Before the
Member Committee ("MC"/"Committee"/erstwhile "MCSGFC")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051
held on September 16, 2024

In the matter of the Trading Member: -
A C Agarwal Share Brokers Private Limited

CORAM

Mr. S Ravindran	-	Chairman
Justice (Retd) Abhilasha Kumari	-	Committee Member
Prof (Dr.) Mamata Biswal	-	Committee Member
Mr. Ashishkumar Chauhan	-	Committee Member

ALSO PRESENT

Mr. Piyush Chourasia	-	Chief Regulatory Officer
Ms. Renu Bhandari	-	Senior Vice President - Inspection, Member Registration & Compliance
Mr. Sanjayu Nair	-	Vice President - Legal
Ms. Sonali Karnik	-	Vice President - Enforcement
Mr. Janardhan Gujaran	-	Vice President - Enforcement

BACKGROUND

1. **A C Agarwal Share Brokers Private Limited** ("**Noticee**") is a SEBI registered stockbroker and a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") enabled for trading in the Capital Market ("**CM**") and Futures & Options ("**F&O**") segments since April 2009, Currency Derivatives ("**CD**") segment since May 2019 and Commodity segment ("**COM**") since October 2018.

2. The Exchange conducted a regular inspection of the Noticee's books of accounts and records of the Noticee covering the period from October 1, 2021, to September 30, 2022, across segments, from November 2022 to February 2023. The Exchange

observed non-compliance of certain regulatory provisions. Accordingly, the Exchange issued a Show-Cause Notice ("**SCN**") dated May 3, 2023 to the Noticee seeking explanation for the non-compliances with the regulatory provisions observed during the inspection. The Noticee replied to the said SCN on May 10, 2023, June 19, 2023, March 2, 2024, and August 8, 2024.

INSPECTION OBSERVATIONS/ALLEGED VIOLATIONS

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

3.1. Incorrect reporting of the end of the day ("**EOD**") margin and peak margin collection from clients in 82 out of 175 instances selected for sample scrutiny (46.85% of the total sample instances verified) involving Rs. 24.67 crores as under:

a. EOD Margin: 24 instances involving Rs. 3.68 crores

b. Peak Margin: 58 instances involving Rs. 20.99 crores

3.2. Non-settlement of clients' funds in 1,830 out of 2,310 instances selected for sample scrutiny (79% of the total sample instances verified) as under:

a. Active Clients - 16 out of 100 instances selected for sample scrutiny (16% of the total sample clients verified) involving Rs. 4.71 crores.

b. Inactive Clients - 1,814 out of 2,210 instances/clients selected for sample scrutiny (82.08% of the total sample clients verified) involving Rs. 14.82 crores.

3.3. Delay in settlement of clients' funds in the case of 1 out of 50 clients selected for sample scrutiny (2% of the total sample clients verified).

3.4. Non-maintenance of the client registration form containing all the prescribed mandatory documents in the case of 5 out of 50 clients selected for sample scrutiny (10% of the total sample clients verified).

3.5. Non-adherence to the leverage and exposure limits while granting margin trading facility to the clients as under: -

a. Client exposure exceeded the maximum allowable exposure limit in the case of 1 client on 12 dates to the extent of Rs. 14.80 crores.

b. Total exposure exceeded the maximum allowable exposure limit on 11 dates to the extent of Rs. 4 crores.

3.6. Error in uploading the details of 3 trading terminals on the Exchange.

3.7. Non-display of notice board at the premises of 2 Authorized Persons ('**APs**').

3.8. Incorrect data reported to the Exchange in the weekly client-level cash and cash equivalent balances in 1 instance involving Rs. 5.77 lakhs.

3.9. Incorrect data reported in the weekly monitoring of clients' funds in 6 areas involving differences ranging from (-ve) Rs. 4.39 crores to Rs. 4 crores.

REGULATORY PROVISIONS

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 **Incorrect reporting of margin collected from clients**

a. Regulation 3.9 of NSEIL Regulations (CM Segment)

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

b. Regulation 3.10 of NSEIL Regulations (F&O Segment)

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

c. Exchange Circular No. NSE/INSP/45191 dated July 31, 2020

F&O Segment:

In the F&O segment, it is *mandatory for Trading Members to collect SPAN margin & Extreme loss margin from respective clients on a upfront basis. It must be ensured that all upfront margins are collected in advance of trade. Delivery Margin and margin on consolidated crystallized obligation shall be collected from clients by T+1 day.*

d. Exchange Circular No. NSE/INSP/45534 dated August 31, 2020

CM Segment:

In Capital Market segment, Trading Members (TM) are required to mandatorily collect minimum 20% upfront margin in lieu of VaR and ELM from the client on an upfront basis. Other margins such as Mark- to-market margin (MTM), delivery margin, special/additional Margin or such other margins as may be prescribed from time to time, shall be collected within 'T+2' working days from their clients. It must be ensured that minimum 20% upfront margin is collected in advance of trade and other margins are collected/paid as soon as margin calls are made by the clearing corporations.

4.2 **Non-settlement of clients funds**

a. Exchange Circular No. NSE/INSP/48624 dated June 16, 2021

5.1. The settlement of running account of funds of the client shall be done by the TM after considering the end of the day (EOD) obligation of funds as on the date of settlement across all the exchanges, at least once within a gap of 30 / 90 days between two settlements of running account as per the preference of the client.

5.4. For the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM within next three working days irrespective of the date when the running account was previously settled.

4.3 **Delay in settlement of clients' funds**

a. Exchange Circular No. NSE/INSP/48624 dated June 16, 2021

5.1. The settlement of running account of funds of the client shall be done by the TM after considering the end of the day (EOD) obligation of funds as on the date of settlement across all the exchanges, at least once within a gap of 30 / 90 days between two settlements of running account as per the preference of the client.

5.4. For the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM within next three working days irrespective of the date when the running account was previously settled.

4.4 **Non-maintenance of client registration documents containing all the prescribed mandatory documents.**

a. Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, and SEBI Circular (No. MIRSD/ SE /Cir-19/2009) dated December 3, 2009

Requirements relating to dealings between a client and stock broker

Client Registration Procedure

1. The stockbroker shall register a client by entering into an agreement with him. For this purpose, the stockbroker shall make available a folder/book containing all the documents required for registration of a client. The folder/book shall have an index page listing all the documents contained in it and indicating briefly significance of each document. Once signed, a copy of the same shall be made available to the client.

2. The folder/book shall have two parts: (a) mandatory and (b) non-mandatory.

Mandatory Documents

3. The mandatory documents are:

a. *Member Client Agreement (MCA)/Tripartite Agreement in case sub-broker is associated,*
b. *Know Your Client (KYC) Form*
c. *Risk Disclosure Document (RDD)*

These shall be executed in the format as prescribed by SEBI.

b. Exchange Circular No. NSE/INSP/18677 dated August 22, 2011

3. SEBI has devised the uniform documentation to be followed by all the stockbrokers/ trading members; a *copy thereof to be provided by them to the clients. The details of such documents are listed below:*

i. Index of documents giving details of various documents for client account opening process – Annexure-1

ii. Client account opening form in two parts:

a. *Know Your Client (KYC) form capturing the basic information about the client and instruction/check list to fill up the form - Annexure-2.*

b. *Document capturing additional information about the client related to trading account -Annexure-3.*

iii. Document stating the rights & obligations of stockbroker, sub-broker and client for trading on exchanges (including additional rights & obligations in case *of internet I wireless technology- based trading)-Annexure-4.*

iv. Uniform risk disclosure documents segments/exchanges) - Annexure-5.

v. Guidance notes detailing dos *and don'ts for trading on exchanges - Annexure-6.*

4.5 **Non-adherence to the leverage and exposure limits while granting margin trading facility to the clients**

a. Exchange Circular No. NSE/COMP/35125 dated June 15, 2017

Leverage and Exposure Limits

17. *The maximum allowable exposure of the broker towards the margin trading facility shall be within the self-imposed prudential limits and shall not, in any* case, *exceed the borrowed funds and* 50% *of his "net worth".*

18. *While providing the margin trading facility, the broker shall ensure that:*

a) *exposure to any single client at any point of time shall not exceed 10% of the broker's maximum allowable exposure,* as *specified in para 17 above.*

4.6 **Error in uploading the details of trading terminal on the Exchange**

a. Exchange Circular No. NSE/MA/22732 dated February 13, 2013

Trading Members are required to report the complete 12-digit terminal details. Failure to upload the details or upload incorrect details will lead to CTCL Id mismatch…

4.7 **Non-display of notice board**

a. Exchange Circular No. NSE/MA/22732 dated February 13, 2013

i. *Notice boards/plates in the format* as *prescribed by Inspection department from time to time shall be prominently displayed in the main/branch office of the trading member or office of the registered authorized person (where the trading terminal* is *located),* as *the* case *may be. The* same *shall be applicable to every place where one of the CTCL terminals* is *located.*

4.8 **Incorrect data reported to the Exchange in the weekly client-level cash and cash equivalent balances**

a. Exchange Circular No. NSE/INSP/43926 dated March 23, 2020

1. *Day-wise upload of client level cash & cash equivalent balances on a weekly basis for all calendar days of that week except Sunday (i.e. Monday to Saturday);*

2. *….*

The aforesaid data I details shall be required to be submitted on or before the next four trading days of subsequent week.

4.9 **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:*

C-Aggregate value of credit balances of all clients as *obtained from trial balance* across *stock exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations)*

D-Aggregate value of debit balances of all clients as *obtained from trial balance* across *stock exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients, uncleared cheques issued to clients and the margin obligations)*

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 weekly basis. Members will have to submit the data as *on last trading day of every week on or before the next three trading days.*

PAST PROCEEDINGS BEFORE THE COMMITTEE

5. The matter was placed before the Committee on the following previous occasions: -

5.1. MCSGFC Meeting dated May 23, 2024

a. The Exchange, vide its email dated May 15, 2024, granted the Noticee with an opportunity of personal hearing before the Committee in its meeting dated May 23, 2024.

b. The Noticee vide its email dated May 22, 2024, sought an adjournment on the grounds of non-availability of its key personnel on the said date.

c. The Committee acceded to the adjournment request of the Noticee.

