Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra (East) Mumbai – 400 051
held on December 22, 2022

In the matter of the Trading Member M/s. 4A Securities Limited

CORAM

Mr. K Narasimha Murthy	-	Chairperson
Mr. Ranganayakulu Jagarlamudi	-	Committee Member

ALSO PRESENT

Ms. Priya Subbaraman	-	Chief Regulatory Officer
Dr. Dinesh Kumar Soni	-	Senior Vice President – Regulatory
Mr. Suresh Nair	-	Vice President - Enforcement

BACKGROUND

1. **M/s. 4A Securities Limited** ("**Noticee**") is a Trading Member registered with the National Stock Exchange of India Limited ("**NSEIL**"/"**Exchange**") in the Capital Market ("**CM**"), Futures and Options ("**F&O**"), and Currency Derivatives ("**CD**") segments since July 2012.

2. The trading terminals of the Noticee are disabled with effect from September 29, 2022, on account of appropriation of deposits towards settlement of investor complaints.

3. The Exchange conducted a regular inspection of the Noticee's books and records covering the period July 1, 2021, to December 31, 2021, in March 2022. Post-inspection, the Exchange issued a show-cause notice ("**SCN**") dated May 26, 2022, for the non-compliances with the regulatory provisions observed during the inspection. The Noticee, vide its email dated August 25, 2022, replied to the SCN.

INSPECTION OBSERVATIONS/VIOLATIONS

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

    4.1. Shortfall in net worth as of September 30, 2021, i.e. net worth of (-ve) Rs.75.34 lakhs

4.2. Misleading transactions executed by the Noticee on the Exchange

4.3. Incorrect data submitted for weekly monitoring of clients' funds as of December 31, 2021, involving differential amount ranging from (-ve) Rs.52.22 lakhs to Rs.41.58 lakhs

4.4. Non-reconciliation of securities recorded in the back-office vis-à-vis the securities available in the beneficiary accounts in 5 scrips involving Rs.1.99 lakhs as of December 31, 2021

4.5. Incorrect data submitted to the Exchange in the weekly holding statement in 5 scrips involving Rs.1.99 lakhs as of December 31, 2021

4.6. Non-settlement of clients' funds in 10 out of 44 instances selected for sample scrutiny (22.73% of the total instances) involving Rs.2.60 lakhs

a. Active clients - 8 instances out of 40 instances involving Rs.0.19 lakh

b. Inactive clients - 2 out of 4 clients involving Rs.2.41 lakhs

4.7. Engagement as a principal in business other than securities involving personal financial liability amounting to Rs.12.99 crores

4.8. Passing on penalty to the clients for short reporting of margin without providing supporting evidence in 20 instances

4.9. Non-reporting of closure of 1 demat account to the Exchange within one week of the closure

4.10. Non-closure/non-winding up of 1 client beneficiary account

4.11. Non-closure of 2 client collateral accounts

4.12. Incorrect data submitted in weekly client-level cash and cash equivalent balances as of December 31, 2021

REGULATORY PROVISIONS

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

5.1. **Shortfall in net worth**

Rule 33 of Chapter III of NSEIL Rules

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.

5.2. **Misleading transactions executed by the Noticee on the Exchange**

Exchange Circular No. NSE/INVG/2019/40175 dated February 7, 2019

Trading Members are aware that in compliance of SEBI Master Circular No. SEBI/ HO/ MIRSD/ DOS3/CIR/P/2018/ 104 dated July 4, 2018 (clause 2.6), Members are required to monitor transactions of their clients, excerpts of which are as follows –

- *Intermediary to have understanding of their client's activity to identify deviations in transactions by regularly monitoring them.*
- *The intermediary shall pay special attention to all complex unusually large transactions / patterns which appear to have no economic purpose.*
- *The background including all documents/office records/memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully, and findings shall be recorded in writing.*

In this regard, in order to assist Trading Members in identifying such type of transactions, certain indicative scenarios have been listed below which may need additional attention and examination by the trading member

- *Trading activity of client(s) concentrated in a specific security / contract which is/are not traded very frequently or trading with low volumes with client squaring up its position within a short span of time. Additionally, factors such as clients earning significant profit or incurring losses on account of such transactions, their consistent contribution to daily average volumes of security / contract may also be looked at.*

- *Fresh positions are being created in the contracts very close to their respective expiry or on the day of expiry.*

