Before the
Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051
held on July 31, 2023

In the matter of the Trading Member: M/s. Profitmart Securities Private Limited

CORAM

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

PRESENT:

Dr. Dinesh Kumar Soni	- Senior Vice President - Regulatory
Mr. Shailesh Adukia	- Vice President – Enforcement
Mr. Janardhan Gujaran	- Vice President – Enforcement
Ms. Renu Bhandari	- Vice President – Inspection

BACKGROUND

1. **M/s. Profitmart Securities Private Limited** ("**Profitmart**") is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") and Futures & Options ("**F&O**") segments since June 2012, and Currency Derivatives ("**CD**") segment since February 2013.

2. The Securities and Exchange Board of India ("**SEBI**") along with the stock exchanges conducted a comprehensive joint inspection of the books and records of Profitmart covering the period from April 1, 2021, to December 31, 2022, in February 2023. Post-inspection, SEBI issued a Letter of Findings ("**LoF**") dated March 9, 2023, to Profitmart. Profitmart vide its letter dated March 17, 2023, replied to the said LoF.

3. In the 38th SEBI Joint Committee Meeting held on June 6, 2023, SEBI decided to allocate the case to the Exchange for post-inspection enforcement action in

accordance with the Rules, Byelaws, and Regulations of the Exchange. Accordingly, SEBI, vide its letter dated June 9, 2023, communicated the decision to the Exchange.

4. The Exchange, vide its email dated June 15, 2023, informed Profitmart 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

5.1.1. Non-settlement of clients' funds as of December 31, 2022, in the case of 5,625 out of 1,08,546 inactive clients/instances selected for sample scrutiny (5.18%) involving Rs.12.41 lakhs

5.1.2. Failure to undertake steps to settle inactive clients' accounts in 424 instances involving Rs.10.30 lakhs.

5.1.3. Excess funds parked in the bank account maintained separately for the funds of untraceable clients involving Rs.4.23 lakhs.

5.2. Non-reconciliation of 222 quantities pertaining to 4 ISINs worth Rs.0.10 lakhs as of December 30, 2022

5.3. Fixed periodic returns provided to 70 clients involving Rs.1.84 crores

5.4. Passing on penalty for short reporting of margins other than upfront margin to clients without relevant supporting documents, as under: -

a. CM segment - 4 clients involving Rs.0.99 lakh
b. F&O segment – 3 clients involving Rs.2.06 lakhs
c. CD segment – 1 client involving Rs.0.04 lakh

5.5. Incorrect data reported to the Exchange in the weekly holding statement in the case of 1 scrip involving Rs.0.08 lakh as of December 30, 2022

5.6. Observations pertaining to the client registration process

5.6.1. Failure to execute Know Your Client ("KYC") documents in the case of 13 clients

5.6.2. Incomplete client registration forms accepted from 62 clients

5.6.3. Failure to collect income proof i.e., 6 months bank statement from 62 clients in the derivatives segment

5.6.4. Failure to update the running account authorization clause of the client registration document in the case of 77 clients

5.6.5. Failure to report details of 6 clients to the Know Your Client Registration Agency ("KRA") within 10 days from the date of execution of documents by the client

5.6.6. Failure to file a copy of the KYC records of 3 clients with the Central Know Your Client ("CKYC") Records Registry within 10 days from the date of execution of documents by the client

5.6.7. Failure to redact the Aadhar Card of 30 clients

5.6.8. Failure to collect documents required for corporate-client account opening from 1 client

5.6.9. Collection of power of attorney from 62 clients for transfer of securities to the impermissible accounts

5.7. Discrepancy in computation of net worth as of September 30, 2022

a. As per Profitmart: Rs.39.75 crores
b. As per Exchange: Rs.38.97 crores
c. Difference in net-worth computation as per Profitmart vis-à-vis the Exchange: Rs.0.78 crore

5.8. Engagement as a principal in business other than securities by investing in 3 associated entities involving Rs.4.54 crores as on September 30, 2022

5.9. Excess payouts made to 3 clients involving Rs.4.07 lakhs

5.10. Non-closure of 4 client beneficiary account within specified timeline

5.11. Failure to assign appropriate nomenclature to in case of 1 demat account

5.12. Incorrect data reported to the Exchange towards risk-based supervision in 3 areas

5.13. Use of Client Unpaid Securities Account ("CUSA") for purposes other than specified involving 2 ISIN (Quantity:20) of 1 client amounting to Rs.285/-

5.14. Observations pertaining to Margin Trading Facility ("MTF")

5.14.1. Failure to maintain separate books of accounts for MTF and Non-MTF.

5.14.2. Incorrect data reported to the Exchange in the daily margin trading files ("MTR")

5.14.3. Excess exposure allowed to clients on 12 dates ranging from Rs.0.11 crore to Rs.2.86 crores

5.14.4. Shortfall in MTF margin in the case of 7 out of 20 clients selected for sample scrutiny (35% of the total sample instances verified) involving Rs.86.14 lakhs.

5.14.5. Securities other than Group I equity shares held as collateral in case of 1 ISIN involving Rs.0.52 lakhs

5.15. Common email ID mapped to multiple clients in the case of 92 clients

5.16. Excess brokerage collected from clients in 100 instances involving Rs.1.11 lakhs

5.17. Incorrect data submitted towards the weekly client-level cash and cash equivalent balances

a. Incorrect reporting of data to the Exchange in 10 instances involving Rs.1,810/- as of December 31, 2022

b. Failure to report data to the Exchange for 3 clients on 3 dates i.e., August 13, 2021, September 1, 2021, and May 31, 2022, involving Rs.2.19 crores

REGULATORY PROVISIONS

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

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

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

Unless otherwise specifically agreed to by a client, the settlement of funds/securities shall be done within 24 hours of the payout. However, a client may specifically authorize the stockbroker to maintain a running account subject to inter alia the following condition:

The actual settlement of funds and securities shall be done by the broker at least once in a calendar quarter or month, depending on the preference of the client.

b. Exchange Circular No. NSE/INSP/43488 dated February 10, 2020

In case a member is unable to settle the client accounts due to non-availability of client's bank account and demat account details and non-traceability of client, Members are advised to make all efforts to trace the clients to settle their funds and securities lying with them and maintain an audit trail for such efforts made for tracing such clients and settling funds and securities of such clients.

Further in cases where Members are unable to trace such clients in spite of all efforts taken, members are directed to take the following steps:

i. Open one separate Client Bank/Client collateral Demat account and immediately set aside the funds and securities of these clients in such account.

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

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.

6.2. **Non-reconciliation of securities**

a. Exchange Circular No. NSE/INSP/10605 dated April 21, 2008

The records should be periodically reconciled with the actual collateral deposited with the broker.

b. Exchange Circular No. NSE/INSP/29096 dated March 11, 2015

The Members are advised to reconcile client beneficiary account/s and the register of securities on a quarterly basis and maintain complete audit trail & documentation of such reconciliation.

6.3. **Fixed periodic returns provided to clients**

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

(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 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.

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

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

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

6.4. **Passing on penalty for short reporting of margins other than upfront margin to clients without relevant supporting documents**

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.

6.5. **Incorrect data reported to the Exchange in the weekly holding statement**

a. Exchange Circular No. NSE/INSP/39855 dated January 3, 2019

All Members were advised to comply with the requirement and upload the holding statement data electronically for all calendar days of the reporting week on or before the next four trading days of the subsequent week

through the inspection module in the Member portal. The procedure for submission of the data was given in Annexure-1 of this circular.

b. Exchange Circular No. NSE/INSP/46960 dated January 8, 2021

Exchange has provided certain additional clarifications in the revised format of cash & cash equivalent Balances and Holding Statement enclosed as Annexure-A and Annexure-B of this circular.

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. **Observations pertaining to the client registration process**

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

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 briefly indicating 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.

6. *The stockbroker shall have documentary evidence of financial details provided by the clients who opt to deal in the derivative segment. In respect of other clients, the stockbroker shall obtain the documents in accordance with its risk management system*

b. Exchange Circular No. NSE/INSP/14048 dated February 3, 2010

Documentary evidence of financial details

In respect of clients trading in derivative segment, the member shall collect documentary evidence for financial information.

Illustrative list of documents

1. *Copy of ITR Acknowledgement*
2. *Copy of Annual Accounts*
3. *Copy of Form 16 in case of salary income*
4. *Net worth certificate*
5. *Salary Slip*
6. *Bank account statement for last 6 months*
7. *Copy of demat account Holding statement.*
8. *Any other relevant documents substantiating ownership of assets.*
9. *Self-declaration along with relevant supporting.*

Further, for clients registered before the circular date (existing clients), trading member shall collect documents pertaining to financial information at the time of periodic (annual) updation of financial information.

c. Exchange Circular No. NSE/INSP/14646 dated April 26, 2010

PoA favouring Stock Brokers

PoA executed in favour of a Stock Broker by the client should be limited to the following:

1. Securities

i. *Transfer of securities held in the beneficial owner account(s) of the client(s) towards stock exchange related margin / delivery*

obligations arising out of trades executed by the Client(s) on the stock exchange through the same Stock Broker.

ii. *Pledge the securities in favour of Stock Broker for the limited purpose of meeting the margin requirements of the client(s) in connection with the trades executed by the clients on the stock exchange through the same Stock Broker. Necessary audit trail should be available with the Stock Broker for such transactions.*

iii. *To apply for various products like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares, tendering shares in open offers etc. pursuant to the instructions of the Client(s). However, a proper audit trail should be maintained by the Stock Broker to prove that the necessary application/act was made/done pursuant to receipt of instruction from Client.*

2. Funds

iv. *Transfer of funds from the bank account(s) of the clients for the following:*

a. *For meeting the settlement obligations of the client(s)/ margin requirements of the client(s) in connection with the trades executed by the clients on the stock exchange through the same Stock Broker.*

b. *For recovering any outstanding amount due from the client(s) arising out of clients trading activities on the stock exchanges through the same Stock Broker.*

c. *For meeting obligations arising out of the client subscribing to such other products/facilities/services through the Stock Broker like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares in etc.*

d. *Towards monies/fees/charges, etc. due to the Stock Broker/Depository Participant/ Principal payable by virtue of the client using/subscribing to any of the facilities/services availed by the Client at his/her instance.*

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

F. In case of Non-Individuals, additional documents to be obtained from non-individuals, over & above the POI & POA, as mentioned below:

Types of entity	*Documentary requirements*
Corporate	• *Copy of the balance sheets for the last 2 financial years (to be submitted every year).* • *Copy of latest share holding pattern including list of all those holding control, either directly or indirectly, in the company in terms of SEBI takeover Regulations, duly certified by the company secretary/Whole time director/MD (to be submitted every year).* • *Photograph, POI, POA, PAN and DIN numbers of whole time directors/two directors in charge of day to day operations.* • *Photograph, POI, POA, PAN of individual promoters holding control - either directly or indirectly.* • *Copies of the Memorandum and Articles of Association and certificate of incorporation.* • *Copy of the Board Resolution for investment in securities market. Authorised signatories list with specimen signatures.*

e. Exchange Circular Nos. NSE/INSP/19654 dated December 26, 2011, and NSE/INSP/53729 dated September 16, 2022

After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA and send the KYC documents, i.e., KYC application form and supporting documents of the clients, to the KRA within 10 working days from the date of execution of documents by the client and maintain the proof of dispatch.

f. Exchange Circular No. NSE/INSP/32860 dated July 21, 2016

3. As per the 2015 amendment to PML (Maintenance of Records) Rules, 2005 (the rules), every reporting entity shall capture the KYC information for sharing with the Central KYC Records Registry in the

manner mentioned in the Rules, as per the KYC template for 'individuals' finalised by CERSAI.

6. *In the first phase, the registered intermediaries shall upload the KYC data with CKYCR, in respect of all individual accounts opened on or after August 1, 2016, wherever KYC is required to be carried out as per the circulars issued by SEBI from time to time and accordingly, shall take steps to prepare their systems for uploading the KYC data.*

g. Exchange Circular No. NSE/INSP/45504 dated August 27, 2020

4.2. PoA executed in favour of stock broker / stock broker depository participant by the client shall be utilized: -

4.2.1. For transfer of securities held in the beneficial owner accounts of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by clients on the Stock Exchange through the same stock broker.

4.2.2. For pledging / re-pledging of securities in favour of trading member (TM)/clearing member (CM) for the purpose of meeting margin requirements of the clients in connection with the trades executed by the clients on the Stock Exchange.

4.2.3. For the limited purposes as specified in paragraph 1(iii) and 2 of the Guidelines.

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

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

i. Exchange Circular No. NSE/INSP/51901 dated April 5, 2022

1.2. PoA executed in favour of stock broker / stock broker depository participant by the client shall be utilized

1.2.1. For transfer of securities held in the beneficial owner account of the client towards Stock Exchange related deliveries /

settlement obligations arising out of trades executed by such a client on the Stock Exchange through the same stock broker.

1.2.2. For pledging / re-pledging of securities in favour of the trading member (TM) / clearing member (CM) for the purpose of meeting margin requirements of the client in connection with the trades executed by such a client on the Stock Exchange.

1.2.3. For the limited purposes as specified in paragraph 1(iii) and 2 of the Enclosure to the POA Guidelines, 2010.

4. The client may use the DDPI or opt to complete the settlement by issuing physical Delivery Instruction Slip (DIS) or electronic Delivery Instruction Slip (eDIS) themselves. Hence, with the implementation of this circular, PoA shall no longer be executed for the conditions specified in paragraph 1.2.1 and 1.2.2.

j. Exchange Circular No. NSE/INSP/53729 dated September 16, 2022

1.3 Clarification on KYC Process and Use of Technology for KYC

Aadhaar is verified through UIDAIs authentication / verification mechanism. Further, in terms of PML Rule 9 (16), every RI shall, where the investor submits his Aadhaar number, ensure that such investor to redact or blackout his Aadhaar number through appropriate means where the authentication of Aadhaar number is not required under sub-rule (15). RI shall not store/ save the Aadhaar number of investor in their system. e-KYC through Aadhaar Authentication service of UIDAI or offline verification through Aadhaar QR Code/ XML file can be undertaken, provided the XML file or Aadhaar Secure QR Code generation date is not older than 3 days from the date of carrying out KYC. In terms of SEBI circular No. CIR/MIRSD/29/2016 dated January 22, 2016, the usage of Aadhaar is optional and purely on a voluntary basis by the investor.