5.2. MCSGFC Meeting dated July 29, 2024

a. The Exchange vide its email dated July 22, 2024, granted the Noticee with another opportunity of personal hearing before the Committee in its present meeting dated July 29, 2024.

b. On behalf of the Noticee, Mr. Nagesh Kumar Agarwal - Director and Mr. Ravindra Uniyal - Compliance Officer, appeared before the Committee and reiterated the submissions made in its written replies submitted to the Exchange.

c. Upon request of the Noticee during personal hearing, the Committee directed the Exchange to provide details of the revised instances of non-compliance for the violation pertaining to incorrect reporting of margin collected from clients to the Noticee. Accordingly, the Exchange vide its email dated July 29, 2024, provided the said details to the Noticee and requested it to make its additional submissions pertaining to the revised instances along with supporting documents latest by August 8, 2024.

d. The Noticee vide its email dated August 8, 2024, submitted additional reply to the Exchange.

PRESENT PROCEEDINGS BEFORE THE COMMITTEE

6. In the meeting dated September 16, 2024, the Committee, considering the facts of the matter along with the submissions of the Noticee, decided to conclude the proceedings.

CONSIDERATION AND FINDINGS

7. The observations/violations in the SCN, replies of the Noticee and the findings of the Committee are as under: -

7.1. **Incorrect reporting of margin collected from clients**

7.1.1. Upon verification of the register of securities, client ledgers, demat transaction statements, bank statements and records of the Exchange pertaining to margin required and margin reported, the Exchange observed that the Noticee incorrectly reported the EOD margin and peak margin collected from clients in 82 out of 175 instances selected for sample scrutiny (46.85% of the total sample instances) involving Rs. 24.67 crores as below: -

a. EOD Margin: 24 instances involving Rs.3.68 crores

b. Peak Margin: 58 instances involving Rs.20.99 crores

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

i. 23 instances involving Rs. 18,42,97,276.1 (UCCs: 9, AA, KA, NN11, AK03, AM08, S11, 596, J969, O12, AC53, B99, KA11, IMS01, AC11, M111, AM02, KH2, 153, SJ9, SJ11, J959, and KP02)

Uncleared cheques were not considered towards the margin requirement.

ii. 2 instances involving Rs. 16,24,520/- (UCCs: JSG and AK01)

Uncleared cheques and excess collateral available with the clients were not considered towards the margin requirement.

iii. 6 instances involving Rs. 13,70,913/- (UCCs: CC12, MQ8, Q38, PE17, CH18 and 4001)

The client had Client Unpaid Securities Account ("**CUSA**") securities available for margin requirement.

iv. 4 instances involving Rs. 50,03,774/- (UCCs: BDG40, GAM2, VKP8 and HJ61)

The client had sufficient Early Pay-in ("**EPI**") securities to meet margin requirement.

v. In 15 instances involving an amount of Rs.13,86,128/- (UCC: N145, PA3, IS48, ARS1, PE5, AQB4, PE23, MG99, ME62, SIP01, ME38, DM149, 11001, PE10, 331)

The client had done EPI of securities and has sufficient pledge securities to cover margin requirement.

vi. 2 instances involving Rs. 4,53,692/- (UCCs: PE40 and 5523)

The clients' EPI and the value of securities lying in CUSA were not considered towards the margin requirement.

vii. 1 instance involving Rs. 50,974/- (UCC: VE3)

Excess collateral available with the client was not considered towards the margin requirement.

viii. 1 instance involving Rs. 498/- (UCC: MA63)

A cheque for Rs. 1,000/- was deposited. The said cheque was cleared on T+1 day.

ix. 2 instances involving Rs. 92,015/- (UCCs: O220 and O219)

The peak ledger balance considered for the purpose of computing margin requirement is incorrect.

x. 3 instances involving Rs. 18,07,146/- (UCCs: RHS01, NB55 and 33048)

The pledged securities were sufficient to meet the clients' margin requirements.

xi. In 1 client involving Rs.7,58,966/-: (UCC: CC16)

The client had sufficient EPI and CUSA securities to meet margin requirements.

xii. In 1 client involving Rs.7,39,909/-: (UCC: 519)

Uncleared cheques of Rs. 7,02,048/- had not been considered for margin. Further, client had sufficient pledge and EPI securities to meet margin requirements.

xiii. In 1 client Involving Rs.4,53,008/-: (UCC: PE12)

The client had EPI and CUSA securities to meet margin requirement.

xiv. In 1 client involving Rs.4,34,061/-: (UCC: KH10)

Excess collateral under pledge, EPI and CUSA was not considered by the Exchange.

xv. In 1 client involving Rs.4,05,078/-: (UCC: GC34)

The client had sufficient pledge and EPI securities to cover margin requirement.

xvi. In 1 client involving Rs.3,49,112/-: (UCC: DM267)

It has uncleared cheques of Rs.73,000/-.

xvii. In 1 client Involving Rs. 2,66,339/-: (UCC: HS5014)

The client had EPI of Rs. 10,37,200/-

xviii. In 1 client involving Rs.2,08,790/-: (UCC: J214)

Uncleared cheques have not been considered by the Exchange and the clients have sufficient pledge securities to meet margin requirements.

xix. In 1 client involving Rs.2,05,453: (UCC: J915)

Collateral securities amounting to Rs. 21,19,352/- were released after 3:30 pm.

xx. In 1 client involving Rs.2,00,360: (UCC: NA22)

The client had sufficient EPI and pledge securities to meet margin requirement.

xxi. In 1 client involving Rs.1,83,480/- (UCC: J921)

The client had sufficient EPI and pledge securities to meet margin requirement.

xxii. In 1 client involving Rs.1,77,808/-: (UCC: CC13)

The client had pledge securities amounting to Rs. 28,28,685 and Scrip PAYTM quantity 396 under CUSA.

xxiii. In 1 client involving Rs.1,46,141/-: (UCC: 514)

The client had sufficient pledge securities.

xxiv. In 1 client Involving Rs. 66,772: (UCC: VE2)

The clients had pledged securities amounting to Rs. 38,59,473/-.

xxv. In 1 client involving Rs.42,659: (UCC: 9575)

The client had excess EPI and pledge securities to meet margin requirements.

xxvi. In 1 client involving Rs. 24,835/-: (UCC: 33034)

The Noticee has already reported short margin amounting to Rs.6,847/-

xxvii. In 1 client involving Rs.3,244: (UCC: IM04)

The Noticee has already reported short margin amounting to Rs. 8,843/-.

xxviii. In 2 clients involving Rs.513/-: (UCCs: HS3572 and IM02)

The Noticee has already reported short margin to the Exchange.

xxix. In 1 client involving Rs.3,41,122/-: (UCC: KM12)

Trading in MCX was done after 3:30 pm when NSE FO Peak Margin was released.

xxx. In 1 client involving amount of Rs.8,73,554/-: (UCC: AM06)

Uncleared cheques and excess collateral were not considered by the Exchange while computing margin requirement.

xxxi. In 1 client involving Rs.12,43,092: (UCC: 3577)

Uncleared cheque has not been considered and MTM of Rs.7,14,842/- has been recovered on T+1.

xxxii. In 1 client involving Rs.4,35,23,146/-: (UCC: 999)

The client has uncleared cheques of Rs.3,50,00,000/- and EPI of Rs. 79,68,647/-.

7.1.3. After considering the oral and written submissions of the Noticee, the Committee finds as under: -

a. 22 instances involving Rs. 18,42,72,261/- (UCCs: 9, AA, KA, NN11, AK03, AM08, S11, 596, J969, O12, AC53, B99, KA11, IMS01, AC11, M111, AM02, KH2,153, SJ9, SJ11, and J959)

i. The Noticee claimed that uncleared cheques were not considered towards the margin requirement.

ii. As per Exchange Circular No. NSE/INSP/45191 dated July 31, 2020, where it is stated that cheques received/ recorded in the books of a Trading Member on or before T-day and deposited by the Trading Member by T+1 days (excluding bank holiday, if any) can be considered towards collection/reporting of upfront margins, provided the same is cleared within T+5 working days.

iii. Upon perusal of the bank statements, it is observed that the Noticee recorded uncleared cheques in its books on or before the T-day and the said cheques were cleared within T+5 working days.

iv. Post considering the same, the observation/violation ceases to persist in the aforementioned instances.

b. 1 instance involving Rs. 25,015/- (UCC: KP02)

i. The Noticee claimed that uncleared cheques were not considered towards the margin requirement.

ii. Upon perusal of the manual settlement report and email provided by the Noticee, it is observed that the Noticee received payment as on September 26, 2022 i.e. within T+5 days. Hence, there is no shortfall of margin.

iii. Post considering the same, the observation/violation ceases to persist in the aforementioned instance.

c. 2 instances involving Rs. 16,24,520/- (UCCs: JSG and AK01)

i. The Noticee claimed that uncleared cheques and excess collateral available with the clients were not considered towards the margin requirement.

ii. Upon perusal of the bank statements, it is observed that the Noticee recorded uncleared cheques in its books on or before the T-day and the said cheques were cleared within T+5 working days.

iii. Upon perusal of demat statements and margin pledge holding details, it is observed that the client had sufficient margin pledged securities available on the reported dates.

iv. Post-considering the value of these cheques and the value of pledged collateral available with the clients, the observation/violation ceases to persist in the aforementioned instances.

d. 6 instances involving Rs. 13,70,913/- (UCCs: CC12, MQ8, Q38, PE17, CH18 and 4001)

i. The Noticee claimed that sufficient securities were available in CUSA towards margin requirements of the clients.

ii. Upon perusal of the CUSA demat statement, it is observed that clients had sufficient securities in CUSA.

iii. Post-considering the value of securities in CUSA, the observation/violation ceases to persist in the aforementioned instances.

e. 4 instances involving Rs. 50,03,774/- (UCCs: BDG40, GAM2, VKP8 and HJ61)

i. The Noticee claimed that it had sufficient EPI securities to meet margin requirement.

ii. As per the Exchange circular NSE/INSP/45191 dated July 31, 2020, Trading Member shall not be required to collect upfront margins, in respect of positions for which EPI of securities/funds is made by the clients to its Trading Member.

iii. Upon perusal of the demat account statement, it is observed that the clients provided securities in EPI.

iv. Post considering the same, the observation/violation ceases to persist in the aforementioned instances.

f. In 15 clients involving an amount of Rs.13,86,128: - (UCCs: N145, PA3, IS48, ARS1, PE5, AQB4, PE23, MG99, ME62, SIP01, ME38, DM149, 11001, PE10, 331)

i. The Noticee claimed that clients had done EPI of securities and had sufficient pledge securities to cover margin requirement.