- *Large quantities being traded during last half an hour which account for significant percentage to total traded quantity without change in beneficial ownership.*

- *Securities/contracts where the total traded volume of the client vis a vis the average daily traded volumes in that security is significant.*

- *Additional emphasis to be given to securities / contracts where surveillance actions such as additional surveillance measure, graded surveillance measure, periodic call auction, trade for trade etc. have been initiated.*

5.3. **Incorrect data submitted for weekly monitoring of clients' funds**

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

3.2. Stockbrokers shall submit the following data as on the last trading day of every week to the Stock Exchanges on or before the next trading day:

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

C-Aggregate value of credit balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of

clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations)

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

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

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

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

5.4. **Non-reconciliation of securities**

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 a complete audit trail & documentation of such reconciliation

5.5. **Incorrect data submitted in the weekly holding statement**

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.

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

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

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

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

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

a. Rule 8(3)(f) of Securities Contract (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 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.

5.8. **Passing on penalty to the clients for short reporting of margin without providing supporting evidence**

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.

5.9. **Non-reporting of closure of a demat account to the Exchange within one week of the closure**

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

2.3.5. *In case of closure of any of the reported bank and demat accounts, the same shall be communicated to the Stock Exchanges within one week of its closure.*

5.10. **Non-closure/non-winding up of a client beneficiary account**

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

All the DP accounts tagged as "Stock Broker – Client Account" are wound up before August 31, 2019.

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

The timeline for implementation of the provisions of Exchange Circular No. NSE/INSP/41359 dated June 20, 2019, was extended to September 30,

2019.

5.11. **Non-closure of client collateral accounts**

a. Exchange Circular No. NSE/INSP/43653 dated February 25, 2020

The TM/CM shall be required to close all existing demat accounts tagged as 'Client Margin/ Collateral' by June 30, 2020. The TM / CM shall be required to transfer all client's securities lying in such accounts to the respective clients' demat accounts. Thereafter, TM / CM are prohibited from holding any client securities in any beneficial owner accounts of TM/CM and in pool account(s), unpaid securities account.

b. Exchange Circular No. NSE/INSP/45191 dated July 29, 2020

TM / CM shall be required to close all existing demat accounts tagged as 'Client Margin / Collateral' by August 31, 2020.

c. Exchange Circular No. NSE/INSP/46302 dated November 6, 2020

SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/88 dated May 25, 2020, wherein the members were required to close all existing demat accounts tagged as 'Client Margin/ Collateral' by August 31, 2020.

It has, however, come to the notice of the Exchange that some of the Members have neither closed their client collateral and client margin trading securities accounts as required by SEBI circulars nor marked them for closure or disabled the standing instructions for credits in such accounts.

In view of the above, all the members are directed to close the client collateral and client margin trading securities accounts by November 13, 2020.

5.12. **Incorrect data submitted for weekly client-level cash and cash equivalent balances**

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

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

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

2. *……...*

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

PAST MSCSGFC PROCEEDINGS

6. The matter was placed before the Committee on the following dates: -

6.1. August 24, 2022

a. The Exchange, vide its email dated August 18, 2022, provided the Noticee an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. Shruti Kumar (Compliance Officer) and Ms. Akansha Garg (Accountant) attended the personal hearing.

b. The Committee took note of the email dated June 6, 2022, wherein the Noticee sought an extension of time till June 18, 2022, to submit its reply to the SCN due to non-availability of the concerned official. However, the Noticee failed to reply to the SCN despite reminder email dated June 22, 2022, issued by the Exchange to the Noticee.

c. In view of the above, the Committee directed the Noticee to submit its reply to the SCN along with the supporting documents latest by August 25, 2022, as agreed by the representative of the Noticee during the personal hearing. The Exchange, vide its email dated August 24, 2022, communicated the

direction of the Committee to the Noticee. The Noticee, vide its email dated August 25, 2022, replied to the SCN.

6.2. November 28, 2022

The Exchange, vide its email dated November 23, 2022, provided the Noticee an opportunity of a personal hearing before the Committee. The Noticee, vide its email dated November 25, 2022, sought an adjournment due to personal commitments of its director. The Committee acceded to the Noticee's request for adjournment and directed the Exchange to place the matter in a subsequent meeting for appropriate direction.