1.16 Operationalisation of Central KYC Records Registry (CKYCR) and uploading of clients' KYC details

The KYC details of existing and new individual clients shall be uploaded as under:

A) Registered intermediaries shall upload the KYC data with CKYCR in respect of all individual accounts opened on or after August 1, 2016, wherever KYC is required to be carried out as per the circulars issued by SEBI from time to time.

B) With respect to uploading of KYC data of the existing individual clients with CKYCR, Stock Brokers to ensure 50% completion of uploading of existing KYC data by November 30, 2016and the remaining 50% of KYC data by December 31, 2016.

k. Exchange Circular No. NSE/INSP/53729 dated September 16, 2022

The DDPI shall serve the same purpose of PoA. The use of DDPI shall be limited only for the following two purposes.

i. For transfer of securities held in the beneficial owner account of the client towards Stock Exchange related deliveries / settlement obligations arising out of trades executed by such a client on the Stock Exchange through the same stockbroker.

ii. For pledging / re-pledging of securities in favour of the trading member (TM) / clearing member (CM) for the purpose of meeting margin requirements of the client in connection with the trades executed by such a client on the Stock Exchange.

6.7. **Discrepancy in computation of net worth**

a. Rule 33 of Chapter III of the Rules of the Exchange

Continued Admittance
The relevant authority shall from time to time prescribe conditions and requirements for continued admittance to trading membership which may, inter alia, include maintenance of minimum net worth and capital adequacy, renewal of certification, if any, etc. The trading membership of any person who fails to meet these requirements shall be liable to be terminated.

b. Exchange Circular No. NSE/COMP/47555 dated March 8, 2021

B) Non-Allowable Assets

6. Doubtful debts and advances

This shall include: -

- *Debts or advances overdue for more than three months.*
- *Wherever, a provision is created for doubtful / bad debts, net amount i.e. after reducing provision made for doubtful / bad debts shall be considered.*
- *Any amount given in the nature of Loans, advances etc to the associates including subsidiaries / group companies of the member, irrespective of time period shall be considered.*
- *'Associate' shall have the meaning as per the definition provided under SEBI (Intermediaries) Regulations, 2008.*

"associate" means any person controlled, directly or indirectly, by the intermediary, or any person who controls, directly or indirectly, the intermediary, or any entity or person under common control with such intermediary, and where such intermediary is a natural person will include any relative of such intermediary and where such intermediary is a body corporate will include its group companies (as defined in the Monopolies and Restrictive Trade Practices Act, 1969 (Act No. 54 of 1969) or any reenactment thereof) or companies under the same management.

c. Exchange Circular No. NSE/COMP/48895 dated July 10, 2021

6. Doubtful Debts and advances

This shall include: -

- *Debts or advances overdue for more than three months.*

For instance: Debit Balance in the trading account of client 'A' as on Dec 01, 2020 – Rs. 1000. If the amount is not received till March 31, 2021, then

the outstanding amount as on March 31, 2021 is to be reduced from the Networth (since the amount is outstanding for more than three months)

- *Wherever, a provision is created for Doubtful / Bad Debts, net amount i.e. after reducing provision made for Doubtful / Bad Debts shall be considered.*

- *Any amount given in the nature of Loans, advances, Inter corporate deposits given to associates including subsidiaries / group companies of the member.*

- *Loans given to Directors/Partners or any related party of the Member or its Directors or its partners or to the entities in which such director /partners or their relatives have control, irrespective of time period, shall also be deducted.*

- *'Associate' shall have the meaning as per the SEBI (Intermediaries) Regulations, 2008*

"associate" means and includes any person controlled, directly or indirectly, by the intermediary, any person who controls, directly or indirectly, the intermediary, or any entity or person under common control with such intermediary, or where such intermediary is a natural person any relative as defined under the Companies Act, 1956 (1 of 1956) of such intermediary or where such intermediary is a body corporate its group companies or companies under the same management; The expression 'control' shall have the same meaning as defined under clause (c) of Regulation 2 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997. The term related party shall have the same meaning as given in clause 76 & 77 of Section 2 of Companies Act 2013 to be read with Rule 4 of the Companies (Specification and definition details) Rules, 2014
The expression 'control' shall have the same meaning as defined under clause (c) of Regulation 2 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

The term related party shall have the same meaning as given in clause 76 & 77 of Section 2 of Companies Act 2013 to be read with Rule 4 of the Companies (Specification and definition details) Rules, 2014.

d. Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulations, 2022

For the purposes of this Schedule, 'base networth' shall mean paid up capital, fully, compulsorily and mandatorily convertible debentures / bonds / warrants which are convertible within a period of 5 years from the date of issue, free reserves and other securities approved by the Board from time to time, but shall not include fixed assets, pledged securities, value of member"s card, non-allowable securities (unlisted securities), bad deliveries, any debts and advances (except trade debtors of less than 3 months), prepaid expenses, losses, intangible assets and 30% value of marketable securities

e. Exchange Circular No. NSE/COMP/53821 dated September 26, 2022

Trading Members/Clearing Members of the Exchange/Clearing Corporation are required to maintain net worth as prescribed by the Exchange at all points in time as per the continuing membership norms of the Exchange.

The method of computation of net worth as prescribed by Schedule VI of SEBI (Stock Brokers) (Second Amendment) Regulations, 2013 is as follows:

Capital + Free Reserves

Less: Non-allowable assets viz.

(a) Fixed assets
(b) Pledged securities
(c) Member's card
(d) Non-allowable securities (unlisted securities)
(e) Bad deliveries
*(f) Doubtful debts and advances**
(g) Prepaid expenses, losses
(h) Intangible assets
(i) 30% of marketable securities

**Explanation:*

Includes debts/advances overdue for more than three months or given to associates.

6.8. **Engagement as a principal in business other than securities**

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

(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 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:

9. Entering into any arrangement for extending loans or giving deposits/advances to any entity, including group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business.

10. Investments made in group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business. (Ex: Investment in companies engaged in other businesses such as NBFC, Real Estate etc.)

6.9. **Excess payouts made to clients**

Rule 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.

6.10. **Non-closure of client beneficiary account within specified timeline**

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

All the existing client securities accounts opened by the TM/CM other than the '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.

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

6.11. **Failure to assign appropriate nomenclature to demat account**

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

1.2. The nomenclature for demat accounts to be followed is given as under:

1.2.3. Demat account(s) which hold clients' securities shall be named as "Name of Stock Broker - Client Account".

1.2.4. Demat account(s), which hold own securities of the stock broker, shall be named as "Name of Stock Broker-Proprietary Account".

1.2.5. Demat account(s), maintained by the stock broker for depositing securities collateral with the clearing corporation, shall be named as "Name of Stock Broker-Collateral Account".

1.2.6. Demat account(s) held for the purpose of settlement would be named as " Name of Stock Broker - Pool account".

6.12. **Incorrect data reported to the Exchange towards risk-based supervision**

Exchange Circular No. NSE/INSP/51970 dated April 8, 2022

Members are requested to submit the information / data towards the Risk Based Assessment for the period April 01, 2021 – March 31, 2022 to the Exchange. The particulars of such information / data sought in this regard are enclosed as Annexure-A. The same has to be submitted to the Exchange electronically through the Inspection module in the Member portal latest by May 31, 2022.

It is to be noted that the submission of RBS data is mandatory for all active Members of the Exchange (i.e. those who have executed/cleared even a single trade during the aforementioned period i.e. April 01, 2021 –March 31, 2022). Further, the data collated from the Members/Exchange towards RBS is shared with SEBI and in case of any non-submission/delayed submission by a Member, disciplinary action as prescribed in Annexure C will be initiated.

6.13. **Use of CUSA for purposes other than specified**

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

4.2. With regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled – "client unpaid securities account" shall be opened by the TM/CM. Unpaid securities shall be transferred to such "client unpaid securities account" from the pool account of the concerned TM/CM.

4.3 The securities kept in the 'client unpaid securities account' shall either be transferred to the demat account of the respective client upon fulfillment of the client's fund's obligation or shall be disposed of in the market by TM/CM within five trading days after the pay-out. The unpaid securities shall be sold from the Unique Client Code (UCC) of the respective client. Profit/loss on the sale transaction of the unpaid securities, if any, shall be transferred to/adjusted from the respective client account.

6.14. **Observations pertaining to MTF**

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

Margin Requirement

7. *Stock brokers shall ensure maintenance of the aforesaid margin at all times during the period that the margin trading facility is being availed by the client. In case of short fall, stock broker shall make necessary margin calls.*

Leverage and Exposure Limits

16. *At any point of time, the total indebtedness of a stock broker for the purpose of margin trading shall not exceed 5 times of its net worth, calculated as per para 12 above.*

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.*

    b) *exposure towards stocks purchased under margin trading facility and collateral kept in the form of stocks are well diversified. Stock brokers shall have appropriate Board approved policy in this regard.*

Maintenance of Records

24. *The stock broker shall maintain separate client-wise ledgers for funds and securities of clients availing margin trading facility*

b. Exchange Circular No. NSE/COMP/48531 dated June 09, 2021

Q7. How initial margin shall be payable by clients to Member?

A. The initial margin payable by the client to the Member shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in Section 1.1.3 of Chapter IV of

SEBI Master circular No. SEBI/HO/MRD/DP/CIR/P/117 dated October 25, 2019 (previous SEBI circular SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016), and shall be recorded in the MTF books. The minimum initial margin required shall be as under: -

Category of Stock	*Applicable margin*
Group I stock available for trading in the F&O Segment	*VaR + 3 times of applicable ELM**
Group I stocks other than F&O stocks	*VaR + 5 times of applicable ELM**

**For aforesaid purpose, the applicable VaR and ELM shall be as in the cash segment for a particular stock.*

Collateral in the form of securities under the margin trading facility shall be held by way of pledge only in terms of SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/28 dated February 25, 2020.

Members shall ensure that the initial margin is maintained for all the open funded positions as per the aforementioned prescribed rate at all times.

Q8. Can excess margin/collateral available in MTF ledgers be considered towards Margins of non-MTF transactions?

A. Excess margin/collateral available in MTF ledgers cannot be considered towards Margins of non-MTF transactions. However, in exceptional scenarios, transfers from non-MTF ledgers to MTF ledgers can be considered towards a margin position in MTF, provided they belong to the same clients and there are sufficient & free balances available in the non-MTF ledgers. Any transfer of balances from non-MTF ledgers to MTF ledgers undertaken with a view to avoid the actual settlement requirements will not be permitted. Further, any transfer of balances from non-MTF ledger to MTF ledger for MTF trades post confirmation of client will not be considered for computation of clear ledger balance till the settlement of trades. Members are requested to accordingly report the clear balances of the clients under weekly submissions of monitoring of client funds under

Enhanced supervision guidelines of SEBI and Weekly submissions of Cash & Cash Equivalent balances to the Exchange.

Q12. What is the maximum allowable exposure of the Member towards MTF?

A. The maximum allowable exposure shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his "net worth". The term "exposure" shall mean the aggregate outstanding margin trading amount in the books of the Member for all his clients at any given point of time. The term "borrowed funds" shall mean the amount borrowed and not the sanctioned limit of borrowings.

*"Maximum allowable exposure <= [Total Borrowed Funds +(0.5*Net Worth)]"*

Q14. What shall be the client-wise exposure limit?

A. The exposure to any single client at any point of time shall not exceed 10% of the Member's maximum allowable exposure.

Q22. What are the reporting requirements by the Member?

A. Once the Member has started offering margin trading facility to clients, it is mandatory to report the details on gross exposure towards margin trading facility to the stock exchange on or before 12 noon of the following trading day as per the format prescribed by SEBI in its circular dated June 13, 2017 (Ref CIR/MRD/DP/54/2017) /Exchange circular dated Nov 22, 2017 (ref. no. NSE/COMP/36350). The reporting has to be done on the following linkhttps://ims.connect2nsccl.com/MemberPortal/under the tab- "Extranet Upload" - CM segment.

6.15. **Common email ID mapped to multiple clients**

a. Exchange Circular No. NSE/INVG/18503 dated August 2, 2011

B. Uploading of mobile number and E-mail address by stockbrokers

iv. *Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the stock broker may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.*

b. Exchange Circular No. NSE/INVG/21841 dated October 4, 2012

In view of the above, all Trading members are requested to review the details of the clients uploaded on UCI Online pertaining to their mobile number and / or email address and update the same wherever necessary. Trading Members are hereby requested to take utmost care while uploading client details including mobile number and email address on UCI - ONLINE.

c. Exchange Circular No. NSE/ISC/ 48165 dated May 3, 2021

Trading Members are required to assign Unique Client Codes (UCC) for all the clients trading on the Exchange platform.

In this regard, it has been decided in consultation with SEBI and other Exchanges that the following details of clients shall be made mandatory for new as well as existing clients.