ii. On perusal of margin files of the clearing corporation, transaction statements of depositories and trade data files, it is observed that the securities which were sold on T Day for which margin requirement arises, the clients have done EPI of those securities on same day.

iii. Post considering the same, the observation/violation ceases to persist in the aforementioned instances.

g. 2 instances involving Rs. 4,53,692/- (UCCs: PE40 and 5523)

i. The Noticee claimed that the clients' EPI and the value of securities lying in CUSA were not considered towards the margin requirement.

ii. Upon perusal of the demat account statements of the clients, it is observed that the clients had sufficient EPI and CUSA securities towards their respective margin requirements.

iii. Post considering the same, the observation/violation ceases to persist in the aforementioned instances.

h. 1 instance involving Rs. 50,974/- (UCC - VE3)

i. The Noticee claimed that excess collateral available with the client was not considered towards the margin requirement.

ii. Upon perusal of the demat account statement, applicable haircut as per the Mutual Funds files, it is observed that the applicable haircut that the Exchange considered was 10% instead of 7.5%.

iii. Post-considering the value of securities after deducting appropriate haircut as per the Exchange's Value at Risk ("**VAR**") file, the observation/violation ceases to persist in the aforementioned instance.

i. 1 instance involving Rs. 498/- (UCC: MA63)

i. The Noticee claimed that a cheque for Rs. 1,000/- deposited by the Noticee was cleared on T+1 day. The said amount was not considered towards the margin requirement.

ii. Upon perusal of the client ledger, it is observed that said cheque was cleared on T+1 day i.e. within T+5 working days.

iii. Post considering the same, the observation/violation ceases to persist in the aforementioned instance.

j. 2 instances involving Rs. 92,015/- (UCCs: O220 and O219)

i. The Noticee claimed that the peak ledger balance considered for the purpose of computing margin requirement is incorrect.

ii. Upon verification of the client ledgers, it is observed that a reversal of the T-2 CM settlement bill was not considered while computing peak ledger balance.

iii. Post-considering the same, the observation/violation ceases to persist in the aforementioned instances.

k. 3 instances involving Rs. 18,07,146/- (UCCs: RHS01, NB55 and 33048)

i. The Noticee claimed that the pledged securities were sufficient to meet the clients' margin requirements.

ii. Upon perusal of the demat account and margin pledged holding statement of the clients, it is observed that 2 clients bearing UCCs: NB55 and 33048 had sufficient pledged securities to meet margin requirement.

iii. Upon perusal of demat account statement and pledge/unpledged/confiscate group inquiry report provided by the Noticee, it is observed that pledged securities worth Rs.16,53,843/- were available towards the peak margin requirement of the client bearing UCC: RHS01. As per the margin files of the clearing corporation, the said peak margin pertains to the requirement as on T-2 days which was settled on T-day. Furthermore, the said securities were unpledged after settlement of the bill.

iv. Post-considering the same, the observation/violation ceases to persist in the aforementioned instances.

I. In 1 client involving Rs.7,58,966/-: (UCC: CC16)

i. The Noticee claimed that the client had sufficient EPI and CUSA securities to meet margin requirements. On perusal of transaction statements of depositories and Trade files, it is observed that the client has done EPI amounting to Rs.3,35,059/- on T Day and benefit of the same, was extended to the client.

ii. In respect to CUSA Securities, the Noticee claimed that the client has CUSA securities (ISIN INE079A01024 Qty 1500) amounting to Rs.6,05,220/- on T-1. On perusal of transaction statements of depositories, it is observed that the client had only 1 quantity of ISIN INE079A01024 under CUSA account, 670 quantities considered as pledge and remaining 829 quantities were under free balance at end of day of September 28, 2022. Furthermore, the benefit of Pledge and CUSA securities has already extended to the client. Hence, the Noticee's contention of CUSA securities of T-1 day is not acceptable as the peak margin requirement was pertaining to T Day.

iii. Further, the Noticee vide its email dated August 08, 2024, claimed that the 829 quantities of ISIN INE079A01024 were Power of Attorney ("POA") securities and hence, considered for collection of margins.

iv. As per the Exchange Circular Nos. NSE/INSP/43653 dated February 25, 2020, and NCL/CMPL/45180 dated July 30, 2020, Trading Members /Clearing Members shall, inter alia, accept collateral from the clients in the form of securities, only by way of 'margin pledge', created in the depository system. In case a client has given a POA in favour of Trading Member/Clearing Member, holding of such POA shall not be considered as equivalent to the collection of margins by the Trading Member/Clearing Member in respect of securities held in the demat account of the client, with effect from August 1, 2020. Further, post removing the effect of Journal Vouchers of Rs.614 which was additionally considered earlier by the Exchange towards computation of peak ledger, the revised violation persists for Rs. 4,24,521/-

m. In 1 client involving Rs.7,39,909/-: (UCC: 519)

i. The Noticee claimed that uncleared cheques of Rs. 7,02,048/- had not been considered for margin. Further, client had sufficient pledge and EPI securities to meet margin requirements. On perusal of bank statement, it is observed that cheques of Rs. 7,02,048/- were recorded on August 16, 2022, and August 17, 2022, and cleared on August 17, 2022, and August 18, 2022, respectively, as per bank statement which is cleared within 5 days. Further in respect of EPI, on perusal of transaction statements of depositories it is observed that the client has EPI amounting to Rs.36,235/- of ISIN INE814H01011 Qty 100. Hence, the benefit of same is extended to the client.

ii. With respect to pledge securities, on perusal of transaction statements of depositories and margin statement, it is observed that the Noticee has considered ISIN INE814H01011 Qty 100 under pledge as well as under EPI. Since the benefit for EPI is already provided to the client, the said securities are not considered under pledge. Further, the Noticee has considered T Day End of Day("**EOD**") Value at Risk ("**VAR**") while valuation of pledge securities instead of T-1 day EOD VAR.

iii. Post considering the same, revised violation persists for the amount of Rs.1,626/-.

n. In 1 client Involving Rs.4,53,008: (UCC: PE12)

i. The Noticee in its response to the Exchange stated that the client has EPI and CUSA securities to meet margin requirement. On perusal of transaction statements of depositories and CUSA statement, it is observed that the client has EPI of amounting to Rs.4,43,850/- and benefit for same extended to the Noticee.

ii. Further in respect of CUSA securities, it is observed that these securities are already considered under EPI. Hence, it cannot be considered for CUSA.

iii. Further vide mail dated August 08, 2024, the Noticee claimed that it has paid the penalty on short margin amounting to Rs. 9273/-. On perusal of Penalty file of Clearing Corporation, it was observed that the Noticee has already reported short collection of margin under EOD amounting to Rs. 59,845/- on which penalty has been paid by the Noticee. However, with respect to the violation pertaining to peak margin, the Noticee has done wrong reporting of Rs. 9273/- under peak margin. Considering penalty for short collection of Rs.59,845/- has already been paid by the Noticee under EOD, benefit of the same extended to the Noticee.

iv. Post considering the same, the observation/violation ceases to persist in the aforementioned instances.

o. In 1 client involving Rs.4,34,061/-: (UCC: KH10)

i. The Noticee claimed that the Exchange has not considered excess collateral under pledge, EPI and CUSA. The Noticee claimed that the pledge securities amount to Rs. 49,31,432/-. On perusal of transaction statements of depositories and Daily Margin Statement ("DMS"), it was observed that the Noticee has considered ISIN INE085J01014 and INE364U01010 quantity 100 and 25 respectively under both Pledge and EPI. The benefit of EPI of Rs.1,82,670/- is extended to the Noticee.

ii. In respect to CUSA securities, the Noticee claimed that CUSA securities amounting to Rs. 1,04,909/- were available. However, on perusal of transaction statements of depositories, it is observed that these CUSA securities were transferred to client's Depository Participant ("DP") on T Day and available as free balance at EOD. The peak margin requirement continues till T+1 day. Hence, securities which were already transferred to client's DP on T Day and available as free balance at EOD cannot be considered for peak margin requirement under CUSA.

iii. Further, pledge report provided by the Noticee vide email dated August 08, 2024, does not match with Daily Margin Statement pledge securities details of client. The Noticee has considered rate of T Day instead of T-1 day while valuing pledge securities.

Further, post removing the effect of Journal Vouchers of Rs. 75 which was additionally considered earlier by the Exchange towards computation of peak ledger, the revised violation persists for Rs.2,51,466/-

p. In 1 client involving Rs.4,05,078: (UCC: GC34)

iv. The Noticee claimed that client has sufficient pledge and EPI securities. On perusal of transaction statements of depositories, it is observed that client has EPI amounting to Rs.3,47,500/- and therefore, the benefit of the same is extended to the Noticee. Further, with respect to pledge securities, the Noticee has claimed additional quantity of 10000 of ISIN INE095N01031. However, the Exchange has already considered the same in EPI. Hence, the same cannot be considered under the pledge for same securities. The Noticee vide mail dated August 08, 2024, has accepted the violation. Further, post removing the effect of Journal Vouchers of Rs. 298 which was additionally considered earlier by the Exchange towards computation of peak ledger, the revised violation persists for Rs. 57,876/-.

q. In 1 client involving Rs.3,49,112/-: (UCC: DM267)

i. The Noticee claimed that it has uncleared cheques of Rs.73,000/-. On perusal of bank statement, it is observed that cheques of Rs. 73,000/-. were recorded on April 25, 2022, and cleared on April 26, 2022, respectively, as per bank statement which is cleared within 5 days.

ii. Post considering the same, revised violation persists for Rs.2,76,112/-.

r. In 1 client Involving Rs. 2,66,339: (UCC: HS5014)

i. The Noticee claimed that the client had EPI of Rs. 10,37,200/-. However, on perusal of transaction statements of depositories, it was observed that there were no such EPI securities available in demat statement.

ii. The Noticee further claimed that short peak collection margin was reported, and penalty has been levied. Further, as per the Noticee's working, the short collection of EOD was Rs.1,24,643/. However, as per Penalty file of Clearing Corporation, the Noticee has reported short collection of margins under EOD of Rs.31,417/-. Further, the Noticee's claim that it has already reported short collection in peak margin is not acceptable as the Noticee has done wrong reporting of Rs. 93,225/- under EOD. Further, the Exchange has already considered Lower of Margin requirement and margin collection while computing wrong reporting.

i. The Exchange has considered amount from MTF ledger instead of non-MTF ledger while computation of margin. After considering non-MTF ledger, benefit for the amount of Rs.1,73,114/- is extended.

