Annexure 1

Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051
held on April 21, 2023

In the matter of Trading Member M/s. Pinnacle Forex & Securities Private Limited

CORAM

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

ALSO PRESENT

Ms. Priya Subbaraman	- Chief Regulatory Officer
Ms. Renu Bhandari	- Vice President – Inspection
Mr. Shailesh Adukia	- Vice President – Enforcement
Mr. Janardhan Gujaran	- Vice President – Enforcement

BACKGROUND

1. **M/s. Pinnacle Forex & Securities Private Limited ("Pinnacle")** is a Trading Member registered with the National Stock Exchange of India Limited ("**NSEIL**"/"**Exchange**") and enabled for trading in the Capital Market ("**CM**") segment since January 2011, Futures and Options ("**F&O**") segment since January 2011, and Currency Derivatives ("**CD**") segment since June 2010.

2. The Securities and Exchange Board of India ("**SEBI**") along with the stock exchanges and depositories conducted a comprehensive joint inspection of the books and records of Pinnacle from December 2022 to January 2023 covering the period from April 2021 to November 2022. Post inspection, SEBI issued a

letter of findings ("**LoF**") dated February 16, 2023. Pinnacle, vide its letter dated February 28, 2023, replied to the LoF.

3. In the 36th Joint Committee Meeting held on March 21, 2023, SEBI decided to allocate the case to the Exchange for post-inspection enforcement action in accordance with the provisions of the Rules, Byelaws, and Regulations of the Exchange. Accordingly, SEBI, vide its letter dated March 24, 2023, communicated the decision to the Exchange.

4. The Exchange, vide its email dated March 28, 2023, informed Pinnacle regarding the case allocation.

INSPECTION OBSERVATIONS/VIOLATIONS

5. The observations/violations alleged in the LoF are summarized hereunder: -

5.1. Observations pertaining to settlement of clients' funds

a. Non-settlement of clients' funds

i. Active clients

3 out of 50 instances selected for sample scrutiny (6% of the total sample instances) involving Rs.815.40

ii. Inactive clients

46 out of 832 instances selected for sample scrutiny (5.53% of the total sample instances) involving Rs.14.78 lakhs

b. Material discrepancies in the retention statement sent to the clients in 15 instances

5.2. Incorrect reporting of margin collection from the clients

a. EOD Margin

6 out of 150 instances pertaining selected for sample scrutiny (4% of the total sample instances) involving Rs.1.97 lakhs

b. Peak Margin

3 out of 150 instances pertaining selected for sample scrutiny (2% of the total sample instances) involving Rs.0.79 lakhs

5.3. Observations pertaining to passing on penalty to the clients on account of short collection of upfront margins

a. Passing on penalty to the clients on account of short collection of upfront margins in 4 instances involving Rs.0.72 lakh

b. Failure to provide the logs of intimation to the clients in cases where Pinnacle was allowed to pass on the penalty to the clients on account of short collection of margins due to return of cheque in 2 instances involving Rs.0.47 lakh

5.4. Incorrect data reported in the weekly monitoring of clients' funds on 5 days, i.e. August 20, 2021, August 27, 2021, March 17, 2022, March 25, 2022, and November 25, 2022, and the differential amounts ranged from (-ve) Rs.10.69 crores to Rs.1.94 crores

5.5. Incorrect data reported in the weekly client-level cash and cash equivalent balances on 4 days, i.e. August 20, 2021, August 27, 2021, March 17, 2022, and November 25, 2022, involving Rs.8.97 lakhs

5.6. Observation relating to the surveillance alerts on account of failure to close 25 e-boss alerts

5.7. Engagement as principal in a business other than securities/commodities involving personal financial liability involving Rs.1.45 crores

5.8. Failure to close/wind up 2 client beneficiary accounts by August 31, 2019

5.9. Observations pertaining to cyber security and cyber resilience

a. Failure to obtain Standardization Testing and Quality Certification (STQC) for off-the-shelf products

b. Failure to conduct Vulnerability Assessment and Penetration Testing (VAPT) from April 1, 2021, to November 30, 2022

REGULATORY PROVISIONS

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

6.1. **Observations pertaining to settlement of clients' funds**

a. Non-settlement of clients' funds

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 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 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.

b. Material discrepancies in the retention statement sent to the clients

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

While settling the account, the broker shall send the client a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

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

The stockbroker shall ensure that statement of accounts containing an extract from the client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled.

6.2. **Incorrect reporting of margin collection from the clients**

a. Regulation 3.9 of NSEIL Regulations (CM and CD Segments)

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

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

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

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

F&O segment

In the F&O segment, it is mandatory for Trading Members to collect initial margin, net buy premium, delivery margin & exposure margin

from respective clients on an upfront basis. It must be ensured that all upfront margins are collected in advance of the trade. Mark-to-market losses (MTM) shall be collected from clients by T+1 day.

CD segment

In case of Currency Derivatives segment also, it is mandatory for Trading Members to collect initial margin and extreme loss margins from their client on an upfront basis. It must be ensured that all upfront margins are collected in advance of trade. Margin on consolidated crystallized obligation shall be collected from clients by T+1 day. However, in case of currency future contracts, final settlement amount shall be collected by T+2 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.