Field Name	*Applicability to Category of Clients*
MOBILE NUMBER	*For retail clients, mobile number has been made mandatory.* *For Institutional clients (client category 6, 7, 8, 9, 12, 16, 21, 22 ,23 & 24) either telephone number (office) or mobile number is mandatory.* *It may be noted that '6666666666' shall not be considered as valid mobile number.*
EMAIL ID	*Email id has been made mandatory for ALL clients.*

	In case of email id please note that "notprovided@notprovided.com" shall not be considered as valid email id

6.16. **Excess brokerage collected from clients**

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

4. In the account opening process, the stock brokers / trading members would also give the following useful information to the clients:

a. A tariff sheet specifying various charges, including brokerage, payable by the client to avoid any disputes at a later date.

b. Exchange Circular No. NSE/INSP/53939 dated October 3, 2022

Exchanges have been receiving complaints from various investors alleging that the members are levying brokerage and other charges more than what has been mutually agreed with the client and specified in the tariff sheet. Hence, members are advised to ensure that the client is not charged in excess of the agreed rates. Further, members shall ensure that statutory and regulatory levies recovered from client are only at actuals. In order to bring more transparency to investors on the brokerage and other charges being levied by the members, Exchanges in consultation with SEBI have decided that the details of brokerage/charges to be levied for each order shall be prominently displayed to the investor on the "Order placement window/screen" on their Internet Based Trading (IBT) / Wireless Trading (WT) applications prior to placement of order.

6.17. **Incorrect data submitted towards 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 the subsequent week.

b. Exchange Circular No. NSE/INSP/46960 dated January 8, 2021

Exchange has provided certain additional clarifications in the revised format of cash & cash equivalent Balances and Holding Statement enclosed as Annexure-A and Annexure-B of this circular.

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.

PRESENT PROCEEDING

7. The Exchange vide an email dated July 24, 2023, granted Profitmart with an opportunity of a personal hearing before the Committee. On behalf of Profitmart, Mr. Nayan Bhandari (Director), Mr. Rakesh Sonawane (Director), Mr. Sarat Murarka (CMO), Mr. Yesudasan R K (Director), Mr. Niranjan Mahajan (Director), Mr. Robin Shah (Advocate), Mr. Abishek Venkatraman (Advocate), Mr. Udaysingh Kashid (Advocate), Mr. Nitin Bora (Compliance Team), Mr. Gaurav Kothari (Compliance Team), and Mr. Prashant Mayekar (Authorized Representative) appeared before the Committee and made the following submissions:

i. Engagement as a principle in business other than securities

Profitmart liquidated its investments in Verve IT Services LLP and Valera Landmarks LLP. The investment made in Velocity Courtyard LLP will be liquidated by August 15, 2023.

ii. Shortfall in MTF margin

Due to an error in the back-office software, MTF entries were inadvertently posted in non-MTF books. Further, sufficient collaterals were available in the MTF books for the clients.

8. The Exchange vide its email dated August 1, 2023, requested Profitmart to provide the following documents by August 4, 2023: -

   i. updated ledgers of investments in the associate entities.

   ii. back-office vendors' certificate certifying the error in the back-office software due to which MTF entries were posted in the non-MTF ledgers.

   iii. detailed working along with documents to support its contention that sufficient collaterals were lying in non-MTF books, and that these collaterals were free and unencumbered.

CONSIDERATION AND FINDINGS

9. The observations/violations in the LoF, reply of Profitmart and the findings of the Committee are as under: -

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

      a. The observations are as under: -

         i. Non-settlement of clients' funds

         Upon verification of the client ledgers, bank books, weekly client-level cash and cash equivalent submission, trade data along with margin obligation data from the Clearing Corporation, it is observed that Profitmart failed to settle the clients' funds as of December 31, 2022, in 5,625 out of 1,08,546 inactive clients/instances selected for sample scrutiny (5.18% of the total sample clients/instances verified) involving Rs.12.41 lakhs.

         ii. Failure to undertake steps to settle inactive clients' accounts

         Profitmart failed to produce the audit trail for efforts made for tracing untraceable clients to settle funds. Thus, it is deemed that Profitmart failed to undertake steps to settle inactive clients' accounts in 424 instances involving Rs.10.30 lakhs.

iii. Excess funds parked in the bank account maintained separately for the funds of untraceable clients

Upon verification of the bank book and bank statement pertaining to the funds of untraceable clients, it is observed that Profitmart parked excess funds in the said bank account involving Rs.4.23 lakhs.

b. In reply to the LoF, Profitmart submitted as under: -

A. Non-settlement of clients' funds

i. There is a robust system for settlement of funds. The release of funds is fully automated, and system driven. The back-office software settles the clients' funds and forwards the retention statement and statement of accounts to the clients' registered email addresses.

ii. Funds' pay-outs approximately involving Rs.43 crores and Rs.38 crores were made to clients on October 7, 2022, and January 6, 2023, respectively.

iii. The settlement amount involved in the instant case is Rs.2.10 lakhs as of December 31, 2022, which is meagre as compared to the funds' payout of Rs.38 crores released by Proftmart for the quarter ended December 2022.

iv. The maximum amount involved in the observation is Rs.1,200/-. The details are, as under: -

- 1466 out of 5201 clients have ledger balances below Re.1/- involving Rs.681.93/-;
- 1282 out of 5201 clients have ledger balance between Rs.1/- and Rs.10/- involving Rs.6,656.85/-; and
- 2453 out of 5201 clients have ledger balances between Rs.10/- and Rs.1,200/- involving Rs.2,10,313.24/-.

v. Profitmart failed to settle the clients'' funds due to the following reasons: -

- *1463 out of 5201 clients involving Rs.678.93/-*

  There is an operational difficulty in making pay out to clients having balances below Re.1 (in decimals).

- *3511 out of 5201 clients involving Rs.1,90,625.96/-*

  Funds are on hold on account of DP charges. Profitmart withholds the demat charges accrued from client at the time of settlement to prevent a debit balance in the client's ledger which may eventually turn into a bad debt. All the charges that were retained or blocked, pertain to clients' activities. It does not retain any amount over the receivable balance. Since funds were retained for DP charges, the same shall be considered settled.

  DP charges were not collected from other clients as the same would result in a debit balance in the clients' accounts and potentially cause operational difficulties impacting its ability to recover the charges from the clients. DP charges were debited wherever applicable in respective client ledgers.

- *227 out of 5201 clients involving Rs.19,008.35/-*

  Funds are settled by payout or by recovery of DP charges.

vi. No client complaints were received regarding the same which indicates that Profitmart has a strict and comprehensive compliance process.

vii. 265 out of 424 untraceable clients involving Rs.5,05,014.44/-, have been settled.

viii. 159 out of 424 untraceable clients involving Rs.5,25,435.34/-, continue to be untraceable. However, sufficient steps were taken to settle the clients.

B. Failure to undertake steps to settle inactive clients' accounts

i. There is a well-defined system for declaration of clients as "non-traceable".

ii. Clients having credit balances are declared as "untraceable" only after rejection of all modes of payments. Extensive efforts are made to contact these clients through various means such as SMS, emails, WhatsApp etc. Further adequate documentation/records are maintained prior to tagging the client's account as untraceable.

iii. 265 out of 424 clients who were untraceable earlier, involving Rs.5,05,014.44/- have been settled. This shows that it has a system in place to contact untraceable clients and ensure funds pay out to them.

iv. The remaining 159 clients involving Rs.5,25,435.34/-, continue to be untraceable.

C. Excess funds parked in the bank account maintained separately for the funds of untraceable clients

i. In accordance with the regulatory provisions, Profitmart opened a separate client bank account and set aside the funds and securities of non-traceable clients in the said account.

ii. Excess funds were maintained in the said client bank account to ensure smooth day-to-day operations and to prevent the non-traceable bank account balances from going into deficit at any point in time. Its policy mandated maintenance of sufficient balance in this account to meet any operational challenges such as the daily movement of client's funds between traceable and non-traceable accounts.

c. The Committee finds as under: -

A. <u>Non-settlement of clients' funds and failure to undertake steps to settle inactive clients' accounts</u>

i. *1463 out of 5201 clients involving Rs.678.93/-*

Profitmart contended that there was an operational difficulty in making funds pay out to clients having balances below Re.1 (in decimals).

Since the settlement amount is in decimal, benefit may be granted to Profitmart. Thus, Profitmart's contention is tenable, and the observation/violation ceases to persist in the aforementioned instances.

ii. *2899 out of 5201 clients involving Rs.1,86,248.73/-*

Profitmart contended that funds are on hold on account of DP charges.

Upon verification of the ledgers provided by Profitmart, it is observed that DP charges were accounted for, on a provisional basis in March 2023 i.e., post the settlement date. Thus, Profitmart's contention is not tenable, and the violation persists in the aforementioned instances.

iii. *839 out of 5201 clients involving Rs.23,385.58/-*

Profitmart contended that the accounts have been settled.

Upon verification of the ledgers provided by the client on sample basis, it is observed that on the settlement date i.e., December 31, 2022, clients bearing UCCs: 18080006, 51510014 and 30650094, had been inactive for the past 30 days. However, the clients' accounts were not settled within the next three working days.

Thus, Profitmart's contention is not tenable, and the violation persists in the aforementioned instances.

iv. *424 instances of untraceable clients involving Rs.10.30 lakhs*

Profitmart claimed that sufficient measures were undertaken to settle all its untraceable clients as a result of which 265 clients who were untraceable earlier, involving Rs.5.05 lakhs have been settled. The remaining 159 clients involving Rs.5.25 lakhs continue to be untraceable.

Upon verification of the NEFT rejections, bank statements along with WhatsApp chats and email communications of Profitmart with its untraceable clients seeking updation of bank details, it is observed that Profitmart took sufficient measures to locate and make funds' payouts to its inactive clients. Thus, its claim is tenable, and the observation/violation ceases to persist in the aforementioned instances.

v. In view of the above, the violation stands reduced to 3738 out of 108546 instances selected for sample scrutiny (3.44% of the total sample instances verified) involving Rs.2.10 lakhs.

vi. As per Exchange Circular No. NSE/INSP/48624 dated June 16, 2021, Trading Members shall return the credit balances of clients who have not transacted for 30 calendar days since the last transaction to the respective client within next three working days irrespective of the date when the running account was previously settled. Thus, Profitmart violated the regulatory provision mentioned above by failing to settle all its inactive clients within the next three working days.

B. <u>Exces funds parked in the bank account maintained separately for the funds of untraceable clients</u>

Profitmart contended that excess funds were parked in the said bank account to avoid deficit

In the instant case, excess funds were transferred from client bank account to such separate bank account maintained by Profitmart for untraceable clients' funds. In the absence of supporting documents to prove that the funds were own funds of Profitmart it is deemed that funds

pertaining to other clients were utilized. Thus, Profimart's contention is not tenable, and the violation persists.

As per Exchange Circular No. NSE/INSP/43488 dated February 10, 2020, if Trading Members are unable to trace clients despite all efforts taken, they must immediately open a separate client bank and set aside the funds of such untraceable clients in said client bank account. The said client bank account must be maintained separately and must not be used for any other purpose. Thus, Profitmart violated the regulatory provisions mentioned above by parking excess funds in the bank account maintained separately for the funds of untraceable clients.

d. Given the findings mentioned above, the Committee decided to (i) levy a monetary penalty of Rs.30,000/- in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022; and (ii) warn Profitmart to ensure non-recurrence of the observed violation pertaining to excess funds parked in the bank account maintained separately for the funds of untraceable clients.

9.2. **Non-reconciliation of securities**

a. Upon verification of the securities recorded in the register of securities vis-à-vis the securities available in the demat accounts maintained by Profitmart as of December 30, 2022, it is observed that Profitmart failed to reconcile 222 quantities pertaining to 4 ISINs worth Rs.0.10 lakhs as of December 30, 2022.

b. In reply to the LoF, Profitmart submitted as under: -

i. The observation pertains to inactive scrips and shares lying in demat accounts under "freeze".

ii. 1 ISIN (Quantity: 55) of Karnataka Bank was lying unidentified in the pool account as of December 30, 2022. Profitmart was unable to identify the owner of the shares until January 9, 2023. Thus, the same was reported in the holding statement file as of January 9, 2023.

iii. 3 ISINs are either lying in demat account under freeze or lock in. Profitmart ensures that the client does not execute any sale transaction in such scrips as it shall result in an auction of shares and

undue loss to the counterparty. The securities were recorded in the register of securities and reported to the Exchange under the holding statement report.

iv. The value involved is minuscule considering the size and turnover of the business.

c. The Committee finds as under: -

i. Profitmart attributed the failure to record 1 ISIN (Quantity: 55) in the register of securities as of December 30, 2022, to the non-identification of the beneficial owner of the scrip.

ii. Profitmart denied the observation/violation pertaining to 3 ISINs (Quantity: 167) and claimed the said ISINs were recorded in the register of securities and reported to the Exchange in the holding statement file. Upon verification of the register of securities and holding statement, it is observed that Profitmart's contention is correct, and the observation/violation ceases to persist.

iii. In view of the above, the violation stands reduced to 1 ISIN (Quantity: 55) involving Rs.8,368/-.

iv. As per Exchange Circular No. NSE/INSP/10605 and NSE/INSP/29096 dated April 21, 2008, and March 11, 2015, respectively, the Trading Members are advised to periodically reconcile client beneficiary account/s and the register of securities and maintain a complete audit trail and documentation of such reconciliation. Thus, Profitmart violated the regulatory provisions mentioned above by failing to periodically reconcile the securities recorded in the back office with the demat accounts.