ii. Post considering the correct ledger balance, the revised violation persists for Rs.93,225/-.

s. <u>In 1 client involving Rs.2,08,790/-:</u> (UCC: J214)

i. The Noticee claimed that uncleared cheques have not been considered by the Exchange, and the clients have sufficient pledge securities to meet margin requirements. On perusal of bank statement, it is observed that cheques of Rs. 2,50,000/- were recorded on October 06, 2021, and cleared on October 07, 2021, respectively as per bank statement. Considering uncleared cheques cleared within 5 days, benefit of the same is extended to the Noticee.

ii. In respect of pledge securities, the Noticee claimed additional pledge 2893 shares of ISIN INF457M01133. It is observed that the Exchange has already considered additional pledge in EPI. Further, post removing the effect of Rs. 273 and Rs. 92518 towards Journal Vouchers and EPI amount respectively, which was additionally considered earlier by the Exchange towards computation of peak ledger, the revised violation persists for Rs.51,581/-.

t. In 1 client involving Rs.2,05,453: (UCC: J915)

i. The Noticee claimed that collateral securities amounting to Rs. 21,19,352/- were released after 3:30 pm. On perusal of transaction statements of depositories and Pledge/Unpledged /Confiscate Group Inquiry report, it is observed that the securities which were unpledged after 3:30 pm were already considered in EPI and further other securities which were unpledged around 11:15 am and debited from client DP were not available at T day EOD. Therefore, the Noticee's contention is not acceptable.

ii. The Noticee vide email dated August 08, 2024 stated that peak margin requirement for client was Rs.6.78 lakhs which is not correct. As per margin files of the Clearing Corporation, the peak margin requirement was Rs.19.06 lakhs. Further, the Noticee claimed that the client has pledged stock of Rs.22.28 lakhs. However, the pledge report provided by the Noticee was of different UCC i.e. J215.

iii. Considering the above remarks, violation still persists for Rs.2,05,453.

u. In 1 client involving Rs.2,00,360: (UCC: NA22)

i. The Noticee claimed that the client has sufficient EPI and pledge securities to meet margin requirement. On perusal of transaction statements of depositories, pledge and EPI report provided by the Noticee, it was observed that the Noticee has claimed ISIN INE256A01028 1000 quantities and ISIN INE213B01019 50 quantities under pledge as well as under EPI, which is not acceptable as these securities have already been considered by the Exchange in EPI.

ii. Further, for ISIN INE086A01029 5000 quantities, the Exchange has already provided benefit under Pool after appropriate haircut, however the Noticee has claimed the same under EPI. Since the Exchange has already been considered the same in pool, no additional benefit extended under EPI for these ISIN. Further,

while computing EPI securities valuation of T Day under EOD margin, the Noticee has not applied haircut @20% of T Day sale securities.

iii. Further considering correct value of EPI, Pledge and Pool securities, additional benefit of Rs.1,65,558/- has been extended to the Noticee.

iv. Post considering the above, the violation persists for Rs. 34,802.

v. In 1 client involving Rs.1,83,480: (UCC: J921)

i. The Noticee claimed that the client has sufficient EPI and pledge securities to meet margin requirement. On perusal of transaction statements of depositories, it was observed that client has done EPI as on violation date and the benefit for the same is given by the Exchange. In case of pledge securities, the Noticee has used T Day EOD VAR while computing pledge value instead of T-1 day EOD VAR. Therefore, the benefit of EPI of Rs. 1,57,597 is extended to the Noticee.

ii. Further, with respect to the Noticee's claim regarding short collection of margin penalty, on perusal of penalty file of Clearing Corporation, it is observed that the Noticee has reported short collection of margin under EOD amounting to Rs. 26,371/- on which penalty has already been levied. Considering penalty for short collection of Rs.26,371/- has already been paid by the Noticee under EOD, the benefit of the same is extended to the Noticee.

iii. Further, It is also observed that Rs. 748 towards Journal Vouchers were additionally considered by the Exchange towards computation of peak ledger balance at the time of inspection, which should not have been considered. Further, post removing the effect of Rs. 748 towards Journal Vouchers amount, which was additionally considered earlier by the Exchange towards computation of peak ledger, the revised violation persists for Rs. 260/-.

w. In 1 client involving Rs.1,77,808: (UCC: CC13)

i. The Noticee claimed that the client has pledge securities amounting to Rs. 28,28,685/-. The Noticee claimed Scrip PAYTM quantity 396 under CUSA. However, the Exchange has already considered the same under Pool account. Hence, no additional benefit will be provided to the Noticee under CUSA for same scrips.

ii. Further, the Noticee vide email dated August 08, 2024, stated that ISIN IN8118H01016 of BSE quantity 2000 was not considered in pledge report. On perusal of the pledge report it was observed that the Noticee has considered 3000 quantities of BSE under Pledge securities. Further, on perusal of transaction statements of depositories and DMS statements, it was observed that the Noticee has claimed ISIN IN8118H01016 3000 quantities as pledge securities. However, as per transaction statements of depositories, these 2000 out of 3000 quantities were frozen for debit. Hence, the same cannot be considered by the Exchange.

iii. Post considering the above, the revised violation persists for Rs.1,77,808/-.

x. In 1 client involving Rs.1,46,189: (UCC: 514)

i. The Noticee claimed that the client has sufficient pledge securities. On perusal of transaction statements of depositories and Pledge/Unpledged/Confiscate Group Inquiry report provided by the Noticee, it was observed that the pledge securities amounting to Rs.1,46,141 were available for peak margin. Even after considering the same, there is margin shortfall as the Noticee has used T Day EOD VAR while computing pledge value instead of T-1 day EOD VAR.

ii. Post considering the above, the violation will still persist for Rs.48/-.

y. In 1 client Involving Rs. 66,772: (UCC: VE2)

i. The Noticee claimed that clients have pledge securities amounting to Rs. 38,59,473/-. On perusal of transaction statements of depositories, it was observed that the Noticee has claimed additional benefit for pledge securities which were already considered in EPI. Hence, no additional benefit extended to the Noticee for those securities.

ii. It is observed that the applicable haircut considered by the Exchange was 10% instead of 7.5%. Post-considering the value of securities after deducting appropriate haircut as per the Exchange's VAR file, the benefit of Rs. 1,03,741/- is extended to the Noticee.

iii. Further, post considering the correct EPI amount Rs. 38,665/- towards available margin requirement and the benefit of which was already extended to the Noticee, the revised violation persists for Rs. 1,695/-.

z. In 1 client involving Rs.42,659: (UCC: 9575)

i. The Noticee's claim regarding penalty for short collection of margins already been paid is not acceptable as on perusal of margin files of the Clearing Corporation, it is observed that the Exchange has already considered Lower of Margin requirement and margin collection while computing wrong reporting.

ii. The Noticee claimed that the client has excess EPI and pledge securities to meet margin requirements. On perusal of DMS, it was observed that the Noticee has used rate of T Day instead of T-1 day. Hence, there is a difference in valuation. With respect to the Noticee's claim regarding collateral released after 3:30 pm amounting to Rs. 27,391/-, it was observed that the collateral has already been considered under EPI by the Exchange. Hence, no additional benefit can be provided as a nature of pledge to clients. Further, post considering the correct EPI amount Rs. 35,000/- towards available margin requirement and the benefit of which was already extended to the Noticee and post considering

the CM bill of Rs. 44,314/-, the revised violation persists for Rs. 33,345/-.

aa. In 1 client involving Rs. 24,835/-: (UCC: 33034)

i. The Noticee claimed that it has reported short margin amounting to Rs.6,847/-. On perusal of margin files of the Clearing Corporation, it was observed that the Exchange has already considered Lower of Margin requirement and margin collection while computing wrong reporting.

ii. Hence, the Noticee's contention that it has already short reported margin is not acceptable.

iii. It is observed that the applicable haircut was considered 10% by the Exchange instead of 7.5%. Post-considering the value of securities after deducting appropriate haircut as per the Exchange's VAR file, the benefit of Rs.19,785/- is extended to the Noticee.

iv. Post considering the above, the revised violation persists for Rs.5,050/-.

bb. In 1 client involving Rs.3,244: (UCC: IM04)

i. The Noticee claimed that it has reported short margin amounting to Rs. 8,843/-. On perusal of margin files of the Clearing Corporation, it was observed that the Exchange has already considered lower of margin requirement and margin collection while computing wrong reporting. Hence, the Noticee's contention that it has already reported short collection of margins is not acceptable.

ii. As per penalty file of Clearing Corporation, it was observed that the Noticee has reported short collection of margins amounting to Rs. 8,843/- in EOD and Short collection of margins amounting to Rs. 5,777/- in peak margin. Considering violation pertaining to peak margin and excess penalty of Rs. 3066/- paid by the

Noticee, the benefit of Rs. 3066/- is extended to the Noticee for peak margin collection.

iii. Further, with respect to the Noticee's claim regarding CUSA securities, it is observed that these securities were transferred to client's DP on T Day and available as free balance at EOD. Further, the Noticee were asked to provide peak margin snapshot of all segments, however the Noticee has provided only snapshot 1. Further, on perusal of margin files of the Clearing Corporation, it was observed that peak margin was carried forward to the next day. Since CUSA securities have already been transferred to client's DP, the benefit of the same cannot be extended.

iv. Considering above, revised violation persists for Rs.178/-.

cc. In 2 clients involving Rs.513/-: (UCC - HS3572 and IM02)

i. The Noticee claimed that it has already reported short margin to the Exchange. On perusal of margin files of the clearing corporation, it was observed that the Exchange has already considered lower of margin requirement and margin collection while computing wrong reporting.

ii. Further, in case of margin pledge valuation, the Noticee has considered T Day EOD rate and VAR. For the purpose of client margin collection and reporting, the Noticee shall compute the value of such securities as per the closing rate on T-1 day as reduced by the appropriate haircut at a rate not less than the VAR margin rate of the security on that day i.e. T-1 day. Hence, the Noticee's contention of taking VAR of T Day EOD is not acceptable.

iii. Post considering above, the revised violation persists for Rs.513/-.

dd. In 1 client involving Rs.3,41,122/-: (UCC KM12)

i. The Noticee claimed that trading in MCX was done after 3:30 when NSE FO Peak Margin was released. Further, the Exchange vide mail dated February 13, 2024, has requested the Noticee to provide margin snapshots of all segments for violation date.

