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 July 10, 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

Dr. Dinesh Soni	- Senior Vice President - Regulatory
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**") and Futures and Options ("**F&O**") segments 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, informed the decision to the Exchange.

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

5. The Exchange placed the matter before the Committee in its meeting held on April 21, 2023. Upon considering the written submissions of Pinnacle, the Committee, vide its order dated May 12, 2023, levied a monetary penalty of Rs.1,18,200/-. However, as advised by SEBI on March 31, 2023, the Committee decided to keep the enforcement action pertaining to engagement as a principal in a business other than securities/commodities involving personal financial liability in abeyance until further advise from SEBI. Subsequently, as advised by SEBI on June 21, 2023, the Exchange once again placed the matter before the Committee in the meeting held on July 10, 2023, to decide on the enforcement action pertaining to engagement as a principal in a business other than securities/commodities involving personal financial liability based on the existing penalty structure.

INSPECTION OBSERVATION/VIOLATION

6. The observation/violation mentioned in the LoF is summarized hereunder: -

   6.1. Engagement as principal in a business other than securities/commodities involving personal financial liability, i.e. obtained loans amounting to Rs.1.45 crores from its registered client

REGULATORY PROVISIONS

7. At the outset, it is appropriate to refer to the relevant regulatory provision alleged to has been violated by Pinnacle; extract whereof is reproduced below:

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

      a. Rules 8(3)(f) of Securities Contracts (Regulation) Rules, 1957

         8. The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:

(3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if-

(f) he engages either as a principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability.

b. 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:

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

CONSIDERATION & FINDINGS

8. The observation/violation, the reply of Pinnacle and the findings of the Committee is as under: -

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

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

8.1.2. 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.

8.1.3. The Committee finds as under: -

a. Pinnacle accepted the inspection observation/alleged violation.

b. The Committee notes that Rule 8(3)(f) of SCRR stipulates that no person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if it engages either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability. Bare perusal of Rule 8(3)(f) of SCRR indicates restriction on the member from engaging either as principal or employee in any business other than that of securities, viz. obtaining loans from registered clients as done in this case.

c. Exchange Circular No. NSE/COMP/50957 dated January 7, 2022, issued clarification with regard to Rule 8(1)(f) and 8(3)(f) of SCRR. The said circular provides an 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 Trading Member. Any arrangement with registered clients to borrow funds/loans is construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR.

d. Pinnacle violated the provisions of Rules 8(3)(f) of SCRR, and Exchange Circular No. NSE/COMP/50957 dated January 7, 2022, by engaging as principal in a business other than securities/commodities involving personal financial liability.

8.1.4. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,45,000/- (@ 1% of Rs.1.45 crores) in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

DECISION

9. In view of the above, the Committee levied the following penalty as indicated against the violation:

Sr. No.	Committee's Findings	Penalty prescribed as per the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022	Penalty Levied
1	Engagement as principal in a business other than securities/commodities involving personal financial liability by obtaining loan from its registered client (Client Code: 03BSSL; Bansal Sharevest Services Loan A/c) involving Rs.1.45 crores.	Amount involved < or = Rs. 5 crores: 1% of the amount involved	Rs.1,45,000/-

10. Pinnacle shall pay a monetary penalty of Rs.1,45,000/- (Rupees One lakh Forty-Five Thousand only).

Sd/-
Mona Bhide
(Chairperson)

Sd/-
K Narasimha Murthy
(Committee Member)

Sd/-
Mr. S Ravindran
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: September 25, 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.