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

9.3. **Fixed periodic returns provided to clients**

a. Upon verification of the combined ledgers of the Profitmart's clients, bank books and the bank statements of Profitmart, certain patterns were observed in the payments made to clients which indicate that Profitmart

indulged in providing fixed periodic payouts to 70 clients involving an amount of Rs.1.84 crores.

b. In reply to the LoF, Profitmart submitted as under: -

i. Profitmart has more than 2 lakhs clients and 70 clients represent less than 0.00050% of the total clients.

ii. There was an inspection in the year 2021-2022, which continued till September 22 and a forensic audit conducted by the Exchange in the month of July 2022 for the same matter.

iii. All the clients had sufficient credit balances at the time of pay out. The pay outs were given on receiving a pay-out request from the client. Other than monthly/quarterly settlement, it did not initiate payment to clients without request.

iv. Post the inspection and forensic audit conducted by the Exchange, all the 70 clients in which the violation is observed are either closed or inactive, and the ledger balance is zero for all the clients as of December 31, 2022. The accounts are under closed status in Exchange UCC and back-end software.

v. Fortnightly certificates are submitted to the Exchange certifying that Profitmart does not make any regular or fixed pay-outs to their clients. Further, the concerned Authorized Person has been terminated with immediate effect and all client accounts where such pattern were observed are either made inactive or closed. Requisite changes are made in the payout system to ensure that the event does not recur.

vi. Regular SMSs/emails are sent to clients and publications are made in the newspaper warning investor to avoid involvement in such illegitimate schemes.

c. The Committee finds as under: -

i. The Exchange conducted a regular inspection of the Profitmart's books of accounts and records covering the period September 1, 2020, to August 31, 2021, from September 2021 to December 2021 and scrutinized the Profitmart's records pertaining to the inspection

and supervision of its Authorized Persons. Post-inspection and scrutiny of the records, the Exchange issued two show cause notices dated May 9, 2022, and June 14, 2022, to Profitmart.

ii. Pursuant to the MCSGFC directions vide order dated July 12, 2022, the Exchange appointed a forensic auditor to audit the books and records of the Profitmart from April 1, 2019, to July 22, 2022. Post-audit, the Exchange issued a show-cause notice dated September 23, 2022.

iii. The aforementioned show-cause notices were finally decided by the Committee vide its orders dated August 11, 2022, and June 14, 2023, wherein appropriate penalties were levied, and disciplinary actions were taken against Profitmart.

d. Given the findings mentioned above, the Committee decided to no separate action is warranted against Profitmart for the observed violation.

9.4. **Passing on penalty for short reporting of margins other than upfront margin to clients without relevant supporting documents**

a. Upon verification of the client ledgers, and records of the Exchange/Clearing Corporation pertaining to the margin required and margin reported along with penalty files, it is observed that Profitmart passed on the penalty for a short collection of margins other than upfront margin to clients without providing the relevant supporting documents demonstrating the failure on the part of the clients, as under: -

i. CM segment - 4 clients involving Rs.0.99 lakhs
ii. F&O segment - 3 clients involving Rs.2.06 lakhs
iii. CD segment - 1 client involving Rs.0.04 lakhs

b. In reply to the LoF, Profitmart submitted as under: -

It has a strict policy with regards to sending intimations to its clients regarding penalties, margin calls, fund pay-in/outs, etc., through SMS and email. Intimation was sent to all the clients informing them about the short margin penalties and logs for the same are maintained by Profitmart.

c. The Committee finds as under: -

i. Profitmart denied the observation/violation and claimed that relevant supporting documents were provided to the clients before passing on the penalty for short reporting of margins other than upfront margin to clients without relevant supporting documents.

ii. Upon verification of the email logs provided by Profitmart, it is observed that an email captioned "debit advice margin shortage penalty" was sent to the clients. However, the contents of the emails could not be ascertained from the email logs. It is, therefore, unclear from the documents submitted, if Profitmart provided all the relevant supporting documents to the client including details and calculation of the penalty passed on to them. Thus, Profitmart's contention is not tenable, and the violation persists.

iii. As per Exchange Circular No. NSE/INSP/49929 dated October 12, 2021, in case of failure on the part of the client resulting which a penalty is levied by the Clearing Corporation on the Trading Member for short reporting of margins other than "upfront margins" such as consolidated crystallized obligation, delivery margins, other margins (Mark-to-market & additional margins), Trading Member may pass on the actual penalty to the client, provided that the Trading Members 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. Thus, Profimart violated the regulatory provisions mentioned above by passing on penalties for short reporting of margins other than upfront margin to clients without providing them with the relevant supporting documents.

d. Given the findings mentioned above, the Committee decided to warn Profitmart to ensure non-recurrence of the observed violation in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

9.5. **Incorrect data reported to the Exchange in the weekly holding statement**

a. Upon verification of the weekly holding statement submitted by Profitmart to the Exchange as of December 30, 2022, vis-à-vis the demat account

holding statement, it is observed that Profitmart failed to report data pertaining to 1 scrip (Quantity: 55) available in the demat account, in its weekly holding statement as of December 30, 2022, involving Rs.0.08 lakh.

b. In reply to the LoF, Profitmart submitted as under: -

   i. The weekly reporting is completely automated, and no manual intervention is involved in the process.

   ii. 1 ISIN (Quantity: 55) of Karnataka Bank was lying unidentified in the pool account as of December 30, 2022. Profitmart was unable to identify the owner of the shares until January 9, 2023. Thus, the same was reported in the holding statement file as of January 9, 2023.

   iii. The violation is reported in 1 ISIN (Quantity:55) involving Rs.8,000/. The value and quantity involved is minuscule in comparison with the turnover and collaterals available with it.

c. The Committee finds as under: -

   i. Profitmart attributed the failure to report 1 ISIN (Quantity: 55) in the holding statement submitted to the Exchange as of December 30, 2022, to non-identification of the beneficial owner of the scrip.

   ii. As per Exchange Circular Nos. NSE/INSP/39855 dated January 3, 2019, and NSE/INSP/46960 dated January 8, 2021, all the Trading Members are advised to upload the holding statement data electronically for all calendar days of the week except Sunday on or before the next four trading days of the subsequent week through the inspection module in the Member portal. Thus, Profitmart violated the regulatory provisions mentioned above by incorrectly reporting data to the Exchange in the weekly holding statement.

d. Considering the amount involved, the Committee decided to warn Profitmart to ensure non-recurrence of the observed violation.

9.6. **Observations pertaining to the client registration process**

a. Upon verification of the KYC/KRA/CKYC records, account opening forms, and other client registration documents of Profitmart, it is observed that Profitmart: -

A. failed to execute the KYC documents in the case of 13 clients

B. accepted incomplete client registration forms from 62 clients

C. failed to collect income proof i.e., 6 months' bank statements from 62 clients in the derivatives segment

D. failed to update the running account authorization clause of the client registration document in the case of 77 clients

E. failed to report details of 6 clients to the KRA within 10 days from the date of execution of documents by the client

F. failed to file a copy of the KYC records of 3 clients with the CKYC Records Registry within 10 days from the date of execution of documents by the client

G. failed to redact the Aadhar Card of 30 clients

H. failed to collect documents required for corporate-client account opening from 1 client.

I. collected power of attorney from 62 clients for transfer of securities to the impermissible accounts

b. In reply to the LoF, Profitmart submitted as under: -

A. Failure to execute KYC documents (13 clients)

i. All the KYC documents are diligently scrutinized and verified in accordance with the provisions of KYC circulars issued by SEBI/Exchanges from time to time. The KYC department properly scrutinizes and verifies the KYC forms and the supporting documents before the account opening.

ii. Profitmart has an extensive client base. Thus, it maintains the KYC documents in a warehouse. Due to paucity of time during the inspection, physical copies of the KYC forms could not be produced.

iii. It has retrieved the KYC forms for 8 out of the 13 relevant clients and is extensively searching for the remaining 5 KYC forms. Out of the remaining 5 KYC forms, 4 pertain to inactive clients while only 1 pertains to an active client.

B. Incomplete client registration forms accepted (62 clients)

i. Profitmart failed to strike off certain particulars while filling out the details of its clients in the KYC forms due to oversight.

ii. Most of the clients open their accounts online. Thus, immediate corrective measures were taken, and the client registration documents were modified to ensure compliance with the regulatory provisions.

iii. Currently, all particulars and sections which are not applicable to a client are appropriately struck off from the KYC form.

iv. Profitmart has tightened its internal control processes to avoid such technical lapses in the future.

C. Failure to collect income proof (62 clients)

Profitmart has robust internal controls to ensure that all KYC documents are diligently scrutinized and verified in accordance with the provisions of KYC circulars issued by SEBI/Exchanges from time to time. Its KYC department scrutinizes and verifies all the KYC forms and their supporting documents before the account opening. 44 out of 62 clients have opted for the derivative segment and proof of income is collected from all such clients.

D. Failure to update the running account authorization clause of the client registration document (77 clients)

The running account authorization clause has been revised and removed subsequently. However, Profitmart did not retain funds of any of its clients during the settlement process, post-issuance of the Exchange Circular No. NSE/INSP/48624 dated June 16, 2021.

E. Failure to report details of clients to the KRA within 10 days from the date of execution of documents by the client (6 clients)

i. Profitmart has taken necessary measures to ensure that clients provide the necessary documents in the prescribed format and size to avoid delays in uploading the details in the KRA systems.

ii. The delay is observed only with respect to 6 clients. Considering that Profitmart has a total clientele of 2 lakh clients, the violation is observed in very few instances.

F. Failure to file a copy of the KYC records of clients with the CKYC Records Registry within 10 days (3 clients)

i. Profitmart has completed the CKYC process for all the clients.

ii. Profitmart has taken measures to ensure that clients provide the necessary documents in the prescribed format and size, to avoid delays in filing the KYC records with the CKYC records registry.

iii. The delay is observed only with respect to 3 clients. Considering that Profitmart has a total clientele of 2 lakh clients, the violation is observed in very few instances.

G. Failure to redact the Aadhar Card (30 clients)

Profitmart accepts the observations reported and has taken measures to ensure that certain digits of the Aadhar Card are blacked out. At present, all the Aadhar Cards received from the clients are blacked out.

H. Failure to collect documents required for corporate-client account opening (1 client)

i. Profitmart has robust internal controls to ensure that all KYC documents are diligently scrutinized and verified in accordance with the provisions of KYC circulars issued by SEBI/Exchanges from time to time. Its KYC department scrutinizes and verifies all the KYC forms and their supporting documents before the account opening.

ii. Profitmart has an extensive client base. Thus, it maintains the KYC documents in a warehouse. Due to paucity of time during the inspection, supporting documents for the said KYC form could not be produced. However, all the supporting documents for the KYC was available at the warehouse.

I. Collection of power of attorney for transfer of securities to the impermissible accounts (62 clients)

i. Profitmart uses old stationary as a result of which its demat accounts i.e., beneficiary account, client margin account and client securities margin account may have been a part of the account opening form.

ii. All the demat IDs of Profitmart are removed from the POA IDs on the CDSL platform and it is impossible to transfer shares to such accounts.

iii. Furthermore, all the accounts are under "freeze" or "to be closed status" etc.

iv. Profitmart sent an addendum to its clients whereby all the demat ids were removed. Currently, power of attorney process is not in existence.

c. The Committee finds as under: -

A. Failure to execute KYC documents (13 clients)

i. Profitmart denied the observation/violation and stated that due to paucity of time, the KYC documents could not be retrieved from the storage warehouse during the inspection.

ii. It retrieved the KYC documents for 8 clients and provided scanned copies to the Exchange. Upon scrutiny of the scanned copies of the KYC documents for the aforementioned 8 clients, it is observed that the observation/violation ceases to persist in 8 instances.

iii. Profitmart claimed that it is diligently searching for the KYC documents of the remaining 5 clients, out of which 4 are inactive and 1 is active. Upon scrutiny of the trade and UCC records, it is observed that 3 UCCs are "active", 1 UCC is "closed" during the relevant period and 1 UCC was "closed" post -inspection. Thus, observation/violation ceases to persist in 1 instance.

iv. The violation stands reduced to 4 clients.

v. As per Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, Trading Members 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 the registration of a client. The said folder/book shall contain the KYC form, which shall be executed in the format prescribed by SEBI. Thus, Profitmart violated the regulatory provisions mentioned above by failing to execute the KYC documents for its clients.

B. Incomplete client registration forms accepted (62 clients)

i. Profitmart attributed the failure to strike off certain particulars while filling out the details of its clients in the KYC forms to oversight.

ii. The format of the client registration document prescribed by SEBI clearly instructs that all the KYC form must be filled completely in all respects and all the blank fields in the form must be struck off.

Thus, Profitmart violated the regulatory provisions mentioned above by failing to strike off the blank fields in the KYC forms.

C. Failure to collect income proof (62 clients)

i. 18 clients

Profitmart claimed that the clients had not opted for derivatives segment. Upon scrutiny of the UCC records, Profitmart's contention was found correct and tenable. Thus, the observation/violation ceases to persist in the aforementioned instances.

ii. 30 instances

Profitmart claimed that it collected the income proof from the clients. Upon scrutiny of the documents submitted by Profitmart to support its claim, it is observed that its claim is correct and tenable. Thus, the observation/violation ceases to persist in the aforementioned instances.

iii. 12 instances

Profitmart claimed that it collected the income proof from the clients. Upon scrutiny of the documents submitted by Profitmart to support its claim, it is observed that it collected a copy of the cancelled cheque and front page of the bank statement from its clients. Thus, the documents collected by Profitmart are not compliant with the Exchange Circular No. NSE/INSP/18677 dated August 22, 2011. Thus, the violation persists.

iv. 2 instances

Profitmart claimed that it collected income proof from the clients but failed to provide documentary proof to support its claim. Upon verification of UCC details of the clients, it is observed the clients were registered in the derivative segment. Thus, the violation persists in the aforementioned instances.

v. Thus, the violation stands reduced to 14 clients.

vi. As per Exchange Circular No. NSE/INSP/18677 dated August 22, 2011, Trading Members shall have documentary evidence of financial details provided by the clients who opt to deal in the derivative segment. Further, Exchange Circular No. NSE/INSP/14048 dated February 3, 2010, provides an illustrative list of documents that may be collected by Trading Members as documentary evidence for financial information of clients. Thus, Profitmart violated the regulatory provisions mentioned above by failing to collect the income proof of clients.