ii. The Noticee vide email dated August 08, 2024, has provided additional documents. On perusal of client ledger and penalty ledger provided by the Noticee, it was observed that the Noticee has paid penalty of Rs.20,173/- on short collection of MCX margin amounting to Rs. 3,41,122/-.

iii. Post considering above, the Noticee's contention is acceptable, and no violation persists.

ee. In 1 client involving amount of Rs.8,73,554: (UCC: AM06)

i. The Noticee claimed that the Exchange has not considered uncleared cheques and excess collateral while computing margin requirement. On perusal of the bank statement, it is observed that cheques of Rs.10,00,000/- were recorded on October 19, 2021, and cleared on October 21, 2021, as per bank statement. Hence, considering uncleared cheques cleared within 5 days, benefit of the same extended to clients.

ii. Further, on perusal of transaction statements of depositories, it was observed that the Noticee has considered ISIN INE423A01024 quantity 500 under pledge securities. However, as per transaction statements of depositories, it was observed that the said ISIN has pledge and EPI quantity of 250 each and the same has already been considered by the Exchange. Since the quantity of 250 is already considered under EPI, no additional benefit extended to the client.

iii. On perusal of margin files of the Clearing Corporation, it was observed that the Exchange has considered Lower of Margin requirement and margin collection while computing wrong

reporting. Hence the Noticee's contention that it has already reported short collection of margins is not acceptable.

iv. Further, post considering the correct EPI amount Rs. 4,09,250/- towards available margin requirement and the benefit of which was already extended to the Noticee, the revised violation persists for Rs.2,82,804/-.

ff. In 1 client involving Rs.12,43,092: (UCC: 3577)

i. The Noticee claimed that uncleared cheque has not been considered and MTM of Rs.7,14,842/- has been recovered on T+1. The Exchange vide mail dated February 13, 2024, has requested the Noticee to provide bank statement for checking clearance of Rs. 6,59,291/-. Further, vide mail dated August 08, 2024, the Noticee has provided screenshot of bank statement reflecting clearance of uncleared cheques. On perusal of Screenshot of bank statement provided by the Noticee, it was observed that funds of Rs. 6,59,291/-. cleared on December 02, 2021, which is within 5 days from date of margin requirement. Hence, benefit of the same extended to the Noticee.

ii. Further in respect to MTM of Rs.7,14,842/-, on perusal of bank statement, it was observed that the Noticee has received Rs. 25 lakhs on T+1, stating MTM has been recovered.

iii. Post considering the benefit of MTM, there is no violation.

gg. In 1 client involving Rs.4,35,23,146/-: (UCC: 999)

i. The Noticee claimed that the client has uncleared cheques of Rs.3,50,00,000/- and EPI of Rs. 79,68,647/-. On perusal of bank statement, it is observed that cheques of Rs.3,50,00,000/- were recorded on April 04, 2022, and cleared on April 05, 2022. as per bank statement. Hence considering uncleared cheques cleared within 5 days, benefit of the same is given to the Noticee.

ii. Further in respect to EPI, the Noticee has claimed that the client has EPI of Rs.79,68,647/-. On perusal of transaction statements

of depositories, trade data, it was observed that the client has actual EPI amounting to Rs.78,36,457/-. Further, with respect to securities in the pool account amounting to Rs. 48,49,458/-, it is observed that as per transaction statements of depositories, the securities considered under pool account of Rs. 48,49,458/- by the Exchange were actually a part of EPI securities amounting to Rs.78,36,457/-. Since these securities were already considered under EPI, benefit of Rs. 48,49,458/- in pool account is not extended to the Noticee and EPI benefit of Rs. 78,36,457 is extended to the Noticee.

iii. Further, vide mail dated August 08, 2024, the Noticee stated that cash segment gross buy obligation amounting to Rs. 55,52,576/- need to be reversed while computing fund balance. However, as per client's ledger provided by the Noticee, it was observed that the Noticee has net buy obligation of Rs.18,56,862 and same is reversed while computing clear ledger balance. Since both sell and buy obligations were open as on violation day, the effect of both needs be reversed while computing ledger balance and considering only buy obligation of Rs. 55,52,576/- in clear balance is not acceptable. Hence, the benefit of Rs. 18,56,862 is extended to the Noticee.

iv. Therefore, considering correct EPI, there is still margin shortfall of Rs.36,79,285/-.

Final revised violation persists for 20 clients for Rs.55,77,648/-. However, in 5 instances (UCC J921, 514, IM04, HS3572 and IM02) the amount of violation is less than Rs.500/- each. Considering non materiality of amount involved, it is excluded while calculating percentage of irregularity. The percentage of irregularity will be 9%, post exclusion of these 5 instances and the applicable penalty will be 5% of violation amount.

7.1.4. The Exchange, in view of the findings above, decided to levy monetary penalty of Rs. 2,78,832/- (i.e., 5% of false reporting of Rs.55,76,649 /-) to the Noticee for the observed violation in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

7.2. **Non-settlement of clients' funds**

7.2.1. Upon verification of the settlement declaration, register of securities, client ledgers, trial balance, and trade data, the Exchange observed that the Noticee did not settle the client funds in:

Active Clients – 16 instances pertaining to 11 clients out of 100 instances pertaining to 50 clients selected for sample scrutiny (16% of the total sample instances) involving Rs.4.71 crores.

Inactive Clients – 1,814 out of 2210 instances/clients selected for sample scrutiny (82.08 % of the total sample instances) involving Rs. 14.82 crores.

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

A. **For Active clients:**

i. The Exchange vide Circular no. NSE/INSP /49458 dated August 31, 2021 on "FAQ on Settlement of Running Account of Client's Funds lying with Trading Member (TM)" in answer to Question No. 5, has specified that the value of funds that a Trading Member can retain while doing the settlement may also include the margin collected by the Member from their clients as per the risk management policy and informed to the clients. Accordingly, the Noticee included the same in its Risk Management System("RMS") policy and had set up in its systems to calculate the amount to be retained as higher of the EOD margin of Peak Margin. The RMS policy is hosted on the Noticee's website.

ii. The Noticee further submitted that in following 15 out of 16 instances there was no shortfall in settlement as per the Noticee's RMS Policy:

Code	Client Name	Date as per Exchange	Shortfall as per Exchange	Date as per the Noticee	Shortfall as per the Noticee
KTOI	KETAN MANHARLAL THAKKAR	08/03/2022	14,71,125.37	08/03/2022	Nil
HSR21	KRITI AGGARWAL	14/02/2022	1,58,337.95	14/02/2022	Nil

MSK21	KULDEEP BANSAL AND HUF	29/12/2021	1,31,099.18	29/12/2021	Nil
MSK21	KULDEEP BANSAL AND HUF	28/03/2022	55,36,089.33	28/03/2022	Nil
MC4	PREMAL BIPINKUMAR SHAH	21/06/2022	86,950.60	21/06/2022	Nil
MC4	PREMAL BIPINKUMAR SHAH	16/09/2022	1,22,964.60	16/09/2022	Nil
IMSO2	RADHA GUPTA	28/06/2022	20,59,499.05	28/06/2022	Nil
IMSO2	RADHA GUPTA	02/09/2022	27,48,619.11	02/09/2022	Nil
HSR2O	ROSHAN LAL AGGARWAL	10/06/2022	31,01,153.96	28/04/2022	Nil
HSR35	ROSHAN LAL AGGARWAL HUF	10/06/2022	4,23,435.90	10/06/2022	Nil
HSR35	ROSHAN LAL AGGARWAL HUF	05/08/2022	7,01,904.48	05/08/2022	Nil
J611	SUNIL SINGHAL	11/04/2022	67,13,880.88	11/04/2022	Nil
J611	SUNIL SINGHAL	11/07/2022	96,86,826.45	08/07/2022	Nil
1902	SURESH KANTILAL SHAH	21/09/2022	24,15,315.87	21/09/2022	Nil
GCVK44	VISHAL KOTHARI	16/08/2022	29,22,141.33	16/08/2022	Nil

iii. Further, the Noticee shared detailed working as per its system and stated that accounts for all the above mentioned 15 instances are settled.

iv. For one instance pertaining to Mr. Nagesh Amarchand Agarwal, the Noticee stated that no settlement was carried out as Mr. Nagesh Amarchand Agarwal is Designated Director and a shareholder of DPG holding 36% shares of the Company. However, from October 07, 2022, the Noticee started settling his account also.

B. **For Inactive clients**:

The Noticee stated that the Exchange had considered incorrect documents/details while verifying the settlement of inactive clients during inspection and provided below mentioned explanation on the 1814 instances pointed out by the Exchange:

Particulars	Counts
Ledger balances in the clients' accounts are zero. The same can also be observed from the Cash & Cash Equivalent balances reported to the Exchange and also	1429

our trial balance submitted to Exchange during inspection	
Clients had debit balances in their accounts	149
Clients were active and had traded in July 2022 – September 2022 Quarter and hence active. Their accounts were settled on October 07, 2022, as specified by the Exchange	99
Funds were returned to clients on October 07, 2022	51
Untraceable inactive clients whose funds have been transferred to a separate bank account.	50
The amount was less than Rs. 1/- hence could not be transferred to clients' accounts	28
Active clients whose account was not required to settled	4
Client credit balances were adjusted against the admin charges	4
Total	**1814**

7.2.3. The Committee finds as under: -

A. <u>For Active clients:</u>

i. <u>In 12 instances (UCC: MSK21, KT01, MC4, IMS02, J611, HSR35,1902, GCVK44 involving an amount of Rs. 3,39,96,416/- :</u>

The Noticee claimed that the said clients were settled as per its RMS policy and there is no shortfall. On perusal of Retention statements, RMS policy, Client ledger, it was observed that the Noticee has considered higher of Peak/EOD margin while retention of client funds and same is disclosed in RMS policy. Considering the peak margin, the Noticee has a higher margin requirement against available financial balance. Hence it is deemed to be settled. Hence, no violation persists.

ii. <u>3 instances (UCC: HSR21, HSR20, HSR35) involving an amount of Rs.36,82,927:</u>

The Noticee has claimed that the said clients were settled as per its RMS policy and there is no shortfall. On perusal of Retention statements, RMS policy, Client ledger, it was observed that the

Noticee has considered higher of Peak/EOD margin while retention of client funds and same is disclosed in RMS policy. Further, on perusal of DMS and retention statement, it is observed that there is difference in pledge securities amount taken in retention statement as per DMS. Pledge securities as per DMS has been considered as the same is matched with Margin pledge holding report details of the Exchange. After pledge securities adjusted against margin obligation and there is still short settlement of client funds. Hence violation persists for 3 instances and revised amount of short settlement is Rs.35,60,904/-.

iii. For 1 instance (UCC: 9) involving an amount of Rs. 94,27,873/-:

a. The Noticee claimed that no settlement has been carried for UCC 9, as client is its designated director.

b. As per the Exchange circular NSE/INSP/49458 dated August 31,2021, it is stated that 'The settlement of running account of funds of the client shall be done by the trading member after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges, at least once within a gap of maximum 30 / 90 days between two settlements of running account as per the preference of the client.'

c. Hence, the Noticee's contention that the client is director of the company hence not settled, is not acceptable. Hence violation persists for 4 instances involving an amount of Rs. 1,29,88,777/-.