PRESENT MCSGFC PROCEEDINGS

7. The Exchange, vide its email dated December 15, 2022, provided the Noticee with an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. Shruti Kumar (Compliance Officer) and Ms. Akansha Garg (Accountant) attended the personal hearing and reiterated its written submissions.

CONSIDERATION AND FINDINGS

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

8.1. **Shortfall in net worth**

8.1.1. Upon verification of net worth certificate submitted by the Noticee certifying a net worth of Rs.11.30 crores as of September 30, 2021, vis-à-vis the trial balance and balance sheet as of September 30, 2021, the Exchange observed that Noticee considered incorrect values for free reserves and non-allowable assets viz. fixed assets and doubtful debts and advances. Post-consideration of the correct values of free reserves and non-allowable assets, the net worth of the Noticee stood revised at (-) Rs.75.34 lakhs as of September 30, 2021, which is below the minimum net worth criteria of Rs.1 crore prescribed by the Exchange.

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

The Exchange incorrectly computed the net worth as (-ve) Rs.75.34 lakhs as of September 30, 2021, by incorrectly considering the doubtful debts and advances as Rs.13.28 crores. Such debts and advances are legally recoverable. The Noticee is taking steps to recover the debts. It provided the net worth certificate certifying a net worth of Rs.12.84 crores as of July 25, 2022, along with the provisional balance sheet.

8.1.3. The Committee finds as under: -

a. The Noticee contended that the Exchange incorrectly considered the doubtful debts and advances amounting to Rs.13.28 crores while computing the net worth as of September 30, 2021.

As per Exchange Circular No. NSE/COMP/47555 dated March 8, 2021, doubtful debts and advances overdue for more than 3 months are non-allowable assets and are required to be deducted from the capital and free reserves while computing the net worth of a Trading Member.

Thus, the Noticee's contention is not tenable.

b. As per Rule 33 of Chapter III of the Rules of the Exchange for 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. Thus, the Noticee violated the regulatory provision mentioned above by failing to maintain the minimum net worth prescribed by the Exchange.

c. Post-inspection, the Noticee provided the net worth certificate certifying a net worth of Rs.12.84 crores as of July 25, 2022, along with the provisional balance sheet as of July 25, 2022. Upon verification, it is observed that the Noticee incorrectly considered the value of non-allowable assets viz. doubtful debts and advances and trade receivables. After considering the correct values of the non-allowable assets, the net worth of the Noticee is Rs.1.44

crores as of July 25, 2022, which is above the minimum net worth of Rs.1 crore prescribed by the Exchange.

8.1.4. Given the findings mentioned above, the Committee decided to warn the Noticee to henceforth compute the net worth as per Dr L.C. Gupta's net worth computation method and maintain the base net worth prescribed by the Exchange.

8.2. **Misleading transactions executed by the Noticee on the Exchange**

8.2.1 Upon verification of the trade data and transaction statements of beneficiary accounts submitted by the Noticee, the Exchange observed as under: -

a. The Noticee took counter positions by executing sell/buy transactions in 5 client codes to nullify/avoid the Trading Member-level obligation towards the Exchange with respect to the traded securities.

b. The Noticee recorded delivery/receipt of securities in the register of securities of respective client codes without actual receipt/delivery of the securities through depository participant account to/from the clients.

c. In 13 instances, a gross transaction value of Rs.65.10 lakhs is involved.

8.2.2 In reply to the SCN, the Noticee submitted as under: -

The transactions are not misleading transactions. The transactions were routed through registered non-banking financial companies or sister concern companies. On recommendation of the Exchange, the Noticee discontinued the practice of executing such transactions.

8.2.3 The Committee finds as under: -

a. The Noticee denied the observation/violation and contended that the transactions were routed through registered non-banking financial companies or sister concern companies.

Upon verification of the demat holding statement, it is observed that the transactions are not reflected therein. The Noticee's contention is not acceptable as the Noticee routed the transactions through registered non-banking financial companies or sister concern companies to avoid/nullify delivery obligation towards Exchange.

b. As per Exchange Circular No. NSE/INVG/2019/40175 dated February 7, 2019, Trading Members are required to monitor transactions of their clients to identify deviations in transactions. Thus, the Noticee violated the regulatory provision mentioned above by executing misleading transactions on the Exchange.

8.2.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.5,00,000/- for the observed violation.