6.3. **Observations pertaining to passing on penalty to the clients on account of short collection of upfront margins**

Exchange Circular No. NSE/INSP/49929 dated October 12, 2021

15. *In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, can member pass on the penalty to the clients?*

Member shall not pass on the penalty w.r.t short collection of upfront margins to clients under any circumstances. In case of failure (requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member for short

reporting of margins other than "upfront margins" such as consolidated crystallized obligation, Delivery margins, other margins (Mark-to-market & additional margins), member may pass on the actual penalty to the client, provided he has evidence to demonstrate the failure on part of the client. Wherever penalty for short reporting of margins other than "upfront margins" is being passed on to the client relevant supporting documents for the same should be provided to the client.

6.4. **Incorrect data reported in the 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:

A-Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stockbroker across stock exchanges

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

C-Aggregate value of Credit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations)

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 and 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)

F-Aggregate value of non-funded part of the BG 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.

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

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

Member's attention is drawn to Exchange circular NSE/INSP/43486 dated February 10, 2020, regarding proposed submission of the following data /details:

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 / details shall be required to be submitted on or before the next four trading days of subsequent week.

b. Exchange Circular No. NSE/INSP/50592 dated December 13, 2021

Trading Members will have to submit the data for all calendar days of the week except Sunday on or before the next four trading days of subsequent week.

6.6. **Observation pertaining to the surveillance alerts**

a. BSE Notice No. 20130220-23 dated February 20, 2013

The trading members of the Exchange are hereby informed that in order to facilitate effective surveillance mechanisms at the Member level, the Exchange has derived following transactional alerts that would be downloaded to the trading members. This will facilitate the trading members to effectively monitor the trading activity of their clients.

List of Transactional Alerts provided by BSE in Beta Version:

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Sr. No.	*Transactional Alerts*	*Segment*
1	*Significantly increase in client activity*	*Cash*
2	*Sudden trading activity in dormant account*	*Cash*
3	*Clients/Group of Client(s), deal in common scrips*	*Cash*
4	*Client(s)/Group of Client(s) is concentrated in a few illiquid scrips*	*Cash*
5	*Client(s)/Group of Client(s) dealing in scrip in minimum lot size*	*Cash*
6	*Client / Group of Client(s) Concentration in a scrip*	*Cash*
7	*Circular Trading*	*Cash*
8	*Pump and Dump*	*Cash*
9	*Wash Sales of Trades*	*Cash & Derivatives*
10	*Reversal of Trades*	*Cash & Derivatives*

11	*Front Running*	*Cash*
12	*Concentrated position in the Open Interest / High Turnover concentration*	*Derivatives*
13	*Order book spoofing i.e. large orders away from market*	*Cash*

b. BSE Notice No. 20130307-21 dated March 7, 2013

This is in continuation to Exchange notice no. 20130220-23 dated February 20, 2013, informing trading members regarding release of Beta Version of e-BOSS (Member Surveillance System) for downloading the following Transactional Alerts to the trading members of the Exchange.

The trading members are hereby further informed that the aforementioned transactional alerts are indicative in nature and the trading members can derive their own alerts in addition to the said transactional alerts as per their surveillance policy.

Trading Members are required to carry out the Due Diligence of its client(s) on a continuous basis. Further, Trading Members shall ensure that key KYC parameters are updated on a continuous basis as prescribed by SEBI and latest information of the client is updated in UCC database of the Exchange. Based on this information the Trading Member shall establish groups / association amongst clients to identify multiple accounts / common account / group of clients.

Analysis:

In order to analyze the trading activity of the Client(s) / Group of Client(s) or scrips identified based on above alerts, the Trading Members are required to:

a. Seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions.

b. Seek documentary evidence such as bank statement / demat transaction statement or any other documents to satisfy itself.

i. *In case of funds, Bank statements of the Client(s) / Group of Client(s) from which funds pay-in have been met, to be sought. In case of securities, demat account statements of the Client(s)/Group of Client(s) from which securities pay-in has been met, to be sought.*

ii. *The period for such statements may be at least +/- 15 days from the date of transactions to verify whether the funds / securities for the settlement of such trades actually belongs to the client for whom the trades were transacted.*

c. *After analyzing the documentary evidence, the Trading Member shall record its observations for such identified transactions or Client(s)/Group of Client(s). In case adverse observations are recorded, the Trading Member shall report all such instances to the Exchange within 45 days of the alert generation. The Trading Member may seek extension of the time period from the Exchange, wherever required.*

6.7. **Engagement as principal in a business other than securities/commodities involving personal financial liability**

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

In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below:

7. Any arrangement with registered clients to borrow funds/loans.

6.8. **Failure to close/wind up the client beneficiary accounts by August 31, 2019**

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

5. Opening and reporting of demat accounts by TM/CM:

In order to implement the above, the following course of action shall be taken by TM/CM:

a) *All the existing client securities accounts opened by the TM/CM other than 'Pool account' (including 'Early Pay-in'), 'Client Margin Trading Securities account' and 'Client collateral account' shall be wound up on or before August 31, 2019.The TM/CM shall within one week of closure of existing client accounts, inform the Stock Exchange/s the details in the following format:*

Name of DP	*Account No. / Client ID*	*DP ID*	*Name of Account*	*PAN*	*Date of Closing*

b. Exchange Circular No. NSE/INSP/42000 dated August 29, 2019

Consequently, the date 'August 31, 2019' in clause 5 of the circular shall be substituted as 'September 30, 2019' and the date 'September 01, 2019' in clause 8 of the circular shall be substituted as 'October 01, 2019'.