D. Failure to update the running account authorization clause of the client registration document (77 clients)

i. Profitmart admitted the observation/violation and stated that the running account authorization clause was updated subsequently. However, post inspection compliance does not absolve Profitmart for the violation already committed. Thus, the violation persists.

ii. Profitmart claimed that the clause was amended subsequently. However, upon verification of the KYC documents of UCCs, 12770007, 15750339, 28940009, 28940023, 52018529, 53415999, E5230002 and E7130001 on a sample basis, it is observed that running account authorization clause is not updated and continued to be a part of the account opening form.

iii. As per Exchange Circular No. NSE/INSP/48624 dated June 16, 2021, retention of any amount towards administrative/ operational difficulties while settling the accounts of regular trading clients (active clients) shall be discontinued. Thus, Profitmart violated the regulatory provisions mentioned above by failing to update the running account authorization clause of the client registration document post June 16, 2021.

E. Failure to report details of clients to the KRA within 10 days from the date of execution of documents by the client (6 clients)

i. Profitmart admitted the observation/violation and stated that necessary measures have been taken to avoid such discrepancies in the future. Upon verification of the KYC details of Profitmart's client with the KRA, it is observed that the details were

uploaded with the KRA as on March 10, 2023, i.e., beyond the prescribed limit of 10 days from the date of execution of documents by the client. Thus, the violation persists.

ii. As per Exchange Circular Nos. NSE/INSP/19654 dated December 26, 2011, and NSE/INSP/53729 dated September 16, 2022, after doing the initial KYC, the Trading Member shall forthwith upload the KYC information on the system of the KRA and send the KYC documents, i.e., KYC application form and supporting documents of the clients to the KRA within 10 working days from the date of execution of documents by the client and maintain the proof of dispatch. Thus, Profitmart violated the regulatory provisions mentioned above by failing to report details of clients to the KRA within 10 days from the date of execution of documents by the client.

F. Failure to file a copy of the KYC records of clients with the CKYC Records Registry within 10 days (3 clients)

i. Profitmart claimed that KYC records of all the clients were filed with the CKYC Records Registry. Upon verification of the KYC records of Profitmart's clients with CKYC, it is observed that the data was updated with the CKYC beyond the permissible timeline i.e., within 10 days from the date of execution of documents by the client. Thus, the violation persists.

ii. As per Exchange Circular No. NSE/INSP/53729 dated September 16, 2022, all registered intermediaries shall upload the KYC data with CKYCR in respect of all individual accounts opened on or after August 1, 2016, wherever KYC is required to be carried out as per the circulars issued by SEBI from time to time. Thus, Profitmart violated the regulatory provisions mentioned above by failing to file a copy of the KYC records of clients with the CKYC Records Registry within 10 days.

G. Failure to redact the Aadhar Card (30 clients)

i. Profitmart admitted the observation/violation and failed to provide any reasonable justification for the observed non-compliance. In absence of any reasonable justification, the violation persists.

ii. As per Exchange Circular No. NSE/INSP/53729 dated September 16, 2022, provides that every reporting entity shall ensure that if the investor submits his Aadhaar Number such investor must redact or blackout the Aadhaar number through appropriate means, provided the authentication of Aadhaar Number is not required under Rule 9 (15) of the Prevention of Money Laundering (Maintenance of Records) Rules 2005. Thus, Profitmart violated the regulatory provisions mentioned above by failing to redact the Aadhar Card of its clients.

H. Failure to collect documents required for corporate-client account opening (1 client)

i. Profitmart denied the observation/violation and stated that due to paucity of time the KYC documents could not be retrieved from the storage warehouse during inspection.

ii. Upon verification of the KYC documents of the client, it is observed that the copy of PAN and address proofs collected by Profitmart did not have the seal of the company or signature of the authorized signatories of the corporate client. Hence violation will persist.

iii. As per Exchange Circular No. NSE/INSP/18677 dated September 9, 2011, in case of corporate (non-individual) clients account opening, additional documents are required to be collected by the Trading Member as specified under Point No. F of Annexure 2 of the said circular. Thus, Profitmart violated the regulatory provisions mentioned above by failing to collect all the requisite documents during the corporate-client account opening process.

I. Collection of power of attorney for transfer of securities to the impermissible accounts (62 clients)

i. Profitmart admitted the observation/violation and attributed it to the use of old stationary POA forms in the account opening process. Thus, the violation persists.

ii. As per Exchange Circular No. NSE/INSP/51901 dated April 5, 2022, a power of attorney may be executed in favour of the Trading Member/ Trading Member depository participant by the client only for the purposes specified under Clauses 4.2. of the said circular. Thus, Profitmart violated the regulatory provisions mentioned above by collecting power of attorney from clients for transfer of securities to impermissible accounts.

d. Given the findings mentioned above, the Committee decided to: -

i. levy a monetary penalty of Rs.60,000/- (Rs.15,000/- per client x 4 clients) on Profitmart for violation pertaining to failure to execute KYC documents of clients, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

ii. levy a monetary penalty of Rs.10,000/- on Profitmart for violation pertaining to failure to update the running account authorization clause of the client registration document, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

iii. advise Profitmart to ensure non-recurrence of the observed violations pertaining to failure to report details of clients to the KRA of 6 clients and failure to file a copy of the KYC records of 3 clients with the CKYC Records Registry within 10 days from the date of execution of documents by the client, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

iv. warn Profitmart to ensure non-recurrence of the observed violations pertaining to incomplete client registration forms accepted, failure to collect income proof from clients in the derivatives segment, failure to redact the Aadhar Cards of clients, failure to collect documents required for corporate-client account opening, and collection of power of attorney from 62 clients for transfer of securities to the impermissible accounts.

9.7. **Discrepancy in computation of net worth**

a. The Exchange verified the net worth certificate submitted by Profitmart for the half year ended September 30, 2022, certifying a net worth of Rs.39.75 crores vis-à-vis the trial balance and balance sheet as of September 30,

2022. Upon verification, the Exchange observed that Profitmart considered the incorrect value of non-allowable asset i.e., doubtful debts and advances, while computing the net worth. After considering the correct value of non-allowable assets, the net worth of Profitmart stood revised at Rs.38.97 crores, thereby involving a difference of Rs.0.78 crore in the net-worth computation as of September 30, 2022.

b. In reply to the LoF, Profitmart submitted as under: -

i. The Exchange vide its Circular Nos. NSE/COMP/47555 dated March 8, 2021, and NSE/COMP/48895 dated July 10, 2021, issued clarification with respect to the computation of "doubtful debts and advances".

ii. The circulars do not contain any directive/provision/indication for reduction of "fully refundable rent deposits" from the net worth calculation. In view of the same, Profitmart did not reduce the value of fully refundable rent deposits while computing its net worth.

iii. Profitmart considered the following under “doubtful debts and advances” and deducted it from the net worth as a part of the non-allowable assets: -
   a. Clients having debit balance outstanding for more than 90 days
   b. IGRP deposits
   c. Staff loans
   d. Fully refundable branch rent deposit with Valera Landmark LLP (related party)

iv. The circular suggests that debts/advances i.e., debit balance clients in trading account overdue for more than three months or given to "associates" shall be reduced as " doubtful debt and advances" while computing the net worth. This means that if an amount is given to associates, the same shall be deducted regardless of the duration of the outstanding debit balance. However, the debt/advances i.e., debit balance of clients shall be deducted only if it has been outstanding for a period of more than three months.

v. On a conservative ground, it also deducted the IGRP deposit for arbitration matters kept on hold by the Exchange and the staff loan which has been recovered from the employees’ salaries in most of the

circumstances, forming a part of the cost and resulting in a drop in the reserves.

vi. The circular states that advances given to associates must be deducted. Therefore, Profitmart reduced the value of "fully refundable branch rent deposit" granted to an associate business, while calculating the net worth, even though it is not in the nature of an "advance".

vii. In absence of any directive/provision/indication, it did not deduct the value of "branch rent deposit" given to entities other than associates. These rent deposits are fully refundable and are not adjusted against the rent expenditure. As a result, it will not appear in the income statement and will affect the "free reserves" negatively. These deposits are not considered as "doubtful" in nature at all.

viii. Profitmart had a net worth of Rs.39.75 crores as of September 30, 2022, and the value of "fully refundable rent deposit" given to non-associate entities is Rs.0.78 crore (1.96% of total net worth). After deducting the value of the rent deposits, Profitmart has sufficient net worth to meet the minimum criterion as per Rule 33 of Chapter III of the NSEIL regulations, i.e., Rs.3 crores.

ix. Due to lack of clarity in the Exchange circulars, it never reduced the value of "fully refundable rent deposit" while computing its net worth. But the same was not pointed out as an irregularity in any of the previous SEBI/Exchange inspection. It will ensure that the same is reduced and the observation does not recur in future.

x. Profitmart always maintains funds in excess of the credit balance of its clients with the Exchange and does not misuse its clients' money.

c. The Committee finds as under: -

i. Profitmart contended that the circulars of the Exchange do not contain any directive/provision/indication for reduction of "fully refundable rent deposits" given to non-associates from the net worth calculation. In view of the same, Profitmart did not reduce the value of fully refundable rent deposits while computing its net worth.

ii. As per Schedule VI of SEBI (Stockbrokers) (Amendment) Regulations, 2022 dated February 23, 2022, "base net worth" shall not include fixed assets, pledged securities, value of member's card, non-allowable securities (unlisted securities), bad deliveries, any debts and advances (except trade debtors of less than 3 months), prepaid expenses, losses, intangible assets and 30% value of marketable securities. Thus, all debts and advances including except trade debtors of less than 3 months, shall be deducted while computation of net worth.

iii. Further the clarification provided by the Exchange vide Exchange Circular No. NSE/COMP/47555 dated March 8, 2021, includes a non-exhaustive list of components and particulars involved while computing net worth as per Dr. L.C. Gupta Method. Thus, Profitmart violated the regulatory provisions mentioned above by failing to reduce the value of "fully refundable rent deposits" given to non-associates while computing its net worth.

d. Given the findings mentioned above, the Committee decided to warn Profitmart to henceforth compute the net worth as per Dr. L.C. Gupta's net worth computation method.

9.8. **Engagement as a principal in business other than securities**

a. Upon verification of the financial statements of Profitmart as of March 31, 2022, it is observed that Profitmart invested funds in three associated entities as under: -

(*Rs. in lakhs*)

Sr. No.	Name of the Associated Entity	Closing Balance as on		
		31-Mar-21	31-Mar-22	30-Sep-22
1.	Verve IT Services LLP	46.99	54.16	54.16
2.	Velocity Courtyard LLP	275.48	354.83	399.63
3.	Valera Landmarks LLP	212.27	236.85	-
TOTAL		**534.74**	**645.84**	**453.79**

b. In reply to the LoF, Profitmart submitted as under: -

i. Funds are invested in the 3 associated entities namely, Verves IT Services LLP, Velocity Courtyard LLP, and Valera Landmark LLP.

Valera Landmark LLP

ii. The investment was liquidated on September 10, 2022. The Exchange vide its circular no. NSE/COMP/50957 dated January 7, 2022, issued the clarification but due to unforeseen circumstances, the investment could not be liquidated before September 10, 2022, i.e., prior to issuance of the next clarificatory circular no. NSE/COMP/53802 dated September 22, 2022.

Velocity Courtyard LLP and Verves IT Services LLP

iii. These LLPs own commercial premises as holdings. The Exchange issued additional clarifications vide circular no. NSE/COMP/53802 dated September 22, 2022. Profitmart planned to liquidate the stakes by March 31, 2023. However, due to the nature of the assets, the liquidation of holdings may take some additional time. The additional time required is not more than 90 days and investment will be liquidated by June 30, 2023.

iv. All the investments were made out of own funds prior to issuance of the Exchange Circular NSE/COMP/50957 dated January 7, 2022. The intention was not to engage as a principal or employee in business other than that of securities or commodity derivatives. Further, all the investments were considered as non-allowable assets and deducted while computing the net worth. Despite the investment, Profitmart had a net worth of Rs.39.75 crores as of September 30, 2022.

c. The Committee finds as under: -

i. Profitmart contended that all the three investments in associated entities were made prior to issuance of the Exchange Circular No. NSE/COMP/50957 dated January 7, 2022.

The said Exchange Circular No. NSE/COMP/50957 dated January 7, 2022, is a clarificatory circular for the provisions of Rule 8(1)(f) and

8(3)(f) of Securities Contracts (Regulation) Rules, 1957. The substantive provisions prohibiting engagement as a principal in a business other than securities involving personal financial liability were introduced by the Securities Contracts (Regulation) Rules, 1957, and not by the Exchange Circular No. NSE/COMP/50957 dated January 7, 2022. Thus, Profitmart's contention that the investments were made prior to the issuance of the Exchange Circular No. NSE/COMP/50957 dated January 7, 2022, is not tenable.

ii. Profitmart in its oral submissions before the Committee, contended that the investments in Valera Landmark LLP and Verves IT Services LLP have been liquidated and the investment in Velocity Courtyard LLP will be liquidated by August 15, 2023.

iii. The Exchange vide its email dated August 1, 2023, requested Profitmart to provide updated ledgers of investments in the associated entities, for verification of its claim. Profitmart vide its email dated August 8, 2023, provided the said ledgers.

iv. Upon verification of the ledger account of Verve IT Services LLP and Velocity Courtyard LLP provided by Profitmart, it is observed that, Profimtart liquidated its investments in Verve IT Services LLP and Velocity Courtyard LLP as on March 31, 2023, and August 8, 2023, respectively. Further, Profitmart liquidated its investment in Valera Landmark LLP as on September 10, 2022. However, post inspection compliance does not absolve Profitmart of liability for the violations committed.

v. As per Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957, no person who is a Trading Member at the time of application for recognition or subsequently admitted as a Trading Member shall continue as such if it 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. Thus, Profitmart violated the regulatory provision mentioned above by extending loans to associated entities.

vi. Furthermore, Exchange, vide its Circular No. NSE/COMP/50957 dated January 7, 2022, clarified that entering in any arrangement for extending loans or giving deposits /advances to any entity, including

group companies such as subsidiaries and associates etc. not in connection with or incidental to or consequential upon the securities/ commodity derivatives business, *inter alia* is construed as a non-compliance to Rule 8(3)(f) of SCRR.

d. Considering that the investments made in associated entities have been liquidated, the Committee decided to warn Profitmart to ensure the non-recurrence of the observed violation.