8.3. **Incorrect data submitted for the weekly monitoring of clients' funds**

8.3.1 Upon verification of the data submitted by the Noticee for weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers, trial balance, client ledgers, bank account statements, and records of the Exchange/Clearing Corporation as of December 31, 2021, the Exchange observed that the Noticee submitted incorrect data to the Exchange for weekly monitoring of clients' funds in 5 areas involving differences in the actual and reported amounts ranging from (-ve) Rs.52.22 lakhs to Rs.41.58 lakhs.

8.3.2 In reply to the SCN, the Noticee submitted as under: -

a. The Noticee incorrectly reported the figure of Rs.52.22 lakhs under the head "unutilized collateral lying with the Clearing Member" instead of "unutilized collateral lying with the Clearing Corporation". The Noticee took measures to rectify the error and ensure that the submissions are made as per the procedure.

b. The difference of Rs.63,206/- in debit balance of all clients between the computation of the Exchange and the reporting of Noticee pertains to the clients who have not traded in the last 12 months. Post-inspection; the Noticee reported such clients to the Exchange.

8.3.3 The Committee finds as under: -

a. The Noticee accepted the observation/violation pertaining to 3 areas, viz. debit balance of all clients, unutilized collateral lying with Clearing Corporation and unutilized collateral lying with the Clearing Member.

b. The Noticee failed to submit its reply to the observation/violation pertaining to 2 areas, viz. collateral deposited with the Clearing Corporation/Clearing Member in the form of cash and cash equivalents and credit balance of all clients.

c. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the Stock Exchanges have put in place a mechanism for monitoring clients' funds lying with the stockbroker to generate alerts on any misuse of clients' funds by stockbrokers. The Trading Members must verify the data before submission to the Exchange. Thus, the Noticee violated the regulatory provision mentioned above by reporting incorrect data for weekly monitoring of clients' funds to the Exchange.

8.3.4 Considering the amount involved, the Committee decided to warn the Noticee to ensure non-recurrence of the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

8.4. **Non-reconciliation of securities**

8.4.2 Upon verification of the register of securities, back-office records and demat account holdings of the Noticee as of December 31, 2021, the Exchange observed that the Noticee failed to reconcile the securities in 5 scrips involving Rs.1.99 lakhs as of December 31, 2021.

8.4.3 In reply to the SCN, the Noticee submitted as under: -

a. The shares of Orchid Pharma Limited, Nippon Life India Asset Management, Yes Bank Limited, and Riba Textiles Limited are lying in the client collateral account which is suspended as per the directions of SEBI.

b. The shares of JLA Infraville Shoppers Limited was lying in the client unpaid securities account (CUSA) as the client was untraceable. After tracing the client, the Noticee transferred the shares to the client's demat account on April 20, 2022.

8.4.4 The Committee finds as under: -

a. The Noticee contended that it did not reconcile the securities for two reasons, viz. shares lying in the client collateral account are suspended and shares lying in CUSA belong to untraceable clients.

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

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

8.5. **Incorrect data submitted in the weekly holding statement**

8.5.1 Upon verification of the weekly holding statement submitted by the Noticee, register of securities, back-office records, and demat account holdings of the Noticee, the Exchange observed that the Noticee submitted incorrect data to the Exchange in weekly holding statement in 5 scrips involving Rs.1.99 lakhs as of December 31, 2021.

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

a. The shares of Orchid Pharma Limited, Nippon Life India Asset Management, Yes Bank Limited, Riba Textiles Limited are lying in the client collateral account that is suspended as per the directions of SEBI.

b. The shares of JLA Infraville Shoppers Limited was lying in the CUSA as the client was untraceable. After tracing the client, the Noticee transferred the shares to the client's demat account on April 20, 2022.

8.5.3 The Committee finds as under: -

a. The Noticee contended that it did not report the securities in the weekly holding statement for two reasons, viz. shares lying in the client collateral account are suspended and shares lying in CUSA belong to untraceable clients

b. As per Exchange Circular No. NSE/INSP/39855 dated January 3, 2019, Trading Members are advised to upload the holding statement data electronically for all calendar days of the reporting week on or before the next four trading days of subsequent week through the inspection module in the Member portal. The Noticee violated the regulatory provision mentioned above by incorrectly reporting the data in the weekly holding statement submitted to the Exchange.

