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 June 20, 2022

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

CORAM:

Mr K Narasimha Murthy	- Chairman
Mr Ranganayakulu Jagarlamudi	- Committee Member
Mr Vikram Limaye	- 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** ("**4A Securities**") is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") in the Capital Market ("**CM**"), Futures & Options ("**F&O**") and Currency Derivatives ("**CD**") segments since July 2012.

2. The trading terminals of 4A Securities 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 books and records of 4A Securities across segments covering the period from July 1, 2020, to June 30, 2021, from August 2021 to September 2021. Post-inspection, the Exchange issued a letter of observation ("**LO**") dated February 18, 2022, to 4A Securities for the observed non-compliances with the regulatory provisions. The Exchange, vide its emails dated March 8, 2022, March 14, 2022, March 17, 2022, and March

29, 2022, issued reminders to 4A Securities to submit its reply to the LO. However, 4A Securities failed to submit its reply to the LO.

INSPECTION OBSERVATIONS/VIOLATIONS

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

4.1 Engagement as a principal in a business other than securities involving personal financial liability to the extent of Rs.2.58 crores advanced to parties

4.2 Misuse of clients' securities in 4 instances of 4 clients amounting to Rs.5.81 lakhs

4.3 Funding of client transactions despite debit balance in client ledgers in 12 out of 2,671 instances selected for sample scrutiny (0.45% of total sample instances) involving Rs.1.65 crores

4.4 Non-settlement of clients' funds and securities in 56 out of 151 instances selected for sample scrutiny (37.09% of the total sample instances) involving Rs.83.70 lakhs

4.5 Misleading transactions executed on the Exchange in 52 instances amounting to Rs.1.45 crores

4.6 Use of client bank account for the purposes other than specified involving Rs.61.09 lakhs

4.7 Incorrect reporting of margin collected from clients in 2 out of 36 instances selected for sample scrutiny (5.55% of the total sample instances) involving to Rs.7.68 lakhs

4.8 Discrepancy in computation of net worth as of March 31, 2021

4.9 Incorrect data submitted in weekly holding statement in 6 instances

involving Rs.0.83 lakh as of June 30, 2021

4.10 Payment of funds to client through own bank account in 5 instances pertaining to 1 client involving Rs.9.50 lakhs

4.11 Non-reconciliation of securities as of June 30, 2021

a. Securities recorded in the back-office vis-à-vis the securities available in the beneficiary accounts = Rs.44.53 lakhs

b. Securities available in the beneficiary accounts vis-à-vis the securities recorded in the back-office = Rs.69.97 lakhs

4.12 Non-maintenance of books and records in the prescribed format, i.e. passing of journal voucher entries in client ledgers for fund transfer in 6 instances as of July 2, 2020

4.13 Non-adherence to the surveillance policy prescribed in the Exchange Circular No. NSE/INVG/22908 dated March 7, 2013

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

4.15 Non-closure/winding up of 2 client beneficiary accounts within the prescribed timeline

4.16 Non-closure of 2 demat accounts tagged as client margin/collateral within prescribed timeline

4.17 Excess transaction charges levied in the contract notes issued to 5 clients to the extent of Rs.18.03

4.18 Non-assignment of appropriate nomenclature to 2 bank accounts and incorrect tagging of 1 bank account

4.19 Incorrect data submitted in the weekly monitoring of clients' funds as of June 25, 2021

4.20 Incorrect data submitted in the weekly client-level cash and cash equivalent balances and bank account balances as of June 25, 2021

REGULATORY PROVISIONS

5. At the outset, it is appropriate to refer to the relevant regulatory provisions violated by 4A Securities; extracts whereof are reproduced below:

5.1 **Engagement as a principal in a business other than securities involving personal financial liability**

a. 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 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. SEBI Circular No. SMD/POLICY/CIR-6/97 dated May 7, 1997

It has been opined that borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under Rule 8(1)(f) and 8(3)(f).

5.2 **Misuse of clients' securities**

Regulation 4.5.3 (e) of NSEIL Regulations (CM and F&O Segments)

No Trading Member or person associated with a Trading Member shall make improper use of the constituent's securities or funds.

5.3 **Funding of client transactions despite debit balance in the client ledgers**

Exchange Circular No. NSE/INSP/35184 dated June 23, 2017

Stockbrokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, or as may be issued from time to time.

5.4 **Non-settlement of clients' funds**

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

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/33276 dated September 27, 2016

There must be a gap of maximum 90/30 days (as per the choice of client viz. quarterly/monthly) between two running account settlements.

c. 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.