9.9. **Excess payouts made to clients**

a. Upon verification of the client ledgers and bank books of Profitmart, it is observed that Profitmart made excess pay-outs of funds to the clients than the available balances/debit balances to 3 clients involving Rs.4.07 lakhs.

b. In reply to the LoF, Profitmart submitted as under: -

i. All withdrawal requests are processed through an automated system that works only on the amount of money that can be withdrawn to a client's bank account from their trading account. Thus, all the pay outs made to clients were for genuine purposes.

Client Id: 28949003

ii. The client was due for settlement. While settling the client's account, the MTM credit for unsettled bills was also paid as the Exchange was to honor the payment on next working day.

Client Id: NM000007

iii. Payment was made to the client based on successful early pay-in of shares to the Exchange. The Exchange was to make the pay-out of funds to Profitmart on the next settlement day.

Client Id: 52011974

iv. The client is registered under MTF. Profitmart maintains separate books of accounts for MTF and Non-MTF. The client had credit balance in the MTF books of accounts. Thus, the payment was made under MTF books.

c. The Committee finds as under: -

Client Id: 28949003

i. Profitmart contended that MTM credit for unsettled bills was also paid to the client during settlement.

Upon verification of the client ledgers, it is observed that Profitmart had open bills as of August 21, 2022, which shall be settled as on August 23, 2022. Exchange Circular No. NSE/INSP/49458 dated August 31, 2021, explicitly stated that Trading Members shall consider unencumbered balance in client ledger (after reversing value of unsettled bills if any in case of trade day billing and margin amount if debited in client ledger) for calculating the total value of clients' funds available prior to settlement. Thus, Profitmart's contention that the MTM credit for unsettled bills was also paid to the client during settlement, is not tenable and the violation persists in the aforementioned instance.

Client Id: NM000007

ii. Profitmart contended that payment was made to the client based on successful early pay-in of shares to the Exchange. The Exchange was to make the pay-out of funds to Profitmart on the next settlement day.

Profitmart made payment to the client prior to actual pay-out of funds from Exchange. Thus, Profitmart's contention that payment was made to the client based on successful early pay-in of shares to the Exchange is not tenable and the violation persists in the aforementioned instance.

Client Id: 52011974

iii. The client is registered under MTF. Profitmart maintains separate books of accounts for MTF and Non-MTF. The client had credit balance in the MTF books of accounts. Thus, the payment was made under MTF books.

Upon verification of the client ledgers provided by Profitmart, it is observed that Profitmart passed an entry of Rs.6,979.88/- in its MTF

books. Thus, Profitmart's contention is tenable, and the observation/violation ceases to persist in the aforementioned instance.

iv. The violation stands reduced to 2 clients involving Rs.3.99 lakhs.

v. As per Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957, no person who is a Trading Member at the time of application for recognition or subsequently admitted as a Trading Member shall continue as such if it 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. Thus, Profitmart violated the regulatory provision mentioned above by making excess payouts to clients.

d. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.25,000/- on Profitmart for the observed violation, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022

9.10. **Non-closure of client beneficiary account within specified timeline**

a. Upon verification of the client beneficiary accounts maintained by Profitmart vis-à-vis the client master list. Upon verification, the Exchange observed that Profitmart failed to close/wind up 4 client beneficiary accounts tagged as 'client account' by September 30, 2019.

b. In reply to the LoF, Profitmart submitted as under: -

3 DP accounts are under "freeze", and 1 DP account is suspended for both debit and credit in compliance with the prescribed circular of the stock exchanges. The accounts could not be closed due to presence of inactive ISINs in them. The accounts cannot be closed until they reach "Nil Stocks/Nil Holding" status.

c. The Committee finds as under: -

Demat Account No: 1208360000000016

i. Profitmart contended that the account is under "freeze". Upon verification of the weekly holding submission of Profitmart as of September 2, 2019, it is observed that the account cannot be wound up as it holds a suspended scrip (ISIN: INE249C01011). Thus, Profitmart's contention is tenable, and the observation/violation ceases to persist in the aforementioned instance.

Upon verification of all the DP details, it is observed that the said demat account was closed as of March 15, 2023.

Demat Account No: 1208360000113189

ii. Profitmart contended that the account is under "freeze". Upon verification of the weekly holding submission of Profitmart as of September 1, 2019, and demat holding statement provided by Profitmart as of March 13, 2023, it is observed that no securities were reported/held in the said demat account. Despite the fact that no securities were held in the said demat account, the account was not closed/wound up within the prescribed timelines. Thus, Profitmart's contention is not tenable, and the violation persists in the aforementioned instance.

Upon verification of all the DP details, it is observed that the said demat account was closed as of March 16, 2023.

Demat Account No: IN30009512085812

iii. Profitmart contended that the account is suspended. Upon verification of the demat holding statement provided by Profitmart, it is observed that the account holds 1 active scrip (ISIN: INE614B01018, Quantity: 55). Profitmart's contention that the said demat account is suspended is incorrect and not tenable. Thus, the violation persists in the aforementioned instance. ‘

Upon verification of all the DP details, it is observed that the said demat account is not closed yet.

Demat Account No: 1601480000666408

iv. Profitmart contended that the account is under "freeze". Upon verification of the demat holding statement provided by Profitmart, it is observed that the account holds 2 active scrips (ISIN: IN9110D01011, Quantity: 28 and ISIN: INE733E07JP6 Quantity: 134) as of March 10, 2023. Profitmart's contention that the said demat account is under "freeze" is incorrect and not tenable. Thus, the violation persists in the aforementioned instance. '

Upon verification of all the DP details, it is observed that the said demat account is not closed yet.

v. The violation stands reduced to 3 instances out of which 1 demat account has been closed/wound up post September 30, 2019, and 2 demat accounts are pending closure/wind up.

vi. As per Exchange Circular No. NSE/INSP/41359 dated June 20, 2019, all Trading Members are required to wound up client securities accounts opened by the TM/CM other than the 'Pool account' (including 'Early Pay-in'), 'Client Margin Trading Securities account' and 'Client collateral account' on or before August 31, 2019. The date August 31, 2019, was extended to September 30, 2019, vide Exchange Circular No. NSE/INSP/42000 dated August 29, 2019. Thus, Profitmart violated the regulatory provisions mentioned above, by failing to close/wind up the client beneficiary accounts within the prescribed timelines.

d. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,00,000/- (Rs.50,000/- per account x 2 accounts) in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

9.11. **Failure to assign appropriate nomenclature to demat account**

a. Upon verification of the tagging of the client demat account as per the demat statement vis-à-vis Profitmart's reporting to the Exchange, it is observed that Profitmart failed to assign appropriate nomenclature to 1 demat account

(Account No. 1601480000666408), as required under the Enhanced Supervision of Stock Brokers.

b. In reply to the LoF, Profitmart submitted that it took immediate corrective action to ensure necessary compliance. The demat account is currently properly tagged, and no mismatch exists.

c. The Committee finds as under: -

i. Profitmart admitted to violation and stated that immediate corrective measures were taken to tag the demat accounts appropriately.

ii. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, a uniform nomenclature is to be followed by Trading Members for naming/tagging of demat accounts and reporting such accounts to the stock exchanges. Thus, Profitmart violated the regulatory provision mentioned above by failing to assign appropriate nomenclature to the demat account.

d. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.5,000/-, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022

9.12. **Incorrect data reported to the Exchange towards risk-based supervision**

a. Upon verification of the risk-based supervision data submitted by Profitmart for the period ended March 31, 2022, vis-à-vis the trial balance and register of securities of Profitmart, it is observed that Profitmart: -

i. submitted incorrect data towards risk-based supervision in 2 areas namely credit balance of all clients and brokerage income, involving differences of (-ve) Rs.199.05 crores and (-ve) Rs.106.70 crores, respectively.

ii. failed to report 3 associated entities in the risk-based supervision submissions. The details of the associated entities are as under: -

Sr. No.	Name of the entity	Nature of association	PAN	Nature of business
1	Verve IT Services LLP	Partner	AAQFV7056B	Investment in commercial property
2	Velocity Courtyard LLP	Partner	AAIFT9723F	Investment in commercial property
3	Valera Landmarks LLP	Partner	AARFV3150H	Investment in commercial property

b. In reply to the LoF, Profitmart submitted as under: -

Incorrect Reporting (2 areas)

i. Profitmart successfully uploaded the risk-based supervision file for the period March 2022 within the prescribed deadline set by the Exchange.

ii. However, incorrect data was reported to the Bombay Stock Exchange ("BSE") in 2 areas due to an inadvertent manual error in the reporting process. Due to a human error, the amount reported under the risk-based supervisions data submitted to BSE was automatically divided by 100 in the excel files of the compliance team, thereby resulting in incorrect reporting.

iii. Further, the amounts of credit balance of all clients and brokerage income were correctly reported to two other stock exchanges. The manual/formula error in the excel sheet occurred only while reporting data under risk-based supervision to BSE. Profitmart requested that the human inadvertent error may be condoned considering that the same data was correctly reported to the other stock exchange in the same format.

iv. Profitmart will take all the necessary measures to eliminate such errors and ensure accurate reporting in the future.

Failure to report (3 associated entities)

i. Profitmart failed to report 3 associates entities namely, Verves IT Services LLP, Velocity Courtyard LLP, and Valera Landmark LLP, in its risk-based supervision data as the entities are not active in any sector of the financial market and are not registered with SEBI as an intermediary.

ii. The failure to report was due to an interpretational difference. The said associated entities are disclosed in its annual returns/financial statements, and the amount is deducted as a non-allowable investment (unlisted investment) while computing the net worth. The information is all submitted to the Exchange in the submissions thus, the intention was not to conceal any information.

c. The Committee finds as under: -

i. Incorrect Reporting (2 areas)

Profitmart attributed the incorrect reporting of data to inadvertent manual error and highlighted that the same data was correctly reported to the other stock exchanges.

ii. Failure to report (3 associated entities)

Profitmart attributed the failure to report to interpretational differences. Accordingly, the details of three of its associated entities was not reported to the Exchange the entities are not active in any sector of the financial market. As per point No. 35 of Annexure A of the Exchange Circular No. NSE/INSP/51970 dated April 08, 2022, Trading Member shall report the details of associates/group companies/related parties along with details of registration and whether active in any sector of the financial market to the Exchange in its risk-based supervision submissions for the period April 1, 2021 – March 31, 2022. Thus, Profitmart's contention is not tenable, and the violation persists.

iii. As per Exchange Circular No. NSE/INSP/51970 dated April 08, 2022, all active Trading Member shall report the information / data towards the Risk Based Assessment as per particulars prescribed in

Annexure of the said circular. Submission of incorrect or incomplete data defeats the purpose of the said circular. Therefore, Trading Member must verify the data prior to its submission to the Exchange to ensure effective compliance. Thus, Profitmart violated the regulatory provisions mentioned above by submitting incorrect/incomplete data to the Exchange under risk-based supervision for the period ended March 31, 2022.

d. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.10,000/- on Profitmart for the observed violation, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022

9.13. **Use of CUSA for purposes other than specified**

a. Upon verification of the holding statements of CUSA as of December 30, 2022, vis-à-vis the clients' ledgers, it is observed that Profitmart transferred securities of involving 2 ISINs (Quantity: 20) of 1 credit balance client amounting to Rs.285/-, to the CUSA.

b. In reply to the LoF, Profitmart submitted as under: -

i. It implemented a robust policy to manage the CUSA transactions in compliance with the regulatory directive. The CUSA is separate from other client accounts and is dedicated to holding securities of clients who have not paid for their purchases. It ensures that the shares are not held in CUSA beyond seven trading days. If the client fails to bring funds within the time frame, shares in CUSA are promptly sold to avoid negative impact on its clients or operations.

ii. The reported instance pertains to a client who closed his/her demat account on July 31, 2021, and purchased 2 ISINs (Qty: 20) on the same date. The said shares were received in the pool account. Since the clients demat account is closed, the same was transferred to CUSA due to operational difficulties. Subsequently, Profitmart followed up with the client to obtain the new demat account and transferred the shares from CUSA to the new demat account.

iii. Considering the circumstances and operational constraints, transferring the shares to CUSA was the only viable option. Further,

the amount involved is Rs.285/- pertaining to 1 client, which is miniscule and immaterial in comparison to its size and turnover.

c. The Committee finds as under: -

i. Profitmart attributed the observation/violation to operational difficulties. It stated that the securities were purchased on the same day when the demat account of the client was closed. Thus, the shares lying in Profitmart's pool account were transferred to CUSA until details of the new demat account of the client were obtained.

ii. As per Exchange Circular No. NSE/INSP/41359, dated June 20, 2019, the CUSA must be used only to transfer unpaid shares of the clients from the respective pool account of concerned Trading Members or Clearing Members. The same shall therefore not be used otherwise. Thus, Profitmart violated the regulatory provision mentioned above by transferring the shares of one credit balance client to CUSA.

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

9.14. **Observations pertaining to MTF**

a. Upon verification of the clients' MTF ledgers and securities holdings maintained towards MTF, it is observed that Profitmart: -

A. failed to maintain separate books of accounts for MTF and Non-MTF.

B. incorrectly reported data to the Exchange in the MTR files. The detail of the incorrect reporting is as under: -

i. Profitmart adjusted the excess funds and securities of non-MTF against the margin requirement of MTF. However, these excess securities were not reported as collateral securities in Type 50 of the MTR.

ii. Profitmart did not report borrowed funds in Type 30 of MTR.

iii. The amount of MTF exposure mentioned in the daily margin statement issued to clients is not aligned with the reporting in Type 20 of MTR.