6.9. **Observations pertaining to cyber security and cyber resilience**

a. SEBI Circular No. SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018

2. *Since stockbrokers and depository participants perform significant functions in providing services to holders of securities, it is desirable that these entities have robust cyber security and cyber resilience framework in order to provide essential facilities and perform systemically critical functions relating to securities market.*

3. *Accordingly, after discussions with Exchanges, Depositories and Stockbrokers' and Depository Participants' associations, a framework on cyber security and cyber resilience has been designed, which is placed at Annexure 1. The framework would be required to be*

complied by all Stockbrokers and Depository Participants registered with SEBI.

Annexure 1

Certification of off-the-shelf products

36. *Stockbrokers/Depository Participants should ensure that off the shelf products being used for core business functionality (such as back-office applications) should bear Indian Common criteria certification of Evaluation Assurance Level 4. The Common criteria certification in India is being provided by (STQC) Standardization Testing and Quality Certification (Ministry of Electronics and Information Technology). Custom developed / in-house software and components need not obtain the certification, but have to undergo intensive regression testing, configuration testing etc. The scope of tests should include business logic and security controls.*

Vulnerability Assessment and Penetration Testing (VAPT)

41. *Stockbrokers/Depository Participants should regularly conduct vulnerability assessment to detect security vulnerabilities in their IT environments exposed to the internet.*

42. *Stockbrokers / Depository Participants with systems publicly available over the internet should also carry out penetration tests, at-least once a year, in order to conduct an in-depth evaluation of the security posture of the system through simulations of actual attacks on its systems and networks that are exposed to the internet.*

    In addition, Stockbrokers / Depository Participants should perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system that is accessible over the internet.

43. *In case of vulnerabilities discovered in off-the-shelf products (used for core business) or applications provided by exchange empaneled vendors, Stockbrokers / Depository Participants should report them to the vendors and the exchanges in a timely manner.*

44. Remedial actions should be immediately taken to address gaps that are identified during vulnerability assessment and penetration testing.

b. SEBI Circular No. SEBI/HO/MIRSD/TPD/P/CIR/2022/80 dated June 7, 2022

Further, the Stockbrokers/Depository Participants are mandated to conduct comprehensive cyber audit at least once in a financial year. All Stockbrokers/Depository Participants shall submit with Stock Exchange/Depository a declaration from the MD/CEO/Partners/ Proprietors certifying compliance by the Stockbrokers/Depository Participants with all SEBI Circulars and advisories related to Cyber security from time to time, along with the Cyber audit report.

CONSIDERATION & FINDINGS

7. The observations/violations, the reply of Pinnacle and the findings of the Committee are as under: -

7.1. **Observations pertaining to settlement of clients' funds and securities**

7.1.1. Upon verification of the client ledgers, trial balance, records of the Exchange, margin liability, holding statements, and retention statements, it is observed as under: -

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

Pinnacle failed to settle the clients' funds. The details are as under:

i. Active clients

3 out of 50 instances selected for sample scrutiny (6% of the total sample instances) involving Rs.815.40

ii. Inactive clients

46 out of 832 instances selected for sample scrutiny (5.53% of the total sample instances) involving Rs.14.78 lakhs

b. **Material discrepancies in the retention statement sent to the clients**

Pinnacle sent the retention statements to the clients with material discrepancies in 15 instances.

7.1.2. In reply to the LoF, Pinnacle submitted as under: -

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

i. Active clients

It has a robust system in place for the settlement of clients' funds. It settles the clients' funds and securities quarterly/monthly.

It had a practice of withholding accrued demat charges during the actual client settlement. It believed that the charges retained or blocked are solely due to the clients. It did not block any amount in excess of the clients' receivables. The annual maintenance charges and demat charges are charged based on account opening and demat transaction, and it used to process the retention every week. Thus, it is necessary to block the receivable charges from the client at the time of settlement to avoid the client ledger going into debit. Post-inspection, it strengthened its systems and processes.

ii. Inactive clients

Due to lack of clarity of new circular, it overlooked the settlement of inactive clients in the first month. It inadvertently misinterpreted the circular. It subsequently settled all the clients.

b. **Material discrepancies in the retention statement sent to the clients**

The settlement process is automated, and system driven. It runs the settlement process from its back-office software and send the retention report along with statement of accounts directly to the respective clients' e-mail addresses. Hence, it is entirely dependent on back-office software for this purpose. It updated a new version of the back-office software on May 17, 2021, i.e. in the first quarter of 2021-22. Hence, the discrepancy occurred in a few cases.

In 8 instances, due to a software bug, the mismatch occurred in the retention statement sent to the clients.

7.1.3. The Committee finds as under: -

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

i. Active clients

Pinnacle attributed the observation/violation to its practice of withholding accrued demat charges during actual client settlement. Post-inspection, it settled all the clients' funds. However, post-inspection settlement does not absolve Pinnacle from violation committed. Hence, the violation persists in 3 out of 50 instances selected for sample scrutiny (6% of the total sample instances) involving Rs.815.40.

ii. Inactive clients

Pinnacle attributed the observation/violation to lack of clarity and interpretational issues of circular. The non-settlement of inactive client account was observed in 2 out of 832 instances in the last quarter selected for sample scrutiny (0.24% of the total sample instances).

iii. Pinnacle violated the provisions of Exchange Circular No. NSE/INSP/48624 dated June 16, 2021, by failing to settle the clients' funds.

iv. The total number of instances of non-settlement of clients' funds is observed in 5 out of 882 instances selected for sample scrutiny (0.57% of the total sample instances).

b. **Material discrepancies in the retention statement sent to the clients**

i. Pinnacle attributed the observation/violation to software issue.

ii. Pinnacle violated the provisions of Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, and Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, by issuing the retention statement to the clients at the time of settlement of clients' funds with material discrepancies.