8.5.4 Considering the amount involved, the Committee decided to warn the Noticee to ensure non-recurrence of the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

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

8.6.1 Upon verification of client ledgers, bank books, weekly client-level cash and cash equivalent submissions, Exchange trade data along with margin and obligation data from Clearing Corporations of the Noticee, the Exchange observed that the Noticee failed to settle clients' funds in 10 out of 44 instances selected for sample scrutiny (22.73% of the total instances) involving Rs.2.60 lakhs as under: -

a. Active clients - 8 instances out of 40 instances involving Rs.0.19 lakh
b. Inactive clients - 2 out of 4 clients involving Rs.2.41 lakhs

8.6.2 In reply to the SCN, the Noticee submitted as under: -

Earlier, the Noticee withheld a maximum amount of Rs.10,000/- of its active clients. However, with the latest directions of SEBI mandating quarterly settlement of client accounts, it is settling all such accounts.

8.6.3 The Committee finds as under: -

a. Post-inspection, the Noticee is settled all the clients' accounts.

b. As per Exchange Circular No. NSE/INSP/48624 dated June 16, 2021, clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by Trading Member within the next three working days irrespective of the date when the running account was previously settled.

c. Furthermore, as per Exchange Circular No. NSE/INSP/49458 dated August 31, 2021, the settlement of running account of funds of the client shall be done by the Trading Member after considering the end of the day (EOD) obligation of funds as on the date of settlement across all the stock exchanges at least once within a gap of maximum 30 / 90 days between two settlements of running account as per the preference of the client.

d. The concept of monthly or quarterly running settlement of clients' accounts by the Trading Member as per client preference is incorporated in the Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, to instil greater transparency and discipline in the dealings between the clients and the stockbrokers. Non-settlement of clients' accounts is prejudicial to the investors' interests. The Noticee violated the regulatory provisions mentioned above by failing to settle the client's funds.

8.6.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,00,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

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

8.7.1 Upon verification of the trial balance, loan ledgers and bank books of the Noticee, the Exchange observed that outstanding opening balances in 9 client codes involving Rs.12.99 crores as of December 31, 2021.

8.7.2 In reply to the SCN, the Noticee submitted as under: -

a. The Noticee is not engaged in any activity other than stock broking. The debtors mentioned in the SCN are either related to its group companies or its trustworthy clients. The debts are legally recoverable. The Noticee is taking ample steps to recover such debts and some recoveries have already been made.

b. The Noticee recovered the debts relating to Avtar Instalments Private Limited on December 12, 2021. The debt relating to Sapphire Intrex Limited was carried forward since the financial year 2013-14 and was transferred to Avtar Instalments Private Limited on January 1, 2022, and an interest is charged on the amount from Sapphire Intrex Limited and Avtar Instalments Private Limited.

8.7.3 The Committee finds as under: -

a. The Noticee denied the observation/violation and stated that the debts pertain to entities related to its group companies or to its trustworthy clients.

b. 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, the Noticee violated the regulatory provision mentioned above by extending loans to related parties.

c. 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.

8.7.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.5,00,000/- and direct the Noticee to recover the loans extended within 3 months from the date of the order for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021. The Committee further directed the Noticee to submit a certificate duly certified by a Chartered Accountant to that extent failing which thhe Noticee will be prohibited from registering new clients.

8.8. **Passing on penalty to the clients for short reporting of margin without providing the supporting evidence**

8.8.1 Upon verification of the client ledgers, and records of the Exchange/Clearing Corporation pertaining to margin required and margin reported along with penalty files, the Exchange observed that the Noticee passed on the penalty to the clients for short reporting of margin without providing relevant supporting documents demonstrating the failure on the part of the clients in 20 instances of 6 clients.

8.8.2 In reply to the SCN, the Noticee submitted as under: -

The Noticee received short reporting penalties from the respective stock exchanges and passed on the said penalties to the respective clients.

8.8.3 The Committee finds as under: -

a. The Noticee admitted that it passed on the penalties on account of short reporting of margin to the respective clients.

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

8.8.4 Given the findings mentioned above, the Committee decided to direct the Noticee to refund the penalty collected on account of short collection of upfront margins to the clients within one month from the date of this order and provide evidence to the Exchange.

8.9. **Non-reporting of closure of demat account to the Exchange within one week of the closure**

8.9.1 Upon verification of the depository client master list and submissions under the enhanced supervision, the Exchange observed that the Noticee failed to report the closure of 1 demat account to the Exchange within one week from the date of the closure.