C. failed to adhere to exposure limits on 12 dates ranging from Rs.0.11 crore to Rs.2.86 crores

D. had a shortfall in MTF margin in the case of 7 out of 20 clients selected for sample scrutiny (35% of the total sample instances verified) involving Rs.86.14 lakhs.

E. held securities other than Group I equity shares as collateral in case of 1 ISIN involving Rs.0.52 lakhs.

b. In reply to the LoF, Profitmart submitted as under: -

i. Profitmart started offering margin trading services in a small scale to test the system/processes, identify potential issues and make necessary improvements before expanding the service to a larger audience. It is completely reliant on the software for the purpose of reporting. Profitmart decided to migrate to a new back-office software to address the issues and prevent future operational difficulties in ensuring proper compliance with the provisions of MTF.

ii. To demonstrate its commitment towards ensuring that MTF services are offered in a responsible, efficient and compliant manner, Profitmart decided to wind-up its MTF books by March 31, 2023, and to resume the MTF operations only after successful migration to the new software.

A. <u>Failure to maintain separate books of accounts for MTF and Non-MTF</u>

iii. Separate books are maintained for MTF and non-MTF. However, there were errors in reporting the data to the stock exchange due to lack of clarity or software issues. Profitmart neither funded its clients in excess nor misreported the figures intentionally.

B. Incorrect data reported to the Exchange in the daily margin trading files

iv. *Failure to report the excess securities of non-MTF adjusted against the margin requirement of MTF as collateral securities under Type 50 of the MTR: -*

Profitmart failed to report the excess collateral in the non-MTF books in the daily MTR file submitted to the Exchange.

v. *Failure to report borrowed funds under Type 30 of MTR: -*

There was an unintentional omission in reporting the borrowed funds under Type 30 of the MTR file. However, the value involved is miniscule compared to its net worth.

vi. *Difference in the MTF exposure amount mentioned in the daily margin statement issued to clients vis-à-vis the amount reported under Type 20 of MTR: -*

The exposure amount in the daily MTR file is calculated based on the actual buy price of the client whereas the exposure amount in the daily margin statement is calculated based on the closing price of T-day, thereby resulting in the difference.

vii. By migrating to a new software and temporarily stopping the MTF facility for its clients, Profitmart demonstrated its commitment towards ensuring that MTF services are offered in a responsible, efficient and compliant manner.

C. Excess exposure allowed to clients on 12 dates ranging from Rs.0.11 crore to Rs.2.86 crores

viii. The exposure limits are calculated without considering the credit balances available in the respective clients' non-MTF books. After considering the revised exposure limits including the credit balances available in the respective clients' non-MTF books vis-à-vis the maximum allowable exposure limits, it is clear that Profitmart did not grant excess exposure on the MTF trades.

ix. The alleged excess exposure ranges between Rs.0.11 crore and Rs.2.86 crores and pertains to September 2021. Since, its net worth was Rs.18.36 crores as of August 2021, the excess exposure ranges between 0.60 % and 16% of its net worth.

D. Shortfall in MTF margin in the case of 7 out of 20 clients (35%) involving Rs.86.14 lakhs.

x. Excess credit balances available in the respective clients' non-MTF books were not considered towards the margin collected from clients for MTF trades, thereby resulting in the alleged margin shortfall for MTF trades. In 6 instances, the client did not indulge in non-MTF trade on the same day as the date of the MTF trade. Therefore, the margin requirement was only for trades under MTF facility. If the credit in non-MTF books of the clients is considered vis-à-vis the margin collection requirement, there is no shortfall of the MTF margin.

E. Securities other than Group I equity shares held as collateral in case of 1 ISIN involving Rs.0.52 lakhs

xi. The said ISIN i.e., Tide Water Oil pertaining to 1 client involving Rs.52,000/- does not appear in the MTR file but considering the size and turnover of Profitmart, the observation is insignificant.

c. The Committee finds as under: -

A. Failure to maintain separate books of accounts for MTF and Non-MTF

i. Profitmart claimed that it maintained separate books of accounts for MTF and non-MTF.

Upon verification of the holding statement provided by Profitmart, it is observed that segregation of securities under MTF and non-MTF is not maintained by Profitmart. Further, upon verification of the daily margin statements issued to clients, it is observed that Profitmart did not segregate the collateral details provided to client in the daily margin statement into MTF and non-MTF. Thus, Profitmart's contention is not tenable and the violation persists.

ii. As per the Exchange Circular No. NSE/COMP/35125 dated June 15, 2017, Trading Members shall maintain separate client-wise ledgers for funds and securities of clients availing margin trading facility. Thus, Profitmart violated the regulatory provisions mentioned above by failing to maintain separate books of account for MTF and non-MTF.

B. Incorrect data reported to the Exchange in the daily margin trading files

iii. *Failure to report the excess securities of non-MTF adjusted against the margin requirement of MTF as collateral securities under Type 50 of the MTR: -*

Profitmart admitted that it failed to report the excess collateral available in the non-MTF books in the daily MTR file submitted to the Exchange.

iv. *Failure to report borrowed funds under Type 30 of MTR: -*

Profitmart attributed the failure to report the borrowed funds under Type 30 of the MTR to unintentional omissions while reporting.

v. *Difference in the MTF exposure amount mentioned in the daily margin statement issued to clients vis-à-vis the amount reported under Type 20 of MTR: -*

Profitmart contended that the exposure amount in the daily MTR is calculated based on the actual buy price of the client whereas the exposure amount in the daily margin statement is calculated based on the closing price of T-day, thereby resulting in the difference. Upon verification of the MTR and the daily margin statement, it is observed that Profitmart incorrectly calculated the value of MTF exposure mentioned in the daily margin statement on the basis of the closing price of T-day instead of calculating it on the basis of the actual buy price, as under the MTR file.

vi. As per Exchange Circular No. NSE/COMP/48531 dated June 09, 2021, all Trading Members offering margin trading facility to clients, shall report the details of gross exposure towards margin trading facility to the Exchange on or before 12 noon of the following trading day as per the format prescribed by SEBI. Trading Members shall

ensure that the details are verified prior to its submission to the Exchange to ensure effective compliance. Thus, Profitmart violated the regulatory provisions mentioned above by reporting incorrect data to the Exchange in its daily MTR file.

C. Excess exposure allowed to clients on 12 dates ranging from Rs.0.11 crore to Rs.2.86 crores

vii. Profitmart contended that the Exchange failed to consider the credit balances available in the respective clients non-MTF books while calculating the maximum allowable exposure.

viii. Profitmart submitted details of day-wise and client-wise exposure granted. However, Profitmart failed to submit supporting documents such as client ledger, MTR files, margin obligation files, contract notes in support of its contention. Further Profitmart failed to report non-MTF ledger balances post considering the transfer of such funds to MTF as mentioned in the Exchange Circular No. NSE/COMP/48531 dated June 09, 2021. Thus, violation will persist.

ix. As per Exchange Circular No. NSE/COMP/48531 dated June 09, 2021, transfers from non-MTF ledgers to MTF ledgers can be considered towards a margin position in MTF in exceptional scenarios, provided they belong to the same clients and there are sufficient and free balances available in the non-MTF ledgers. Any transfer of balances from non-MTF ledgers to MTF ledgers undertaken to avoid the actual settlement requirements will not be permitted.

x. As per Exchange Circular No. NSE/COM/35125 dated June 15, 2017, 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”. Further, 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 and (b) exposure towards stocks purchased under margin trading facility and collateral kept in the form of stocks are well diversified. The stockbrokers shall have appropriate Board approved policy in this regard. Thus, Profitmart

violated the regulatory provisions mentioned above by failing to adhere to the prescribed leverage and exposure limits while granting exposure under the MTF.

D. Shortfall in MTF margin in the case of 7 out of 20 clients (35%) involving Rs.86.14 lakhs.

xi. Profitmart in its oral submissions before the Committee stated that due to a software error in the back-office, entries were inadvertently posted in the non-MTF books instead of the MTF books.

xii. In view of the Committee's directions, the Exchange vide an email dated August 1, 2023, informed Profitmart to submit a back-office vendors' certificate certifying the error in the back-office software due to which MTF entries were posted in the non-MTF ledgers.

xiii. Profitmart vide its email dated August 8, 2023, provided (a) an email from the back-office software vendor depicting that there was an error in the software on the relevant date; and (b) a CA certificate along with workings certifying that the excess/free non-MTF ledger balances/credits in lieu of EPIs, were unencumbered and such balances if adjusted towards MTF margin will not result in any MTF margin shortfall. Profitmart submitted client ledgers, daily margin statements, and contract notes to substantiate its claim.

xiv. Upon verification of the aforementioned documents, the Committee decided to warn Profitmart to ensure non-recurrence of the observed violation.

E. Securities other than Group I equity shares held as collateral in case of 1 ISIN involving Rs.0.52 lakhs

xv. Upon verification of 'CM-Security Category Impact Cost' file, it is observed that ISIN No.: INE484C01030 pertains to Category 2. Hence, violation persists.

xvi. As per Exchange Circular Nos. NSE/COM/35125 dated June 15, 2017, and NSE/COMP/48531 dated June 09, 2021, the initial margin payable by the client to the stockbroker shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as

specified in SEBI Master Circular No. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016 and shall be recorded in the MTF books. Thus, Profitmart violated the regulatory provisions mentioned above by collecting securities other than Group I equity shares as collateral from the clients.

d. Given the findings mentioned above, the Committee decided to: -

i. levy a monetary penalty of Rs.25,000/- on Profitmart for violation pertaining to failure to maintain separate books of accounts for MTF and non-MTF, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

ii. levy a monetary penalty of Rs.3,000/- (Rs.1,000/- per instance x 3 instances) on Profitmart for violation pertaining to incorrect data reported to the Exchange in the daily margin trading files, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

iii. levy a monetary penalty of Rs.10,000/- on Profitmart for violation pertaining to excess exposure allowed to clients, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

iv. warn Profitmart to ensure non-recurrence of the observed violations pertaining to holding of securities other than Group I equity shares as collateral and shortfall of MTF margin.

9.15. **Common email ID mapped to multiple clients**

a. Upon verification of the email ID of active clients uploaded on the UCI database of the Exchange vis-à-vis the back-office records of Profitmart, it is observed that Profitmart mapped 41 email IDs to 92 clients in the UCI database without permissible relationship.

b. In reply to the LoF, Profitmart submitted as under: -

i. The email ID uploaded on the Exchange's UCC database is either as per the KYC document submitted by the client during the account opening process or as per the subsequent modification request, if any, received from the client. The client provides the email ID through a

self-declaration and Profitmart verifies the email ID to check whether the same is valid. The email ID and mobile number of clients is regularly updated on the Exchange's UCC database and in the back-office software of Profitmart.

ii. Profitmart developed a utility that allows the clients to modify their email IDs and mobile number by logging into their account. The utility has a pop-up mechanism that allows the employees to verify and reject the email ID/mobile number entered by the client, if it is already registered and the clients having same email ID/mobile number are not within permissible relations. The tool for identifying same email ID/mobile number uploaded outside permissible relations was implemented in the account opening process and later incorporated in the self-modification process.

iii. All the observed instances pertain to cases were the clients self-updated the email ID. Same email ID may have been uploaded due to clients self-updating their email IDs before the implementation of our blood relation tool in the self-modification process. However, it has a robust policy in place to minimize such instances.

iv. 78 instances pertain to clients marked as inactive in the UCC.

v. 12 instances pertain to cases wherein the clients are within permissible relationship.

vi. 2 instances pertain to clients who submitted new modification request. New email IDs were obtained from the clients and uploaded in the Exchange's UCC database.

vii. To rectify the error, software utilities and technologies have been improved to ensure that such mistakes do not recur.

c. The Committee finds as under: -

i. Profitmart attributed the observation/violation to self-updation of the email IDs by the client using a utility developed by Profitmart. The updates were initiated prior to implementation of the `blood-relation check in the self-modification process of the utility, thereby allowing the client to input emails IDs already registered with it.

ii. 78 instances

Profimtart contended that the clients are inactive.

- *13 instances*

  Upon verification, it is observed that 13 accounts were either closed or inactive during the relevant period. Thus, Profitmart's contention is tenable, and the observation/violation ceases to persist in the aforementioned instances.

- *58 instances*

  Upon verification it is observed that 58 clients fall within the permissible relationship. Thus, Profitmart's contention is tenable, and the observation/violation ceases to persist in the aforementioned instances.

- *7 instances*

  Upon verification, it is observed that 7 clients (UCCs: 30800009, 30650228, A3780001, C9090076, 71420002, C3840070 and 89090025) having common email IDs are not within permissible relationships. As per Exchange Circular No. NSE/INVG/18503 dated August 2, 2011, Trading Member may upload common email ID for more than one client under exceptional circumstances upon receipt of specific written request from the client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents. Thus, Profitmart's contention is not tenable, and the violation persists in the aforementioned instances.

iii. 12 instances

Profimtart contended that the clients are within permissible relationship.

- *11 instances*

  Upon verification it is observed that 11 clients fall within the permissible relationships i.e., self, spouse, dependent children, and dependent parents. Thus, Profitmart's contention is tenable, and the observation/violation ceases to persist in the aforementioned instances.