7.1.4. Given the findings mentioned above, the Committee decided to (a) advise Pinnacle to henceforth ensure settlement of clients' funds (b) levy a monetary penalty of Rs.15,000/- for the violation concerning material discrepancies in the retention statement sent to the clients, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

7.2. **Incorrect reporting of margin collection from the clients**

7.2.1. Upon verification of the client ledgers, demat holding statements, bank account statements, and records of the Exchange/Clearing Corporation pertaining to margin required and margin reported, it is observed that Pinnacle incorrectly reported the end of the day margin and peak margin collection from the clients in 9 out of 150 instances selected for sample scrutiny (6% of the total sample instances) involving Rs.2.76 lakhs. The details are as under:

a. End of day Margin

6 out of 150 instances selected for sample scrutiny (4% of the total sample instances) involving Rs.1.97 lakhs

b. Peak Margin

3 out of 150 instances selected for sample scrutiny (2% of the total sample instances) involving Rs.0.79 lakhs

7.2.2. In reply to the LoF, Pinnacle submitted as under: -

a. End of day Margin

It has a prudent risk management system in place for collecting and reporting margin to the Exchange. If it fails to collect the required margin from the client on an upfront basis, it reports short to the extent of the margin not received from the client on an upfront basis.

Pinnacle denied the inspection observation. It properly complied with the margin collection and reporting.

The instance-wise reply is as under: -

i. Gunjan Rajesh Gori (Client Code: 4532)

The total end of day margin is Rs.2.32 lakhs, out of which, Rs.0.08 lakh is the additional margin and Rs.0.30 lakh is mark-to-market margin. Thus, the total upfront margin will be Rs.1.94 lakhs.

The total upfront margin of Rs.1.94 lakhs is met by collateral such as end of day free balance (funds + collaterals) of Rs.0.26 lakh and pool account credit of Rs.1.04 lakhs. After considering the total collateral of Rs.1.31 lakhs, there is a shortfall of Rs.0.62 lakh in the upfront margin requirement, which it already short reported in margin reporting. It provided

the relevant supporting documents such as the daily margin statement relating to collateral verification and the margin reported success files relating to short reporting in the upfront margin for verification. Hence, there is no shortfall in upfront/end of day margin requirement.

ii. Bharatkumar Parashotam Bhai Patel (Client Code: 92215)

The total end of day margin is Rs.0.43 lakh, out of which Rs.0.33 lakh is the additional margin and Rs.0.01 lakh is mark-to-market margin. Thus, the total upfront margin will be Rs.0.08 lakh.

The total upfront margin of Rs.0.08 lakh was already short reported in the margin reporting. It provided the relevant supporting documents such as the daily margin statement relating to collateral verification and the margin reported success files relating to short reporting in the upfront margin for verification. Hence, there is no shortfall in upfront/end of day margin requirement.

iii. Vihar Vasant Nimje (Client Code: 14084)

The total end of day margin is Rs.0.09 lakh, out of which Rs.0.01 lakh is mark-to-market margin. Thus, the total upfront margin will be Rs.0.07 lakh.

The total upfront margin of Rs.0.07 lakh is met by collateral such as end of day free balance (funds + collaterals) of Rs.188.72. After considering the total collateral of Rs.188.72, there is a shortfall of Rs.0.07 lakh in the upfront margin requirement, which it already short reported in margin reporting. It provided the relevant supporting documents, such as the daily margin statement relating to collateral verification and the margin reported success files relating to short reporting in the upfront margin for verification. Hence, there is no shortfall in upfront/end of day margin requirement.

iv. Nikita Nagorao Thakare (Client Code: 14021)

The total end of day margin is Rs.0.14 lakh, out of which Rs.0.01 lakh is mark-to-market margin. Thus, the total upfront margin will be Rs.0.13 lakh.

The total upfront margin of Rs.0.13 lakh is met by collateral such as end of day free balance (funds + collaterals) of Rs.0.01 lakh. After considering the total collateral of Rs.0.01 lakh, there is a shortfall of Rs.0.12 lakh in the upfront margin requirement, which it already short reported in margin reporting. It provided the relevant supporting documents such as the daily margin statement relating to collateral verification and the margin reported success files relating to short reporting in the upfront margin for verification. Hence, there is no shortfall in upfront/end of day margin requirement.

v. Sandeep Praveen Shah (Client Code: 92633)

The total end of day margin is Rs.0.13 lakh, out of which Rs.989.50 is mark-to-market margin. Thus, the total upfront margin will be Rs.0.12 lakh.

The total upfront margin of Rs.0.12 lakh is met by collateral such as end of day free balance (funds + collaterals) of Rs.0.10 lakh. After considering the total collateral of Rs.0.10 lakh, there is a shortfall of Rs.0.02 lakh in upfront margin requirement, which it already short reported in margin reporting. It provided the relevant supporting documents such as the daily margin statement relating to collateral verification and the margin reported success files relating to short reporting in the upfront margin for verification. Hence, there is no shortfall in upfront/end of day margin requirement.

vi. Vipul Uttamchand Shah (Client Code: 44100)

The total end of day margin is Rs.0.21 lakh, out of which, Rs.812.45 is mark-to-market margin. Thus, the total upfront margin will be Rs.0.21 lakh.