B. For Inactive clients:

i. For 567 clients involving an amount of Rs.67,76,395/-:

The Noticee claimed that the client has zero balance as on September 30, 2022. On perusal of client ledger provided by the Noticee, it is observed that the closing balance of client as on

September 30,2022 is zero. Hence, the Noticee's claim is acceptable, and no violation persists.

ii. For 862 clients involving an amount of Rs.12,88,72,865/-:

The Noticee claimed that the client has zero balance as on September 30, 2022. On perusal of client ledger and cash and cash equivalent reporting, it was observed that client has zero balance as on September 30, 2022. Hence, no violation persists.

iii. For 99 clients involving an amount of Rs. 32,29,695/-:

The Noticee claimed that the clients were active clients and settled on due date. On perusal of client ledger, it is observed that in 99 clients, no trades were executed in the month of September 2022. As per the Exchange Circular No. NSE/INSP/48624 dated June 16, 2021 for the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by Trading Member within next three working days irrespective of the date when the running account was previously settled. Further, the Noticee has not settled the funds balance as on September 30, 2022. Hence, violation persists.

iv. For 4 clients involving an amount of Rs.34,675/-:

The Noticee claimed that these are active clients and not required to be settled. On perusal of client ledger, it is observed that in 3 clients, no trades were executed in the month of September 2022. As mentioned in the Exchange Circular No. NSE/INSP/48624 dated June 16, 2021, the Noticee has not settled the funds balance as on September 30, 2022. Hence, violation persists for 3 clients. Further for 1 client, the ledger balance was zero. Hence, no violation persists for 1 client.

v. For 4 clients involving an amount of Rs.1,327/-:

The Noticee claimed that the client balance was adjusted against DP charges. As per SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, Retention of any amount towards administrative/ operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued. Hence, the Noticee retaining funds for adjusting against DP charges is not acceptable and violation persists.

vi. For 149 clients involving an amount of Rs.72,68,511/-:

The Noticee claimed that these clients have debit balances hence not required to be settled. On perusal of Cash and Cash equivalent it was observed that these clients were having debit balances. Hence, the Noticee's claim is acceptable. Hence, no violation persists.

vii. For 28 clients involving an amount of Rs.69,172/-:

The Noticee claimed that these clients were having balance amounts in fraction figures. On perusal of the client ledgers, it was observed that client balances were less than Rs.10 and the total amount involved for 28 clients was Rs.7.31. Considering immateriality of the amount, no violation persists.

viii. For 51 clients involving an amount of Rs.18,36,462/-:

The Noticee claimed that funds were returned to clients on October 07, 2022. On perusal of client ledger, it is observed that no trades were executed in September 2022. Hence, clients were inactive in September 2022 and the Noticee had not settled client as on September 30, 2022. Hence, violation persists.

ix. For 50 clients involving an amount of Rs.1,03,005/-:

The Noticee claimed that these clients were untraceable. On perusal of client ledger, it is observed that the in 2 clients, the

Noticee has settled the funds in 2023 and not in September 2022. Further, the Noticee has not provided any document/proof of tracing such clients. Hence, the violation persists for 2 clients. For 1 client, on perusal of client ledger provided by the Noticee, it is observed that the closing balance of the client on September 30, 2022, is zero. Hence, no violation persists for 1 client. For the remaining 47 clients, the Noticee has not provided documents to trace such clients such as emails, etc. Hence, violation persists for 47 clients.

7.2.4. In view of the above, revised violation persists for 206 clients involving an amount of Rs. 51,91,071/-.

7.2.5. As per the Exchange Circular No NSE/INSP/48624 dated June 16, 2021, Trading Members must settle the running account of funds of the clients at least once within a gap of 30/90 days between two settlements of running account as per the preference of the client. Hence, the Noticee violated the regulatory provisions mentioned above by failing to settle the clients' funds.

7.2.6. Given the findings mentioned above, the Committee observes that the Noticee has not settled active as well as inactive clients in 210 out of 2310 instances (9% of total instances). Therefore, the Committee decided to levy a monetary penalty of Rs.75,000/- (In excess of 5% and up to 10% of number of instances) for the observed violation as per the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

7.3. **Delay in settlement of client funds**

7.3.1 Upon verification of the settlement declaration provided by the Noticee, the Exchange observed that the gap between two settlement dates is more than 90 days in the case of 1 client out of 50 clients selected for sample scrutiny (2% of the total sample clients).

7.3.2 In reply to the SCN, the Noticee accepted that there was delay in settlement of client account in 1 instance due to inadvertence and requested to condone the error.

7.3.3 The Committee observes that the Noticee accepted the observation pertaining to delay in settlement of client funds and attributed the same to the inadvertent error on its part and hence, violation persists.

7.3.4 Considering the non-materiality of instance, the Committee decided to warn the Noticee for the observed violation in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

7.4. **Non-maintenance of client registration documents containing all the prescribed mandatory documents.**

7.4.1 Upon verification the client registration documents provided by the Noticee, the Exchange observed that the Noticee failed to execute and maintain the client registration form containing the prescribed mandatory documents in the case of 5 out of 50 clients selected for sample scrutiny (10% of the total sample clients).

7.4.2 In reply to the SCN, the Noticee submitted that all these accounts were opened online using the EKYC system and all the documents mentioned by the Exchange were executed with the clients. Also, upon execution, the documents were issued to clients through email. Further, the Noticee provided the email and documents issued to the clients.

7.4.3 On perusal of KYC documents issued to the clients, the Committee notes that the Noticee provided email containing (i) Rights & Obligation, (ii) RDD & Guidance Note and Internet Based Trading and (iii) Policies & Procedures intimated to all clients. However, the Noticee failed to provide proof of communication for (i) Duly filled Tariff Sheet and it is also observed that the financial information for those opted for FO segment and action by SEBI clause were not available in all 5 cases. Thus, the Committee decided to warn the Noticee for the observed violations.

7.5. **Non-adherence to the leverage and exposure limits while granting margin trading facility.**

7.5.1 The Exchange verified the margin trading facility provided by the Noticee to its clients. Upon verification, the Exchange observed that the Noticee failed to adhere to the leverage and exposure limits while granting the margin trading facility to the clients as under: -

a. Total exposure exceeded the maximum allowable exposure limit on 11 dates to the extent of Rs. 4,00,70,034/-.

b. Client exposure exceeded the maximum allowable exposure limit - 1 client on 12 dates to the extent of Rs. 14,80,20,923/-.

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

a. Total exposure exceeded the maximum allowable exposure limit on 11 dates to the extent of Rs. 4,00,70,034/-.

i. The Noticee claimed that there is no non-compliance at its end as the Noticee has increased its net worth from Rs. 819.61 lakhs to Rs. 1541.60 lakhs as on June 21, 2022. The increased limit was set up in its system and based on that the Noticee allotted exposure to the clients. Further, there were unsecured loans amounting to Rs.1059.56 lakhs as on June 30, 2022. Both increased net worth and amount of unsecured loans were not considered by the Exchange, while arriving at the said observation.

ii. The Noticee further stated that the increased limit was set up in the Noticee's system and the Noticee had allotted exposure to the clients. The net worth of the Noticee increased in the month of June 2022. Since there was no requirement of submission of net worth certificate in the month of June, the Noticee submitted the same in September 2022.

iii. The Noticee further stated that the Exchange considered the exposure given to the client on a gross basis and not on a net basis. The value of funds and securities of client available with the Noticee was not considered.

iv. The Noticee has provided additional information in support of its claim such as Net worth certificates as on March 31, 2022, June 30, 2022, and September 30, 2022.

v. Further the Noticee considered the net worth as on September 30, 2022, for Exposure given in September 2022.

b. <u>For the client exposure exceeded the maximum allowable exposure limit - 1 client on 12 dates to the extent of Rs.1 14,80,20,923/-.</u>

i. The Noticee reiterated its contention made for the client exposure exceeded the maximum allowable exposure limit. The Noticee has provided MTF working as on net basis and stated that the exposure granted to the clients were within prescribed limit.

ii. Further the Noticee considered net worth as on September 30, 2022, for Exposure given in September 2022 and client wise exposure has been computed by the Noticee.

7.5.3 The Committee finds as under:

a. <u>Total exposure exceeded the maximum allowable exposure limit on 11 dates to the extent of Rs. 4,00,70,034/-.</u>

i. On perusal of Net worth certificate dated June 30, 2022, it was observed that the Noticee's net worth increased to Rs.1541.60 lakhs. Further the Noticee has claimed that unsecured loans amounting to Rs.1059.56 lakhs for MTF exposure were not considered by the Exchange.

ii. Extract of the Exchange Circular No. NSE/COMP/48531 dated June 09, 2021, states as follows:

"Q11. What are the sources of funds which a Member can use to extend MTF?

a. A Member may use the following as source of funds:

1. Own Funds.
2. Borrowed funds from scheduled commercial banks.
3. Borrowed funds from NBFCs regulated by RBI.
4. Borrowings by way of issuance of Commercial Papers, subject to compliance with appropriate RBI guidelines.

5. Borrowings by way of unsecured long-term loans from their promoters and directors, subject to the appropriate provisions of Companies Act.