8.9.2 In reply to the SCN, the Noticee submitted as under: -

The Noticee duly reported the closure of the demat accounts to the Exchange. It provided the screen shot of the ENIT Portal in support of its claim.

8.9.3 The Committee finds as under: -

a. The Noticee denied the observation/violation and contended that it reported the closure of the demat account to the Exchange. It provided a screen shot of the ENIT Portal in support of its contention. Upon verification, it is observed that the Noticee failed to report the closure of the demat account to the Exchange within

one week from the date of the closure Hence, the observation/violation persists.

b. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, Trading Members are required to inform the Exchange about the closure of the reported demat accounts within one week of its closure. The Noticee violated the regulatory provision stated above by failing to report the closure of the demat account to the Exchange within one week from the date of the closure.

8.9.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.5,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

8.10. **Non-closure/non-winding up of client beneficiary account**

8.10.1 Upon verification of the depository client master list, demat account holdings and submissions under the enhanced supervision, the Exchange observed that the Noticee neither closed/wound up the client beneficiary account tagged as ‘client account’ nor returned the client securities upon fulfilment of the pay-in obligations nor disposed of the client securities by September 30, 2019. The Noticee incorrectly reported the said account as "closed".

8.10.2 In reply to the SCN, the Noticee submitted as under: -

The Noticee did report the client beneficiary account to the Exchange since the said account is a suspended account.

8.10.3 The Committee finds as under: -

a. The Noticee incorrectly reported the client beneficiary account as "closed" since the said account is a suspended account. However, the Noticee’s contention is not acceptable as the Noticee is required to close the client beneficiary account and report the closure to the Exchange irrespective of whether the said account is suspended.

b. As per Exchange Circular No. NSE/INSP/41359 dated June 20, 2019, all the existing client securities accounts opened by the

Trading Member/Clearing Member other than 'pool account' (including 'early pay-in'), 'client margin trading securities account' and 'client collateral account' shall be wound up on or before August 31, 2019. The TM/CM shall within one week of closure of existing client accounts, inform the Stock Exchange/s the details of the account. Further, as per Exchange Circular No. NSE/INSP/42000 dated August 29, 2019, the date August 31, 2019, was substituted with September 30, 2019. Thus, the Noticee violated the regulatory provisions mentioned above by failing to close the beneficiary account by September 30, 2019.

8.10.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.50,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

8.11. **Non-closure of client collateral accounts**

8.11.1 Upon verification of the depository client master list, demat account holdings and submissions under the enhanced supervision, the Exchange observed that the Noticee failed to close/wind up 2 client collateral accounts involving Rs.31,004/- by September 30, 2019.

8.11.2 In reply to the SCN, the Noticee submitted as under: -

The Noticee did not report the client collateral accounts to the Exchange since the accounts are suspended accounts.

8.11.3 The Committee finds as under: -

a. The Noticee claimed that it did not report the client collateral accounts to the Exchange since the accounts were suspended accounts.

b. As per Exchange Circular No. NSE/INSP/43653 dated February 25, 2020, the Trading Member/Clearing Member are required to close all existing demat accounts tagged as 'Client Margin/ Collateral' by June 30, 2020. Further, as per Exchange Circular No. NSE/INSP/45191 dated July 29, 2020, the Trading Member/Clearing Member are required to close all existing demat accounts tagged as 'Client Margin/Collateral' by August 31, 2020.

Thus, the Noticee violated the regulatory provisions mentioned above by failing to close the collateral account by August 31, 2020.

8.11.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,00,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

8.12. **Incorrect data submitted in weekly client-level cash and cash equivalent balances**

8.12.1. Upon verification of the data reported by the Noticee in the weekly client-level cash and cash equivalent balances, client ledgers, demat holding statement and records of Clearing Corporation as of December 31, 2021, the Exchange observed that the Noticee incorrectly reported ledger balances in the case of 13 clients involving Rs.3,573/- and failed to report the ledger balances in the case of 19 inactive clients involving Rs.60,925/-.

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

In the case of 13 clients, the Noticee transferred the debit balances from the demat ledger to the trading account after the data was reported to the Exchange. In the case of 19 clients, the ledger balances were not reported to the Exchange as the same pertains to clients who have not traded for the past 12 months. Post-inspection, the Noticee duly reported the data to the Exchange as per the prescribed rules and regulations.