The total upfront margin of Rs.0.21 lakh is met by collateral such as end of day free balance (funds + collaterals) of (-ve) Rs.354/- and pool account credit of Rs.0.15 lakh. After considering the total collateral of Rs.0.15 lakh, there is a shortfall of Rs.0.05 lakh in the upfront margin requirement, which it already short reported in margin reporting. It provided the relevant supporting documents, such as the daily margin statement relating to collateral verification and the margin reported success files relating to short reporting in the upfront margin for verification. Hence, there is no shortfall in upfront/end of day margin requirement.

b. Peak Margin

Pinnacle has a stringent margin collection and reporting policy in place. It always collects more than enough upfront margin from all its clients in all segments. It has a prudent risk management system in place for collecting and reporting margin to the Exchange. If it fails to collect the required peak margin from the client, it reports peak short to the extent of the margin not received from the client.

Pinnacle denied the inspection observation. The back-office software correctly reports the peak margin of all clients to the Clearing Corporation.

According to the SEBI circular, Trading Members are required to report the highest peak snapshot balance appeared throughout the day. It is required to report the peak margin for the highest of four snapshots taken throughout the day. The below mentioned example is as under:

Snapshot – 1 (Peak Margin – 100)
Snapshot – 2 (Peak Margin – 80)
Snapshot – 3 (Peak Margin – 30)
Snapshot – 4 (Peak Margin – 40)

According to the circular, it is only required to report the peak margin of snapshot 1 because it is the highest of the four snapshots taken throughout the day. On the other hand, its software not only considers the highest of the four snapshots, but it also considers all the other snapshots. If no shortfall occurs in the first snapshot and a shortfall occurs in the second, third, or fourth snapshot, the software will report the highest peak shortfall, irrelevant of the highest shortfall.

Thus, in the observed instances, there is no shortfall in the highest of the four snapshots but a shortfall in the other snapshot. Thus, it short reported those instances. Therefore, there is difference in amount of peak margin reporting to the Clearing Corporation.

7.2.3. The Committee finds as under: -

a. <u>End of day Margin</u>

Upon verification of the daily margin statement relating to collateral and the margin reported success files pertaining to short reporting in the upfront margin, it is observed that the contention of Pinnacle is valid. Sufficient funds and securities were available to cover up the margin requirement of the clients. Hence, no violation persists.

b. <u>Peak Margin</u>

Pinnacle denied the inspection observation/violation. Upon verification, it is observed as under: -

i. <u>Client Code: 20480</u>

The peak financial ledger balance as of April 7, 2021, was Rs.0.35 lakh whereas the value of early-pay-in was Rs.0.17 lakh. The total value of funds and securities was Rs.0.52 lakh against the peak margin requirement of Rs.0.12 lakh. Since sufficient funds and securities were available to cover up the margin requirement of the client, no violation persists.

ii. Client Code: 20479

The peak financial ledger balance as of April 7, 2021, was Rs.0.40 lakh whereas the value of early-pay-in was Rs.0.17 lakh. The total value of funds and securities was Rs.0.56 lakh against the peak margin requirement of Rs.0.12 lakh. Since sufficient funds and securities were available to cover up the margin requirement of the client, no violation persists.

iii. Client Code: 3951

The client had total funds and securities amounting to Rs.1.02 lakhs against the peak margin requirement of Rs.1.67 lakhs. Hence, there was shortfall in collection of peak margin to the extent of Rs.0.65 lakh. Hence, the violation persists.

c. In view of the above, the irregularity persists in 1 out of 150 instances selected for sample scrutiny (0.67% of the total sample instances) involving Rs.0.65 lakh.

d. Pinnacle violated the provisions of Regulation 3.9 of NSEIL Regulations (CM Segment) and Regulation 3.10 of NSEIL Regulations (F&O Segment), Exchange Circular No. NSE/INSP/45191 dated July 31, 2020, and Exchange Circular No. NSE/INSP/45534 dated August 31, 2020, by incorrectly reporting the margins collected from the clients.

7.2.4. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.3,238/- rounded off to Rs.3,200/- (@5% of Rs.64,777.10) in terms of the Exchange Circular NSE/INSP/53530 dated September 2, 2022.

7.3. **Observations pertaining to passing on penalty to the clients on account of short collection of upfront margins**

7.3.1. Upon verification of the client ledgers, demat holdings statement bank account statements, penalty files of Clearing Corporation and

records of the Exchange/Clearing Corporation pertaining to margin required and margin reported, it is observed as under:

a. Pinnacle passed on the penalty to the clients on account of short collection of upfront margins in 4 instances involving Rs.0.72 lakh

b. Pinnacle failed to provide the logs of intimation to the clients in cases where Pinnacle was allowed to pass on the penalty to the clients on account of short collection of margins due to return of cheque in 2 instances involving Rs.0.47 lakh.

7.3.2. In reply to the LoF, Pinnacle submitted as under: -

It took note of the observation and reversed the short margin penalty in the client ledgers. It attached copies of the client ledgers for verification. In terms of the Exchange Circular No. NSE/INSP/53525 dated September 2, 2022, Trading Members are advised to refund the penalty levied by Clearing Corporations on account of "short/non-collection of upfront margins" to the clients on an immediate basis if the same has been passed on to the clients after October 11, 2021. However, it is to be noted that all of these incidents occurred prior to the specified date, i.e. October11, 2021. Pinnacle still reversed all the penalties by crediting the client ledgers.

7.3.3. The Committee finds as under: -

a. Upon verification of the client ledgers, it is observed that post-inspection, Pinnacle reversed the penalties passed on to the clients on account of short collection of upfront margins. However, post-inspection compliance does not absolve Pinnacle from the violation committed.

b. Pinnacle violated the provisions of Exchange Circular No. NSE/INSP/45191 dated July 31, 2020, by passing on the penalty to the clients on account of short collection of upfront margins.

