47 crores. It provided the margin files to the Exchange for verification.

e. Total value of margin utilized for positions of credit balance clients (MC)

The Noticee reported the total value of margin utilized for positions of credit balance clients as generated from the software, i.e. Rs.69.71 lakhs. It provided the working file to the Exchange for verification.

f. Total value of free/unblocked collateral deposited with Clearing Corporation/Clearing Member (MF)

The Noticee included free funds in the total value of free/unblocked collateral deposited with the Clearing Corporation and Clearing Member. It provided the margin file and daily margin statement to the Exchange for verification.

6.2.3 The Committee finds as under:

a. Total end of the day balance in all client and settlement bank accounts (A) (Actual figure – Rs.1,52,61,036.17; Reported figure – Rs.1,52,70,918.17; Difference – Rs.9,882.00)

The Noticee attributed the difference of Rs.9,882/- between the actual and reported figures to an error while uploading the balances in all client and settlement bank accounts on the portal of the Exchange.

Hence, the violation persists.

b. Total collateral deposited with Clearing Corporation/Clearing Member in the form of cash and cash equivalents (B) (Actual figure – Rs.32,75,72,191.82; Reported figure – Rs.32,88,82,901.33; Difference – Rs.13,10,709.51)

The Noticee claimed that it reported the collateral based on the files received from the Clearing Corporation.

Upon verification of the collateral files and daily margin statement, it is observed that the Noticee considered 100% value of the bank guarantee in the total collateral deposited with Clearing Corporation/Clearing Member in the form of cash and cash equivalent. However, as per Exchange Circular No. NSE/INSP/52724 dated June 24, 2022, the aggregate value of collateral deposited with Clearing Corporation/Clearing Member in the form of cash and cash equivalents includes cash, fixed deposit and bank guarantee. In the case of bank guarantee, only the funded portion of the bank guarantee shall be considered. The underlying collateral of the bank guarantee given in the form of cash or fixed deposit receipt only should be considered in the funded portion of the

bank guarantee. The underlying collateral of the bank guarantee given in any form other than cash or fixed deposit receipt such as shares/immovable property etc. should not be considered as funded portion of the bank guarantee.

Hence, the violation persists.

c. Total value of own securities deposited as collateral with Clearing Corporation/Clearing Member (E) (Actual figure – Rs.1,53,80,421.86; Reported figure – Rs.2,05,59,979.97; Difference – Rs.51,79,558.11)

The Noticee claimed that it calculated the value of own securities deposited with the Clearing Corporation/Clearing Member based on the market value of the closing stock as of November 18, 2022.

As per Exchange Circular No. NSE/INSP/52724 dated June 24, 2022, the value of own collaterals includes securities/commodities/cash equivalents other than fixed deposit receipt/bank guarantee deposited with the Clearing Corporation/Clearing Member across all stock exchanges. Haircut to be applied as stipulated by the respective Clearing Corporation/Clearing Member. The securities/commodities/cash equivalents other than fixed deposit receipt/bank guarantee shall be valued (after haircut) at closing rate of the last trading day of the week.

Upon verification of the holding valuation report of proprietary account, it is observed that the Noticee considered the value of the holding without the haircut.

Hence, the violation persists.

d. Total value of proprietary margin obligation (P) (Actual figure – Rs.9,42,88,868.00; Reported figure – Rs.9,46,74,798.00; Difference – Rs.3,85,930.00)

The Noticee claimed that as per the margin file received from the Clearing Corporation, the proprietary margin obligation is Rs.9.47 crores.

Upon verification of the margin files, it is observed that the revised difference is Rs.3.86 lakhs instead of Rs.46.67 lakhs.

e. Margin utilized for positions of credit balance client (MC) (Actual figure – Rs.12,23,05,400.43; Reported figure – Rs.11,53,34,363.62; Difference – Rs.69,71,036.81)

The Noticee claimed that it reported the total value of margin utilized for positions of credit balance clients as generated from the software.

As per Exchange Circular No. NSE/INSP/52724 dated June 24, 2022, margin utilized for positions of credit balance clients across all Clearing Corporation is the minimum of credit balance of clients and margin obligation of such clients after deducting the value of securities/commodities repledged with Clearing Corporation/Clearing Member after appropriate haircut for the purpose of margin.

The Noticee failed to submit the complete working for verification.

Hence, the violation persists.

f. Free/unblocked collateral deposited with Clearing Corporation/Clearing Member (MF) (Actual figure – Rs.22,02,66,677.69; Reported figure – Rs.17,98,60,665.36; Difference – Rs.4,04,06,012.33)

The Noticee claimed that it included free funds in the total value of free/unblocked collateral deposited with the Clearing Corporation/Clearing Member.

The Committee notes that the Noticee considered the margin files but not the CC02 file while computing the total value of free/unblocked collateral deposited with the Clearing Corporation/Clearing Member.

As per Exchange Circular No. NSE/INSP/52724 dated June 24, 2022, the value of margin shall be the margin as per CC02 file if available after deducting value of cash component - value of Gsec/GMF/CMF repledged and non- cash component - value of non-cash repledged.

Hence, the violation persists.

g. The Noticee violated the regulatory provisions of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, by reporting

incorrect data towards weekly monitoring of client funds to the Exchange. However, the Committee notes that it is not a repeat violation.

6.2.4 Given the findings mentioned above, the Exchange decided to advise the Noticee to ensure non-recurrence of the observed violation.

DECISION

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

Sr. No.	Committee's Findings	Prescribed penalty as per Exchange Circular No. NSE/INSP/53530 dated September 2, 2022	Penalty Levied
a.	Violation of Principle 2 of the Enhanced Supervision of Stockbrokers to the extent of Rs.2.29 crores as of November 18, 2022	Repeat violation Misuse is less than Rs.10 crores Monetary penalty of 4% of the misuse amount or Rs.4 lakhs whichever is higher and no new clients up to six months	Rs.9,15,000/- (4% of Rs.2,28,80,883/-)
b.	Incorrect data submitted towards weekly monitoring of client funds in 6 areas as of November 18, 2022	Rs.1,00,000/-	Advise
Total			**Rs.9,15,000/-**

8. The Noticee shall pay a monetary penalty of Rs.9,15,000/- (Rupees Nine lakhs Fifteen Thousand only).

9. The Noticee shall note the non-monetary penalty mentioned above and ensure non-recurrence of the observed violation.

Sd/-	Sd/-	Sd/-
Mona Bhide	K Narasimha Murthy	S Ravindran
(Chairperson)	(Committee Member)	(Committee Member)

Sd/-	Sd/-
Ranganayakulu Jagarlamudi	Ashishkumar Chauhan
(Committee Member)	(Committee Member)

Date: December 1, 2023