Member shall not be permitted to borrow funds from any other source except listed above. Further, the Member shall not use the funds of any client for providing the margin trading facility to another client, even if the same is authorized by the first client."

iii. Since the parties mentioned in unsecured loans are not as per above circular. Hence, the Noticee's contention regarding consideration of unsecured loans amounting to Rs.1059.56 lakhs are not acceptable, and the benefit of unsecured loan cannot be extended to the Noticee.

iv. The Noticee's claim of consideration of net worth as on September 30, 2022, for the exposure granted in month of September 2022 is not acceptable as the said increased net worth applicable from September 30, 2022. Hence the Exchange has considered the revised net worth as on June 30, 2022, for above observation. Further the Noticee in its exposure working has considered both net worth of June 30, 2022, and September 30, 2022, while computing maximum allowable exposure, which is incorrect.

v. After considering the revised net worth as of June 30, 2022, it was observed that in 9 out of 11 dates, the MTF exposure is within prescribed limits. However, for 2 dates i.e., September 23 and 26, 2022, the Noticee has provided exposure more than allowable and the amount for the same is Rs. 8,06,305 and Rs. 39,70,984 respectively. The details of revised instances are tabulated as under:

Sr. No.	Date	Net worth of the Noticee as of 30-June-22	50% of Net worth of the Noticee	Total Borrowing	Maximum Allowable Exposure	Exposure	Difference
		(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
1	23-Aug-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	4,50,95,696.71	-
2	26-Aug-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	4,55,03,847.48	-
3	29-Aug-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	4,62,64,472.58	-
4	13-Sep-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	6,63,09,511.60	-
5	15-Sep-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	7,12,95,860.25	-
6	16-Sep-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	7,27,66,628.12	-
7	21-Sep-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	7,37,27,951.32	-
8	23-Sep-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	8,10,51,034.03	(39,70,984)
9	26-Sep-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	7,78,86,354.52	(8,06,305)
10	27-Sep-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	7,65,47,871.02	-
11	28-Sep-22	15,41,60,099.90	7,70,80,049.95	0	7,70,80,049.95	7,64,70,241.10	-

vi. Latest net worth as on June 30, 2022, is Rs.1541.60 lakhs and hence violation persists for 2 dates.

b. <u>Client exposure exceeded the maximum allowable exposure limit - 1 client (UCC: CC9) on 12 dates to the extent of Rs. 14,80,20,923/-.</u>

i. On perusal of the Noticee's revised client wise exposure, it is observed that the Noticee has considered net worth as on September 30, 2022, for the exposure granted in month of September 2022 which is not acceptable as the said increased net worth applicable from September 30, 2022. Hence, the Exchange has considered the revised net worth as on June 30, 2022, for client wise exposure. Further the Noticee has considered unsecured loan from parties under total borrowing which is not acceptable sources of funds as per the Exchange circular NSE/COMP/48531 dated June 09, 2021. Hence the same is not considered in computation of client-wise exposure. Further, on verification of the Noticee's exposure working, it is observed that the Noticee has considered both net worth of June 30, 2022, and September 30, 2022, while computing maximum allowable exposure, which is incorrect.

ii. Further, the Noticee has considered the client-wise exposure on a net basis. The Exchange vide email dated February 13, 2024, has requested the Noticee to provide MTF ledger of client (Rajkumar Ghewarchand Jain) to verify the exposure granted to the client. However, no such ledger has been provided by the Noticee.

iii. The Exchange has reduced cash collateral from gross exposure while computation of allowable exposure.

iv. The Noticee's contention of reducing non-cash collateral from gross exposure while computing allowable exposure is not acceptable as same is funded by the Noticee.

v. Therefore, considering revised net worth as on June 30, 2022, and reducing cash collateral from gross exposure, it is observed that the Noticee has provided exposure to the client more than maximum allowable exposure in 11 out of 12 dates amount ranging from Rs.37,38,999/- to Rs. 1,20,04,085.75/-. The details of revised instances are tabulated as under:

Sr. No.	Date	UCC	Net Exposure given to Client	Maximum Exposure allowed to Client (i.e.10% of allowable exposure)	Difference
				(Rs)	(Rs)
1	18-Jul-22	CC9	45,11,132.75	77,08,005.00	-
2	23-Aug-22	CC9	1,14,47,004.25	77,08,005.00	(37,38,999.26)
3	26-Aug-22	CC9	1,14,47,004.25	77,08,005.00	(37,38,999.26)
4	29-Aug-22	CC9	1,14,47,004.25	77,08,005.00	(37,38,999.26)
5	13-Sep-22	CC9	1,85,27,629.50	77,08,005.00	(1,08,19,624.51)
6	15-Sep-22	CC9	1,80,81,710.74	77,08,005.00	(1,03,73,705.75)
7	16-Sep-22	CC9	1,97,12,090.74	77,08,005.00	(1,20,04,085.75)
8	21-Sep-22	CC9	1,97,12,090.74	77,08,005.00	(1,20,04,085.75)
9	23-Sep-22	CC9	1,97,12,090.74	77,08,005.00	(1,20,04,085.75)
10	26-Sep-22	CC9	1,88,33,719.74	77,08,005.00	(1,11,25,714.75)
11	27-Sep-22	CC9	1,77,91,519.74	77,08,005.00	(1,00,83,514.75)
12	28-Sep-22	CC9	1,77,91,519.74	77,08,005.00	(1,00,83,514.75)

vi. Hence violation persists for 11 out of 12 days.

vii. The net worth of the Noticee as on June 30, 2022, is Rs. 1541.60 Lakhs and 20% of the Net worth is Rs. 308.32 lakhs. The Noticee granted the exposure of Rs.120.04 Lakhs, which is less than 20% of the net worth as on June 30, 2022.

7.5.4 Given the findings mentioned above, the Committee decided to levy monetary penalty of Rs. 1,10,000/- (Rs.10,000 per day for 11 days), as the irregularity is up to 20% of the latest net worth as on June 30, 2022) for the observed violation in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

7.6. **Error in uploading the details of trading terminals on the Exchange.**

7.6.1 The Exchange verified the trading terminals as per the records of the Exchange i.e., CTCLs 302017016002, 302017016003 and 302017016004, it is observed that these 3 trading terminals were not available at the respective inspection location i.e., at 406, Payal Complex, Sayajigunj, Vadodara 390 005.

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

a. The Noticee contended that the Exchange has considered incorrect data/information while verifying the Noticee's terminals. It can be observed from the CTCL data submitted to the Exchange that the 3 terminals are located at its Jaipur Branch and not at the Noticee's location i.e., 406, Payal Complex, Sayajigunj, Vadodara - 390005 as mentioned by the Exchange in its SCN.

b. The Noticee provided correct address of these terminals as follows:

Sr No.	Segment	CTCL ID	User ID	Last Trade Date	Location as per the Exchange's Inspection Team	Location as per data submitted to the Exchange through ENIT
1.	CM	302017016002	AC027	30-Sep-22	405, Payal Complex, Sayajigunj, Vadodara 390005	8 Chitragupt Nagar, Gf Chitragupt Nagar 1, Imliwala Pathak, Jaipur 302023
2.	CM	302017016003	AC033	30-Sep-22		
3.	CM	302017016004	AC034	30-Sep-22		

c. The Noticee vide mail reply dated March 02, 2023, stated that the CTCL 302017016002 and 302017016004, were allocated to Jaipur location only at AP office and as per the Noticee's last conversation Vadodara terminal ID is AC527 may be middle digit issue. Further the Noticee accepted that AP has removed the notice board due to updation and same were displayed for CTCL 302017016003, the Noticee claimed that terminal is allotted to Jaipur location only at AP office.

7.6.3 The Committee finds as under:

a. The Committee noted the contention of the Noticee that the 3 terminals were located at its Jaipur branch and not at the location of Vadodara. Further, the Noticee vide email dated February 02, 2023 claimed that 2 CTCL IDs i.e., 302017016002 and 302017016004 were allocated to Jaipur location only at the AP's office and in 1 CTCL ID 302017016003 (login id AC527), incorrectly observed as allocated in Vadodara location due to middle digit issue and it was actually allocated in Jaipur location only, at AP office.

b. The Committee observed that as per AP inspection report and communication of the same to AP vide email dated February 15, 2023, abovementioned 3 CTCL were not available at registered location (i.e. at Jaipur) and the Noticee's claim of middle digit issue is not acceptable as above mentioned CTCL IDs were uploaded to Exchange ENIT database in Jaipur location. Hence, violation persists.

7.6.4 Given the findings mentioned above, the Committee decided to levy monetary penalty of Rs. 3,000/- to the Noticee for the observed violation in terms of the Exchange Circular No NSE/INSP/47457 dated February 25, 2021.

7.7. **Non-display of notice board at the inspection location.**

7.7.1 The officials of the Exchange visited the premises of the Noticee at JESL Building, Malviya Nagar, Jaipur -302017 for verification of the books, records and operations of the Authorized Persons. Upon verification, the Exchange observed that the Noticee failed to display the notice board at

the said premises in the case of 2 Authorized Persons i.e., Mr. Kedar Badrinath Agarwal and Ms. Beena Devi Goyal at the office nos. 20 & 220 respectively in JESL Building, Malviya Nagar, Jaipur -302017.

7.7.2 In reply to the SCN, the Noticee stated that these APs had erroneously not displayed the notice board, however, now APs have displayed the same and photographs of the same were provided.

7.7.3 The Committee finds as under:

a. The Committee notes that the Noticee has accepted the inspection observation pertaining to non-compliance related to display of notice board and attributed the same erroneous lapses on the part of AP.

7.7.4 Given the findings mentioned above, the Committee decided to levy monetary penalty of Rs.20,000/- to the Noticee for the observed violation in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

7.8. **Incorrect data reported in the weekly client-level cash and cash equivalent balances.**

7.8.1 Upon verification of the data submitted by the Noticee in weekly client-level cash and cash equivalent balances vis-à-vis the trial balance as of September 30, 2022, the Exchange observed that the Noticee submitted incorrect data to the Exchange in 1 instance (UCC: AM03) involving Rs. 5,77,000/-.

7.8.2 In reply to the SCN, the Noticee stated that it had received a cheque of Rs. 5,77,000/- from its client Anujkumar Mittal (AM03) on September 29, 2022, which was on the same date posted in the ledger and also deposited in the bank for clearance. Hence on October 01, 2022 when it reported the Cash & Cash Equivalent to the Exchange, the amount of the said cheque was considered. However, on October 03, 2022, the Noticee received a communication from the bank that the cheque was returned due to insufficient funds. This was then posted in the client ledger.