7.3.4. Considering that Pinnacle subsequently reversed the penalties passed to the clients on account of short collection of upfront margins,

the Committee decided to warn Pinnacle to ensure non-recurrence of the observed violation.

7.4. **Incorrect data reported in the weekly monitoring of clients' funds**

7.4.1. Upon verification of the data reported by Pinnacle in the weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of August 20, 2021, August 27, 2021, March 17, 2022, March 25, 2022, and November 25, 2022, vis-à-vis the trial balance, client (clear) ledgers, bank account statements, the records of the Exchange/Clearing Corporation/Clearing Member pertaining to margin requirements and collaterals maintained by Pinnacle, it is observed that Pinnacle submitted incorrect data to the Exchange in the following areas and the differential amounts ranged from (-ve) Rs.10.69 crores to Rs.1.94 crores:

Sr.	Particulars
A	Total of day-end balance in all client and settlement bank accounts
B	Collateral deposited with Clearing Corporation/Clearing Member in the form of cash and cash equivalents
C	Credit balances of all clients
D	Debit balances of all clients
E	Value of own securities deposited with Clearing Corporation/Clearing Member
F	Value of non-funded portion of bank guarantee
P	Value of proprietary margin obligation
MC	Margin utilized for positions of credit balance clients
MF	Free/unblocked collateral deposited with Clearing Corporation/Clearing Member

7.4.2. In reply to the LoF, Pinnacle submitted as under: -

a. The process of uploading the weekly enhance submission is system driven without any manual intervention. It extracted the reports from its back-office software and uploaded the said reports to the stock exchanges. It completely depended on its back-office software for this purpose. There were some minor errors due to interpretation issues and it subsequently rectified the said errors on being guided by the inspection team.

b. It is to be noted that these errors did not result in violation of any of the Principles of Enhanced Supervision of Stockbrokers.

c. In view of aforesaid submission, the incorrect data reported was due to a technical issue.

7.4.3. The Committee finds as under: -

a. Pinnacle attributed the observation/violation to a technical issue. Post-inspection, it rectified the errors. However, post-inspection compliance does not absolve Pinnacle from the violation committed.

b. Pinnacle violated the provisions of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, by reporting incorrect data in the weekly monitoring of clients' funds to the Exchange.

7.4.4. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,00,000/- for the observed violation in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

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

7.5.1. Upon verification of the data reported by Pinnacle in the weekly client-level cash and cash equivalent balances vis-à-vis the trial balances

as of August 20, 2021, August 27, 2021, March 17, 2022, and November 25, 2022, it is observed that Pinnacle reported incorrect data to the Exchange in 30 instances involving Rs.8.97 lakhs.

7.5.2. In reply to the LoF, Pinnacle submitted as under: -

a. It has a robust system in place to report the weekly client-level cash and cash equivalent to the stock exchanges. It properly reported all the clientele cash and cash equivalent component to the stock exchanges. The uploading of the weekly client-level cash and cash equivalent is entirely automated with no manual intervention required. The instance-wise clarifications are as under: -

i. <u>August 20, 2021</u>

The Exchange noted a difference in 2 instances in the client-level cash and cash equivalent reporting and party-trial balance.

Santosh Chavan (Client Code: 11SCSI)

Pinnacle inadvertently reported the code and balance of Authorised Person while reporting. It already followed up with its software vendor to ensure non-recurrence in the future. The account code of the Authorised Person was reported due to a software bug. None of the client collateral was overlooked while reporting.

Sonal Rakesh Jain (Client Code: 19902)

The back-office erroneously missed the margin account balance involving Rs.839.84 while reporting.

ii. <u>August 27, 2021</u>

The Exchange noted a difference in 5 instances in the client-level cash and cash equivalent reporting and party-trial balance.

Nehal Darshit Shah (Client Code: 11290)

The Exchange mentioned incorrect queries with respect to weekly client-level cash and cash equivalent. Financial ledger balance means a client's clear balance after reversing open bills and unclear receipt and payment.

In this case, the Exchange directly matched the financial ledger balance with the party trial balance. It appears that the Exchange did not consider the bank reconciliation statement for unclear receipt payment in its working. Thus, if the bank reconciliation statement is considered, then there will be no difference and all the balances will be tallied point by point for all the instances. It provided the bank reconciliation statement as of August 27, 2021, for verification.

Santosh Chavan (Client Code: 11SCSI)

Pinnacle inadvertently reported the code and balance of the Authorised Person while reporting. It already followed up with its software vendor to ensure non-recurrence in the future. The account code of the Authorised Persons was reported due to a software bug. None of the client collateral was overlooked while reporting.

Sonal Rakesh Jain (Client Code: 19902)

The back-office erroneously missed the margin account balance involving Rs.839.84 while reporting.

Darshit Shashikant Shah (Client Code: 21028)

The Exchange mentioned incorrect queries with respect to weekly client-level cash and cash equivalent. Financial ledger balance means a client's clear balance after reversing open bills and unclear receipt and payment.

In this case, the Exchange directly matched the financial ledger balance with the party trial balance. It appears that the Exchange did not consider bank reconciliation statement for unclear receipt payment into the working. Thus, if the bank reconciliation statement is considered, then there will be no difference and all the balances will be tallied point by point for all the instances. It provided the bank reconciliation statement as of August 27, 2021, for verification.

Pallavi Shashikant Shah (Client Code: 4619)

The Exchange mentioned incorrect queries with respect to weekly client-level cash and cash equivalent. Financial ledger balance means a client's clear balance after reversing open bills and unclear receipt and payment.