- *1 instance*

  Upon verification, it is observed that UCC: 28940023 pertains to a non-individual client. Thus, Profitmart's contention is tenable, and the observation/violation ceases to persist in the aforementioned instances.

iv. 2 instances

Profitmart contended that a new modification request was received from 2 clients (UCCs: 34580019 and 58510435) and new email IDs were updated for the clients in the UCC database of the Exchange. However, post-inspection compliance by a Trading Member does not absolve a Trading Member of its liability for the violations committed. Thus, the violation persists in the aforementioned instances.

v. The violation stands reduced to 9 clients.

vi. As per Exchange Circular No. NSE/INVG/18503 dated August 2, 2011, Trading Members must ensure that separate mobile number/e-mail address is uploaded for each client. Further, as per Exchange Circular No. NSE/INVG/21841 dated October 4, 2012, all Trading Members are required to review the details of the clients uploaded on UCI Online pertaining to their mobile number and / or email address and update the same wherever necessary with utmost care while uploading client details including mobile number and email address on UCI - ONLINE. Thus, Profitmart violated the regulatory provisions mentioned above by uploading the common email IDs for multiple clients in the UCC database of the Exchange.

d. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.9,000/- (Rs.1,000/- per client x 9 clients) on Profitmart for the observed violation, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

9.16. **Excess brokerage collected from clients**

a. Upon verification of the brokerage ledger of Profitmart, brokerage charged as per contract notes vis-à-vis the tariff sheets, it is observed that Profitmart charged excess brokerage from clients in 100 instances involving Rs.1.11 lakhs.

b. In reply to the LoF, Profitmart submitted as under: -

i. Profitmart has a clientele of approximately 2 lakhs individual and non-individual clients. It is impossible to calculate the brokerage leviable to the clients manually. Therefore, the brokerage calculation process is completely automated without manual intervention. The system automatically calculates the brokerage based on the Vallan summary and trade files imported into the system.

ii. In the reported instances, excess brokerage was charged to the clients due to human punching and software errors. Steps were taken to rectify the issue immediately. The technical team conducted thorough review of the system to identify the potential issues and fix the errors in the system. All necessary measures were taken to ensure that such incidents do not recur.

iii. The excess brokerage collected from clients was promptly refunded. Further, post- rectification of the errors in the system, no miscalculations were observed.

iv. To avoid future system bugs that may impact compliance and operational standards, it is in the process of migrating to a new back-office software. The migration will mitigate operational difficulties, ensure effective reporting, and provide significant benefits to Profitmart as well as its clients.

c. The Committee finds as under: -

i. Profitmart attributed the observation/violation to human punching and software errors. Thus, the violation persists.

ii. Profitmart stated that the excess brokerage collected from clients was promptly refunded. Upon verification of the ledger of clients on a sample basis (UCCs: 45720028, 45720163, E0520014 and E2460015), it is observed that Profitmart passed reversal entries for the excess brokerage charged from clients on February 23, 2023. However, its contention that the excess brokerage was refunded to clients, cannot be conclusively proven in absence of bank statements for the relevant dates and accounts.

iii. As per Exchange Circular No. NSE/INSP/53939 dated October 3, 2022, Trading Members must ensure that brokerage and other charges levied on the client are not more than what has been mutually agreed with the client and specified in the tariff sheet. Thus, Profitmart violated the regulatory provisions mentioned above by charging excess brokerage from its clients.

d. Given the findings mentioned above, the Committee decided to (a) levy a monetary penalty of Rs.1,00,000/- on Profitmart; and (b) direct Profitmart to return the excess brokerage collected to respective clients and submit a certificate of compliance to the Exchange, within 15 days from the date of the order, in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

9.17. **Incorrect data submitted towards the weekly client-level cash and cash equivalent balances**

a. Upon verification of the data submitted by Profitmart in the weekly client-level cash and cash equivalent balances vis-à-vis the trial balance, it is observed that Profitmart: -

i. incorrectly reported the funds of debtors as funds of untraceable client in 10 instances involving Rs.1,810/- as of December 31, 2022

ii. failed to report the cash collateral for MTF purpose for 3 clients on 3 dates i.e., August 13, 2021, September 1, 2021, and May 31, 2022, involving Rs.2.19 crores

b. In reply to the LoF, Profitmart submitted as under: -

Incorrect reporting (10 instances involving Rs.1,810/-)

i. The process for reporting the cash and cash equivalents balances is completely automated without any manual intervention. File is extracted from the back-office software and uploaded on the Exchange portal.

ii. The reported instances pertain to erstwhile untraceable clients with debit balances amounting to Rs.1,800/-. The debit balance involved is immaterial and very miniscule in comparison to the turnover and size of Profitmart.

iii. In the relevant week, the ledgers had credit balances until December 31, 2022, and therefore, the client ledger balances were reported under the head "untraceable clients". On December 31, 2022, DP charges were levied on the clients which resulted in debit balances in the client ledgers. However, the balances were reported under the head "untraceable clients", even on the said date. The software output for the entire week shows the balance under the head "untraceable clients", irrespective of the credit or debit balance.

iv. The balances of the client ledger were correctly reported to the Exchange and the error was immaterial and minuscule. Porfitmart took immediate steps to correct the clerical/miniscule error in the system and processes to ensure non-recurrence.

Failure to report (3 clients on 3 dates involving Rs.2.19 crores)

v. The balances for all the 3 client ledgers were correctly reported to the Exchange in the cash and cash equivalents submissions. The ledgers were in debit and thus, there was no cash collateral in the said ledgers.

c. The Committee finds as under: -

Incorrect reporting (10 instances involving Rs.1,810/-)

i. Profitmart attributed the observation/violation pertaining to incorrect reporting of debtors under the head “untraceable clients” due to incorrect system generated output. The software incorrectly reported all untraceable clients under the head “untraceable clients”, irrespective of debit or credit balances in the ledger. Thus, the violation persists.

Failure to report (3 clients on 3 dates involving Rs.2.19 crores)

ii. Profitmart contended that the clients had debit balances on the said dates. Therefore, cash collateral for MTF segment was not reported to the Exchange.

As per Exchnge Circular No. NSE/INSP/50592 dated December 13, 2021, Trading Members are required to report the cash collateral collected from clients for the MTF positions and available in the books of accounts maintained for MTF under the field “Cash Collateral for MTF Positions” of the cash and cash equivalents submissions. The value shall be mentioned in MTF indicator only and shall be “NA” for non-MTF indicator. Thus, Profitmart’s contention that cash collateral in MTF may not be reported for clients having debit balances is not tenable and the violation persists.

iii. As per Exchange Circular No. NSE/INSP/43926 dated March 23, 2020, the Trading Members are required to upload day-wise client-level cash and cash equivalent balances and bank balances of all bank accounts weekly. The said circular was put in place to enhance monitoring and consider the prohibition on pledging client securities for raising funds. The Trading Members must verify the data before submission to the Exchange. Thus, Profitmart violated the regulatory provisions mentioned above by incorrectly reporting/failing to report data towards the client-level cash and cash equivalent balances.

d. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,00,000/- on Profitmart for the observed violation,

in terms of the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

DECISION

10. In view of the above, the Committee levies the following penalties as indicated against each of the violations as mentioned below: -

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular Nos. NSE/INSP/45533 dated August 31, 2020, and NSE/INSP/53530 dated September 2, 2022	Penalty Levied
1.	Violation pertaining to settlement of clients' funds		
	a. Non-settlement of clients' funds in 3738 out of 108546 inactive clients/instances (3.44%) involving Rs.2.10 lakhs.	In excess of 2% and up to 5% of number of the instances – Rs. 30,000/-	Rs.30,000/-
	b. Failure to undertake steps to settle inactive clients' accounts in 424 instances involving Rs.10.30 lakhs.	No prescribed penalty	No action
	c. Excess funds parked in the client bank account maintained separately for the funds of untraceable clients involving Rs.4.23 lakhs.	No prescribed penalty	Warning
2.	Non-reconciliation of securities in the back-office	Rs.25,000/-	Warning

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular Nos. NSE/INSP/45533 dated August 31, 2020, and NSE/INSP/53530 dated September 2, 2022	Penalty Levied
	records vis-à-vis the demat account in the case of 1 ISIN (Quantity: 55) as of December 30, 2022, involving Rs.8,000/-		(Considering the amount involved)
3.	Fixed period payouts provided to 70 clients involving Rs.1.84 crores.	No prescribed penalty	No separate action (Considering the Committee's orders dated June 14, 2023, and August 11, 2022)
4.	Passing on penalty for short reporting of margins other than upfront margin to clients without relevant supporting documents a. CM segment: 4 clients involving Rs.0.99 lakh b. F&O segment: 3 clients involving Rs.2.06 lakhs c. CD segment: 1 client involving Rs.0.04 lakh	Warning/Advise	Warning
5.	Incorrect data reported to the Exchange in the weekly holding statement in the case of 1 scrip (Quantity: 55) as of December 30, 2022, involving Rs.0.08 lakh.	Rs.1,00,000/-	Warning (Considering the amount involved)
6.	Observations pertaining to the client registration process: -		

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular Nos. NSE/INSP/45533 dated August 31, 2020, and NSE/INSP/53530 dated September 2, 2022	Penalty Levied
	a. Failure to execute KYC documents in the case of 4 clients	Rs.15,000/- per client	Rs.60,000/- (Rs.15,000/- per client x 4 clients)
	b. Incomplete client registration forms accepted from 62 clients	No prescribed penalty	Warning
	c. Failure to collect income proof i.e., 6 months bank statement from 14 clients in the derivatives segment	No prescribed penalty	Warning
	d. Failure to update the running account authorization clause of the client registration document in the case of 77 clients	More than 5 instance - Rs.10,000/-	Rs.10,000/-
	e. Failure to report details of 6 clients to the KRA within 10 days from the date of execution of documents by the client	Less than 20% - Advice	Advice
	f. Failure to file a copy of the KYC records of 3 clients with the CKYC Records Registry within 10 days from the date of	Less than 20% - Advice	Advice

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular Nos. NSE/INSP/45533 dated August 31, 2020, and NSE/INSP/53530 dated September 2, 2022	Penalty Levied
	execution of documents by the client		
	g. Failure to redact the Aadhar Card of 30 clients	No prescribed penalty	Warning
	h. Failure to collect documents required for corporate-client account opening from 1 client	No prescribed penalty	Warning
	i. Collection of power of attorney from 62 clients for transfer of securities to the impermissible accounts	No prescribed penalty	Warning
7.	Discrepancy in computation of net worth for the half year ended September 30, 2022	No prescribed penalty	Warning plus direction to henceforth compute the net worth as per LC Gupta Committee's Method of Net Worth Computation
8.	Engagement as a principle in business other than that of securities involving personal financial liability by investing associated entities involving Rs.4.54 crores.	Amount involved <= Rs. 5 crores: 1% of the amount involved + Direction to recover the funds given as Loans/advances within the time allotted	Warning (Considering that the investments made in associated entities have been liquidated)

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular Nos. NSE/INSP/45533 dated August 31, 2020, and NSE/INSP/53530 dated September 2, 2022	Penalty Levied
9.	Excess payouts made to 2 clients involving Rs.3.99 lakhs.	Rs.25,000/-	Rs.25,000/-
10.	Non-closure of client beneficiary account within specified timeline in 3 instances, 1 of which is closed/wound up	Rs.50,000/- per account	Rs.1,00,000/-
11.	Failure to assign appropriate nomenclature to 1 demat account	Rs.5,000 p.a.	Rs.5,000/-
12.	Incorrect/ Incomplete data reported to the Exchange towards risk-based supervision for the period ended March 31, 2022	Rs.10,000/-	Rs.10,000/-
13.	Use of CUSA for purposes other than specified involving 2 ISIN (Quantity:20) of 1 client amounting to Rs.285/-	No prescribed penalty	Warning
14.	Observations pertaining to MTF a. Failure to maintain separate books of accounts for MTF and Non-MTF b. Incorrect data reported to the Exchange in the daily margin trading files.	Rs.25,000/- Rs.1,000/- per instance	Rs.25,000/- Rs.3,000/- (Rs.1,000/- per instance x 3 instances)

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular Nos. NSE/INSP/45533 dated August 31, 2020, and NSE/INSP/53530 dated September 2, 2022	Penalty Levied
	c. Excess exposure allowed to clients on 12 dates ranging from Rs.0.11 crore to Rs.2.86 crores (7.19% of the latest net worth) Net worth of Profitmart is Rs.39.75 crores as of September 30, 2022.	Where the irregularity is up to 20% of the latest net worth – Rs.10,000/-	Rs.10,000/-
	d. Shortfall in MTF margin in the case of 7 out of 20 clients (35%) involving Rs.86.14 lakhs.	25% of the amount involved, capped to Rs.15,00,000/-	No action (Considering that Profitmart had sufficient balances to meet its margin obligations.)
	e. Securities other than Group I equity shares held as collateral in case of 1 ISIN involving Rs.0.52 lakhs	No prescribed penalty	Warning
15.	Common email IDs mapped to multiple clients in the case of 9 clients	Rs.1,000/- per client	Rs.9,000/- (Rs.1,000/- per client x 9 clients)
16.	Excess brokerage collected from clients in 100 instances involving Rs.1.11 lakh	Amount of excess charges or Rs.1 lakh, whichever is less and direction to refund excess charges to clients.	Rs.1,00,000/- plus direction to refund the excess brokerage collected to the respective clients

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular Nos. NSE/INSP/45533 dated August 31, 2020, and NSE/INSP/53530 dated September 2, 2022	Penalty Levied
			within 15 days from the date of the order and submit a certificate of compliance to the Exchange.
17.	Incorrect data submitted towards the weekly client-level cash and cash equivalent balances: - a. Incorrect reporting in 10 instances involving Rs.1,810/- as of December 31, 2022 b. Failure to report 3 clients on 3 dates i.e., August 13, 2021, September 1, 2021, and May 31, 2022, involving Rs.2.19 crores.	Rs.1,00,000/-	Rs.1,00,000/-
TOTAL			**Rs.4,87,000/-**

11. Profitmart is directed to pay a monetary penalty of Rs.4,87,000/- (Rupees Four Lakhs Eighty-seven Thousand Only) as indicated above.

12. Profitmart is directed to note the non-monetary penalty as indicated above and ensure non-recurrence of the observed violation.

13. Profitmart shall submit a certificate duly certified by a Chartered Accountant within 15 days from the date of this order certifying compliance with the regulatory provisions violated above. Failure to submit the said certificate within the 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/-
Mona Bhide
(Chairperson)

Sd/-
K Narasimha Murthy
(Committee Member)

Sd/-
S Ravindran
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Date: September 5, 2023