8.12.3. The Committee finds as under: -

a. The Noticee's submission is not acceptable. Firstly, the Noticee cannot make back dated entries in the client financial ledgers. Secondly, the Trading Members must report the ledger balances of all clients and verify the data before submission to the Exchange.

b. As per Exchange Circular No. NSE/INSP/43926 dated March 23, 2020, the Trading Members must upload day-wise client-level cash and cash equivalent balances on a weekly basis for all calendar days of that week except Sunday (i.e. Monday to Saturday). The

said circular was put in place to enhance monitoring and consider the prohibition on pledging client securities for raising funds. The Noticee violated the regulatory provision mentioned-above by incorrectly reporting the weekly client-level cash and cash equivalent balances.

8.12.4. Considering that the Noticee made back dated entries in the client financial ledgers the Committee decided to levy a monetary penalty of Rs.1 lakh in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021, and warn the Noticee to ensure non-recurrence of the observed violation.

DECISION

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

Sr.	Committee's Findings	Prescribed Penalty as per Exchange Circular No. NSE/INSP/47457 dated February 25, 2021, and NSE/INSP/48655 dated June 18, 2021	Penalty
a.	Shortfall in net worth as of September 30, 2021	No prescribed penalty	Warning
b.	Misleading transactions executed by the Noticee on the Exchange	No prescribed penalty	Rs.5,00,000/-
c.	Incorrect data submitted for the weekly monitoring of clients' funds in 5 areas as of December 31, 2021, involving differences ranging from (-ve) Rs.52.22 lakhs to Rs.41.58 lakhs	Warning to 1 lakh	Warning

Sr.	Committee's Findings	Prescribed Penalty as per Exchange Circular No. NSE/INSP/47457 dated February 25, 2021, and NSE/INSP/48655 dated June 18, 2021	Penalty
d.	Non-reconciliation of securities recorded in the back-office holding vis-à-vis the securities available in the beneficiary accounts	Rs.25,000/-	Rs.25,000/-
e.	Incorrect data submitted for the Exchange for the weekly holding statement for the week ended December 31, 2021, in 5 scrips involving Rs.1.99 lakhs	Warning to Rs.1,00,000/-	Warning
f.	Non-settlement of clients' funds in 10 out of 44 instances (22.73% of the total sample instances) involving Rs.2.41 lakhs	Rs.1,00,000/-	Rs.1,00,000/-
g.	Engagement as a principal in business other than securities involving personal financial liability amounting to Rs.12.99 crores	Amount involved > Rs. 5 crores: Penalty of Rs. 5 Lakhs + No new clients if funds given as loans / advances are not recovered within the time allotted	Rs.5,00,000/-, direction to recover the loans extended within 3 months from the date of the order and submit a certificate duly certified by a Chartered Accountant to that extent, failing which Noticee will be prohibited from registering new clients

Sr.	Committee's Findings	Prescribed Penalty as per Exchange Circular No. NSE/INSP/47457 dated February 25, 2021, and NSE/INSP/48655 dated June 18, 2021	Penalty
h.	Passing on penalty on account of short reporting of margin to the clients without providing the supporting evidence in 20 instances	Warning/Advise	Warning and direction to refund the penalty collected to the respective clients within 1 month from the date of the order.
i.	Failure to report the closure of 1 demat account	Penalty of Rs. 5,000/- per annum and warning to be issued to Member and direction to report such details to the Exchange	Rs.5,000/-
j.	Non-closure/ non-winding up of 1 client beneficiary account by September 30, 2019, involving Rs.9,343/-	Rs. 50,000/- per account (where Members are unable to provide reasonable explanation).	Rs.50,000/-
k.	Non-closure of 2 client collateral accounts by September 30, 2019, involving Rs.31,004/-	Rs. 50,000/- per account (where Trading Members are unable to provide reasonable explanation).	Rs.1,00,000/-
l.	Incorrect data submitted for weekly client level cash and cash equivalent balances for 13 clients as of December 31, 2021	Rs.1,00,000/-	Rs.1,00,000/- plus warning
TOTAL			**Rs.13,80,000/-**

10. The Noticee shall pay a monetary penalty of Rs.13,80,000/- (Rupees Thirteen Lakhs Eighty Thousand only) as indicated above.

11. The Noticee is directed to take note of the non-monetary penalties imposed on the Noticee as indicated above.

Sd/-
K Narasimha Murthy
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Date: August 10, 2023