In this case, the Exchange directly matched the financial ledger balance with the party trial balance. It appears that the Exchange did not consider the bank reconciliation statement for unclear receipt payment into the working. Thus, if the bank reconciliation statement is considered, then there will be no difference and all the balances will be tallied point by point for all the instances. It provided the bank reconciliation statement as of August 27, 2021, for verification.

iii. <u>March 17, 2022</u>

The Exchange noted a difference in 21 instances in the client-level cash and cash equivalent reporting and party-trial balance. The Exchange mentioned an incorrect working with respect to the client-level cash and cash equivalent. Financial ledger balance means a client's clear balance after reversing open bills and unclear receipt and payment.

In this case, the Exchange directly matched the financial ledger balance with the party trial balance. It appears that the Exchange did not consider the bank reconciliation statement for unclear receipt payment into the working. Thus, if the bank reconciliation statement is considered, then there will be no

difference and all the balances will be tallied point by point for all the instances. It provided the bank reconciliation statement as of March 17, 2022, for verification.

iv. November 25, 2022

The Exchange noted a difference in 2 instances in the client-level cash and cash equivalent reporting and party-trial balance.

Dhirren Pravinkumar Naram (Client Code: 22339)

The back-office erroneously missed the account balance in margin trading funding segment involving Rs.1.08 lakhs while reporting.

Nilesh Lilabhai Panchal (Client Code: 25003)

This is an NRI account. Thus, billing takes place in the buy ledger, sell ledger, and normal ledger. The Exchange only considered balance of the normal ledger and failed to consider the balance in buy and sell ledger. Hence, the difference occurred. It provided the ledger of all accounts as of November 25, 2022, for verification.

7.5.3. The Committee finds as under: -

a. August 20, 2021

2 instances involving Rs.0.05 lakh

Pinnacle attributed the observation/violation to a software bug and back-office error.

b. August 27, 2021

2 instances involving Rs.0.05 lakh

Pinnacle attributed the observation/violation to a software bug and back-office error.

3 instances involving Rs.319.97

Upon verification of the bank reconciliation statement for unclear receipt payment, it is observed that the payments were made to the clients but were unreconciled and considered as open bills. Hence, no violation persists.

c. March 17, 2022

21 instances involving Rs.7.87 lakhs

Upon verification of the bank reconciliation statement for unclear receipt payment, it is observed that the payments were made to the clients but were unreconciled and considered as open bills. Hence, no violation persists.

d. November 25, 2022

1 instance involving Rs.1.08 lakh (Client Code: 22339)

Pinnacle attributed the observation/violation to the back-office error.

1 instance involving Rs.0.07 lakh (Client Code: 25003)

Pinnacle contended that the Exchange failed to consider the balance of buy and sell ledger; and only considered the balance of the normal ledger. Upon verification of ledgers, the contention of Pinnacle is found to be true. Hence, no violation persists.

e. In view of the above, the violation persists in 5 instances involving Rs.1.18 lakhs.

f. Pinnacle violated the provisions of Exchange Circular No. NSE/INSP/43926 dated March 23, 2020, by incorrectly reporting

the data in the weekly client-level cash and cash equivalent balances.

7.5.4. Considering the non-materiality of amount involved, the Committee decided to warn Pinnacle to ensure non-recurrence of the observed violation.

7.6. **Observation pertaining to the surveillance alerts**

7.6.1. Upon verification of the alerts generated at the stock exchange level and the status of its closure, it is observed that Pinnacle failed to close 25 e-boss alerts since 2021 before initiation of the inspection.

7.6.2. In reply to the LoF, Pinnacle submitted as under: -

All alerts generated in the PMLA software, and the stock exchange portals are closed on regular basis. The alerts are checked and verified by its Compliance Officer and Principal Officer and monitored by its Director on monthly basis. The alerts are closed and updated in the PMLA software. However, it missed the few alerts. Further, it closed all the alerts received on the e-boss systems. These alerts were not significant in nature or contained any actionable alerts.

7.6.3. The Committee finds as under: -

a. Pinnacle closed the e-boss alerts during inspection.

b. Pinnacle violated the provisions of BSE Notice No. 20130220-23 dated February 20, 2013, and BSE Notice No. 20130307-21 dated March 7, 2013, by failing to close the alerts on a timely manner.

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

7.7. **Engagement as principal in a business other than securities/commodities involving personal financial liability**

7.7.1. Upon verification of trial balance and annual statements provided by the Noticee, it is observed that Pinnacle took loan from its registered client (Client Code: 03BSSL; Bansal Sharevest Services Loan A/c) involving Rs.1.45 crores.

7.7.2. In reply to the LoF, Pinnacle submitted as under: -

It took inter-corporate deposit amounting to Rs.25 lakhs on May 4, 2022. It stopped trading from the client account as soon as it came to know about the provision of Exchange Circular No. NSE/COMP/50957 dated January 7, 2022. It now only has inter-corporate deposit arrangement. There is no clientele business in the said client code. It initiated the closure of the said client account.

7.7.3. The Committee finds as under: -

As discussed in the meeting held with SEBI on March 31, 2023, it is decided that the decision with respect to violation relating to Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957, shall be kept in abeyance until further direction from SEBI.

7.7.4. Considering that the matter is kept on hold, the Committee shall deal with the observed violation in a separate order.