7.8.3 The Committee finds as under:

a. The Committee notes the Noticee's contention that cheque received of Rs.5,77,000/- from the client on September 29, 2022 which was on the same date posted in the ledger and also deposited in the bank for clearance and on October 03, 2022, the cheque was returned due to insufficient funds.

b. As per the Exchange circular NSE/INSP/48109 dated April 28, 2021 with respect to 'Reporting of 'Client Level Cash & Cash Equivalent Balances' by trading members to the Clearing members', it is stated that,

"Financial Ledger balance (clear)-B should consider Net across all segments & Exchanges. Financial ledger balance, after adjusting/reversal for open bills (open bills also contain 'value of credit entry posted in client ledger in lieu of successful EPI to CC') of the client, un-cleared cheques deposited or issued and the margin obligations posted in the client ledger, if any."

c. On perusal of C&CE submission and client ledger, it is observed that the Noticee has reported financial ledger balance (B) as on September 30, 2022, which includes uncleared cheque in violation of above circular although the Noticee has reported uncleared cheque under 'Uncleared Cheques' of Cash & Cash Equivalent. However, the Noticee was required to report financial ledger balance (B) after reversal of uncleared cheque. Hence violation persists.

7.8.4 Given the findings mentioned above, the Committee decided to advise the Noticee for the observed violation.

7.9. **Incorrect data submitted for weekly monitoring of client funds**

7.9.1 Upon verification of the data submitted for weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of September 30, 2022 vis-à-vis trial balance, client ledgers, bank statements, collateral, and margin files, the Exchange observed that the Noticee submitted incorrect data to the Exchange in 6 areas involving differences

ranging from (-ve) Rs.4.39 crores to Rs.4 crores. The details of the same are as follows:

Sr.	Particulars	Exchange Calculation	Noticee's Submission	Difference
		(Rs)	(Rs)	(Rs)
C	Aggregate value of credit balances of all clients	59,12,24,950.15	59,13,78,805.00	-1,53,854.85
D	Aggregate value of debit balances of all clients	11,50,05,772.95	11,52,31,893.00	-2,26,120.05
E	Aggregate value of proprietary non-cash collaterals	1,25,53,838.10	-	1,25,53,838.10
P	Aggregate value of proprietary margin obligation	32,73,99,850.14	32,72,43,189.00	1,56,661.14
MC	Aggregate value of margin utilized for positions of credit balance clients	35,20,68,874.41	39,60,54,076.00	-4,39,85,201.59
MF	Aggregate value of unutilized collateral lying with the Clearing Corporations and/or Clearing Member	7,77,04,781.27	3,76,19,259.00	4,00,85,522.27

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

a. <u>For Aggregate value of credit balances of all clients involving an amount of Rs. 1,53,854.85:</u>

The Noticee stated that as per its back-office system the figure is correct and provided its back-office file. The Noticee requested to the Exchange to share client-wise workings.

b. <u>Aggregate value of debit balances of all clients involving an amount of Rs. 2,26,120.05:</u>

The Noticee stated that the difference is due to the debit balances of clients who have closed their accounts which the Noticee is not required to report to Enhanced Supervision. The Noticee provided total working of the same.

c. <u>Aggregate value of proprietary non-cash collaterals involving an amount of Rs.1,25,53,838.10:</u>

The Noticee stated that earlier for proprietary transactions, the Noticee would not consider non-cash collateral and erroneously this

was not reported. From April 01, 2023, onwards, the Noticee has started reporting the same.

d. Aggregate value of proprietary margin obligation involving an amount of Rs. 1,56,661.14:

The Noticee stated that it has submitted correct figure of PRO margin obligation as per margin files of the clearing corporation.

e. Aggregate value of margin utilized for positions of credit balance clients involving an amount of Rs. 4,39,85,201.59:

The Noticee stated that amount is calculated by its system and since it is not provided with detailed working by the Exchange, the Noticee is unable provide reply and the Noticee requested the Exchange to provide detailed working.

f. Aggregate value of unutilized collateral lying with the Clearing Corporations and/or Clearing Member involving an amount of Rs. 4,00,85,522.27:

The Noticee stated that it has reported the value of unutilized collateral lying with the Clearing Corporations and/or Clearing Member as per MG01 File and requested if in case figures from any other file is to be taken.

The Exchange vide email dated February 13, 2024, has shared the requisite details to the Noticee and the Noticee vide mail dated March 02, 2024, provided additional documents and also provided margin files in response to said observations.

7.9.3 The Committee finds as under:

a. For Aggregate value of credit balances of all clients involving an amount of Rs. 1,53,854.85/-:

The Committee notes the contention of the Noticee that it has taken the figure as per its back-office system which are correct and requested to the Exchange to share client-wise workings. The

Exchange vide email dated February 13, 2024, has shared the requisite details to the Noticee. Further, on perusal of the Exchange working, it was observed that value of credit balance of all clients is taken from the Noticee's cash and cash equivalent submission made for September 30, 2022. Hence member's contention is not acceptable. It is also observed that the Noticee in its reply vide email dated March 02, 2024, has not commented on said violation. Hence, violation persists.

b. Aggregate value of debit balances of all clients involving an amount of Rs. 2,26,120.05/-:

i. The Committee notes the contention of the Noticee that the difference is due to the debit balances of the clients who have closed their accounts which the Noticee is not required to report to Enhanced Supervision.

ii. However, as per the Exchange Circular No.NSE/INSP/52724 dated June 24, 2022, 'Total debit balance of all clients' include aggregate value of debit balances of all clients as obtained from trial balance across stock exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations if posted in the client ledger).

iii. The Exchange has considered the value of debit balance of all clients from cash and cash equivalents submission made for September 30, 2022. Hence, the Noticee's contention of non-consideration closed account is not accepted as the Noticee is required to consider the debit balance of all clients. Hence violation persists.

c. Aggregate value of proprietary non-cash collaterals involving an amount of Rs.12,553,838.10/-:

The Committee observes that the Noticee has accepted that for proprietary transactions earlier, it did not consider non-cash collateral and erroneously this was not reported. Hence the violation persists.

d. Aggregate value of proprietary margin obligation involving an amount of Rs. 1,56,661.14/-:

i. The Committee observes the contention of the Noticee that it has submitted correct figure of PRO margin obligation as per margin files of the clearing corporation.

ii. The Committee further observes that the Exchange has considered Pro margin as per CM margin files of the clearing corporation of September 29, 2022, instead of September 30, 2022, and on perusal of margin files of the clearing corporation of September 30, 2022, it is observed that the Noticee has correctly reported pro margin. Hence no violation persists.

e. Aggregate value of margin utilized for positions of credit balance clients involving an amount of Rs. 4,39,85,201.59/-:

i. The Committee observes the contention of the Noticee that the amount is calculated by its system and requested the Exchange to share detailed working for the same. The Exchange vide email dated February 13, 2024, has shared detailed working in regard to above observations. The Noticee in its response has provided margin utilization files which shows the aggregate value of margin utilized for position of credit balance amounting to Rs.4130.77 lakhs which is different from the Noticee's enhanced submission amounting to Rs.3960.54 lakhs.

ii. On perusal of the Exchange working and margin utilization file, it was observed that the Noticee has not considered correct repledged value for some clients as per CC02 for CM and CC01 for FO and CD segments. As per the Exchange working after considering margin files of the clearing corporation and CC file as on September 30, 2022, the revised value of margin utilized for positions of credit balance clients stands at Rs. 3538.96 lakhs. Hence, the Noticee's contention that it had considered correct amount is not acceptable. Therefore, violation persists and revised difference amounts to Rs. 4,21,57,766/-.

f. Aggregate value of unutilized collateral lying with the Clearing Corporations and/or Clearing Member involving an amount of Rs. 4,00,85,522.27:

i. The Committee observes the contention of the Noticee that it had reported the value of unutilized collateral lying with the Clearing Corporations and / or Clearing Member as per MG01 File and requested the Exchange to confirm figures from any other file is to be taken.

ii. The Exchange vide mail dated February 13, 2024 has communicated to the Noticee about the calculation of the enhanced supervision and stated that 'As per Exchange Circular No. NSE/INSP/52724 dated June 24, 2022, Free/unblocked Collateral deposited with Clearing Corporation, amount can be obtained from MG01 (For Equity Segment) and MG11 (For F&O, CD & Commodity Segment). Further, aggregate value of free allocated cash of respective client available with CC to be considered as per CC02 file.

iii. Further, the Noticee in his further mail reply dated March 02, 2024, has not commented on said points. Hence, violation persists.

7.9.4 Given the findings mentioned above, the Committee decided to advise the Noticee for non-recurrence of the observed violation.

DECISION

8. 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	Penalty
1.	Incorrect reporting of margin	10%-25% % of the violation in the current inspection: 10% of False reporting	Rs. 2,78,832/- (5% of Rs.55,76,649/-) (Considering the amount of violation in 5 instances is less than Rs.500/- each, the Committee decided to exclude these instances while calculating percentage of irregularity. The percentage of irregularity is 9%, post exclusion of these 5 instances and the applicable penalty is 5% of violation amount.)
2.	Non-settlement of client's funds	In excess of 5% and up to 10% of number of instances –Rs. 75,000/-	Rs.75,000/-
3.	Delay in settlement of client funds	Up to 50% of the instances verified – Warning / Advise	Warning
4.	Non-maintenance of client registration documents	Warning / Advise	Warning
5.	Non-adherence to the leverage and exposure limits while granting the margin trading facility to the clients	Where the irregularity is up to 20% of the latest net worth – Rs. 10,000/-	Rs.1,10,000/-

6.	Error in uploading the details of trading terminals on the Exchange	Up to 5 trading terminals - Rs. 1,000 per terminal	Rs.3,000/-
7.	Non-display of notice board at the at the inspection location,	Rs. 10,000/- per location	Rs. 20,000/-
8.	Incorrect data to the Exchange in the weekly cash-level cash and cash equivalent balances	Rs. 1 lakh	Advise
9.	Incorrect data submitted to the Exchange for weekly monitoring of client funds	Penalty may vary from warning to Rs. 1 lakh on case-to-case Basis	Advise
Total			**Rs. 4,86,832/-**

9. The Noticee is directed as under: -

a. To pay a monetary penalty of Rs.4,86,832/- (Rupees Four Lakhs Eighty-Six Thousand Eight Hundred and Thirty-two Only).

b. To note the non-monetary penalties mentioned above and ensure non-recurrence of the observed violations.

Sd/-
S Ravindran
(Chairperson)

Sd/-
Abhilasha Kumari
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Sd/-
Mamata Biswal
(Committee Member)

Date: September 12, 2025