7.8. **Failure to close/wind up client beneficiary accounts by August 31, 2019**

7.8.1. Upon verification of the depository records and submission by the Pinnacle under the Enhanced Supervision of Stockbrokers, it is observed that Pinnacle failed to close/wind up 2 client beneficiary accounts by August 31, 2019.

7.8.2. In reply to the LoF, Pinnacle submitted as under: -

The demat accounts are frozen and suspended (both for debits and credits) and could not be closed due to the presence of inactive ISIN holdings in the said accounts. Furthermore, the said accounts cannot be closed unless and until "NIL Stocks / NIL Holding" are reached. It provided the client master list of both the demat accounts along with the inactive ISIN holdings for verification The details are as under: -

Demat A/c. No.	Depository Participant	Status
IN30009511541410	IL&FS Securities Services Limited	Suspended
1207440000000068	Pinnacle Forex & Securities Private Limited	Frozen

7.8.3. The Committee finds as under: -

Upon verification of the client master list and holdings statement, it is observed that Pinnacle was unable to close the demat accounts as the accounts are currently frozen and suspended for both debits and credits. Hence, no violation persists.

7.8.4. Given the findings mentioned above, the Committee decided that no action is warranted for the observed violation.

7.9. **Observations pertaining to cyber security and cyber resilience**

7.9.1. Upon verification of cyber audit report for the financial year 2021-2022, it is observed as under: -

a. Pinnacle failed to obtain STQC for off-the-shelf products.

b. Pinnacle failed to conduct VAPT from April 1, 2021, to November 30, 2022.

7.9.2. In reply to the LoF, Pinnacle submitted as under: -

a. Failure to obtain STQC for off-the-shelf products

The software vendor informed Pinnacle that STQC is applicable only to Trading Members who have their own in-house software. During inspection, it was guided by the inspection team that STQC is applicable to all Trading Members. It will be certified once it finds a vendor for this certification and will notify SEBI and the Exchange.

b. Failure to conduct VAPT once in a year

According to its interpretation, VAPT was not applicable to it during the inspection period. It conducted VAPT in December 2022 and submitted reports to the Exchange on December 30, 2022.

7.9.3. The Committee finds as under: -

Pinnacle claimed that STQC and VAPT is not applicable to it. As per SEBI Circular No. SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 3, 2018, Stockbrokers/Depository Participants should ensure that off the shelf products being used for core business functionality (such as back-office applications) should bear Indian common criteria certification of Evaluation Assurance Level 4. Furthermore, Stockbrokers/Depository Participants should regularly conduct vulnerability assessment to detect security vulnerabilities in their IT environments exposed to the internet. Hence, the claim of Pinnacle is not acceptable, and the violation persists.

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

DECISION

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

Sr. No.	Committee's Findings	Penalty prescribed as per the following circulars of the Exchange: a. Exchange Circular No. NSE/INSP/48655 dated June 18, 2021 b. Exchange Circular No. NSE/INSP/53530 dated September 2, 2022	Penalty Levied
1	Observation pertaining to settlement of clients' funds a. Non-settlement of clients' funds 5 out of 882 instances selected for sample scrutiny (0.57% of the total sample instances) b. Material discrepancies in retention statement issued to the clients in 15 instances	Up to 2% of number of instances: Advise Rs.15,000/-	Advise Rs.15,000/-
2	Incorrect reporting of margin collection from the clients 1 out of 150 instances	Less than 10% of the violation – 5% of the amount involved	Rs.3,200/-

	selected for sample scrutiny (0.67% of the total sample instances) involving Rs.0.65 lakh		
3	Observations pertaining to passing on penalty to the clients on account of short collection of upfront margins	No prescribed penalty	Warning
4	Incorrect data reported in the weekly monitoring of clients' funds as of August 20, 2021, August 27, 2021, March 17, 2022, March 25, 2022, and November 25, 2022, and the differential amounts ranged from (-ve) Rs.10.69 crores to Rs.1.94 crores	Warning to Rs.1,00,000/-	Rs.1,00,000/-
5	Incorrect data reported in the weekly client-level cash and cash equivalent balances as of August 20, 2021, August 27, 2021, and November 25, 2022, in 5 instances involving Rs.1.17 lakhs	Rs.1,00,000/-	Warning
6	Observation pertaining to the surveillance alerts	No prescribed penalty	Warning
7	Observations pertaining to cyber security and cyber resilience	No prescribed penalty	Warning
Total			**Rs.1,18,200/-**

9. Pinnacle shall pay a monetary penalty of Rs.1,18,200/- (Rupees One lakh Eighteen Thousand and Two Hundred only).

10. Pinnacle shall note the non-monetary penalties mentioned above and ensure non-recurrence of the observed violations.

11. Pinnacle shall submit a certificate duly certified by a Chartered Accountant within 15 days from the date of this order certifying the compliance of the aforesaid directions of the Committee. Failure to submit the said certificate within prescribed timeline shall be construed as non-compliance and appropriate disciplinary proceedings for non-adherence to the directions of the Committee shall be independently initiated.

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

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

Date: May 12, 2023

Annexure 2

You are advised to pay/deposit the penalty amount along with applicable GST in your Exchange Dues Account as and when Bill for the same is raised by the Exchange.

1. In case of late payment, interest @18% p.a. calculated on a daily basis will be levied from the due date for the delayed period i.e., till the date of payment. Late payment may also attract withdrawal of trading facility pursuant to Circular no. NSE/F&A/2571 dated May 29, 2001.
2. In addition to the mentioned penalty amount, tax @ 18% under Section 15 of Central Goods and Services Tax Act, 2017 will be levied on the penalty amount as well as on the interest in case of late payment.