5.5 **Misleading transactions executed 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 volume 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.*

5.6 **Use of client bank account for the purposes other than specified**

a. Regulation 4.5.3 (e) of Exchange Regulations (CM and F&O Segments)

No Trading Member or person associated with a Trading Member shall make improper use of the constituent's securities or funds.

b. Regulation 6.1.5 (c) of Exchange Regulations (CM Segment) and Regulation 6.1.6.2 of NSE Exchange IL Regulations (F&O Segment)

(ii) Moneys to be paid into "clients account": No money shall be paid into clients account other than

A. money held or received on account of clients.
B. such moneys belonging to the Trading Member as may be necessary for the purpose of opening or maintaining the account.
C. money for replacement of any sum which may by mistake or accident have been drawn from the account.
D. a cheque or draft received by the Trading Member representing in part money belonging to the client and in part money due to the Trading Member.

(iii) Moneys to be withdrawn from "clients account": No money shall be drawn from clients account other than –

A. money properly required for payment to or on behalf of clients for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Trading Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;

B. *such money belonging to the Trading Member as may have been paid into the client account under para (ii.B) and (ii.D) above. money which may by mistake or accident have been paid into such account.*

5.7 **Incorrect reporting of margin collected from clients**

a. Regulations 3.9 of NSEIL Regulations (CM Segment) and Regulation 3.10 of NSEIL Regulations (F&O Segment)

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

b. Exchange Circular No. NSE/INSP/10367 dated February 28, 2008

All Clearing Members and Trading Members in the F&O segment are required to collect upfront initial margins from all the Trading Members/Constituents whose transactions are settled by them and to report on a daily basis, details in respect of such margin due and collected.

c. Exchange Circular No. NSE/INSP/43069 dated December 31, 2019

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

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

   CM Segment

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

F&O Segment

In the F&O segment, it is mandatory for Trading Members to collect initial margin, net buy premium, delivery margin & exposure margin from respective clients on an upfront basis. It must be ensured that all upfront margins are collected in advance of the trade. Mark-to-market losses (MTM) shall be collected from clients by T+1 day.

What does false reporting of margin/MTM (non-compliance) mean?
Where the margins, including upfront margins / MTM losses, have not been collected/short collected by the Member in any of the applicable modes prescribed above; however, the same has been reported by the Member as collected, it would be construed as false reporting to the clearing corporation.

16. *What does false reporting of margin/MTM (non-compliance) mean?*
Where the margins, including upfront margins / MTM losses, have not been collected/short collected by the Member in any of the applicable modes prescribed above; however, the same has been reported by the Member as collected, it would be construed as false reporting to the Clearing Corporation.

d. Exchange Circular No. NSE/INSP/45072 dated July 21, 2020

2. *In order to align and streamline the risk management framework of both cash and derivatives segments, with respect to the collection of margins from the clients and reporting of Short-collection/non-collection of margins, SEBI vide circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019, inter alia, required the Trading Members (TMs) / Clearing Members (CMs) in cash segment as well to mandatorily collect upfront VAR margins and ELM from their clients.*

Framework ***to enable verification of upfront collection of margins from clients in cash and derivatives segments***

(ii) The client wise margin file (MG-12/13) provided by the CCs to TMs/CMs shall contain the EOD margin requirements of the client as well as the peak margin requirement of the client, across each of the intra-day snapshots.

(iii) *The member shall have to report the margin collected from each client, as at EOD and peak margin collected during the day, in the following manner:*

a) *EOD margin obligation of the client shall be compared with the respective client margin available with the TM/CM at EOD. AND*

b) *Peak margin obligation of the client, across the snapshots, shall be compared with respective client peak margin available with the TM/CM during the day.*

Higher of the shortfall in collection of the margin obligations at (a) and (b) above, shall be considered for levying of penalty as per the extant framework.

5.8 **Discrepancy in computation of net worth**

Exchange Circular No. NSE/COMP/47873 dated April 2, 2021

Trading Members/Clearing Members of the Exchange/NCL 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.

Method of computation applicable is Dr L. C. Gupta as prescribed by Schedule VI of Securities and Exchange Board of India (Stockbrokers and Sub-brokers) (Second Amendment) Regulations, 2013.

Schedule VI of Securities and Exchange Board of India (Stockbrokers and Sub-brokers) (Second Amendment) Regulations, 2013.

The stockbroker shall have a net worth and shall deposit with the stock exchange a sum as may be specified by the Board/Stock Exchange for the relevant segment from time to time.

Explanation.- For the purposes of this Schedule, 'net worth' shall mean paid-up capital, 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, doubtful debts and advances (debts or advances overdue for more than three months or debts or advances given to the associate

persons of the member), prepaid expenses, losses, intangible assets and 30% value of marketable securities.

5.9 **Incorrect data submitted towards weekly holding statement**

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

All Members are 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 is given in Annexure-1 to the said circular.

5.10 **Payment of funds to client through own bank account**

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

2.4.2. Transfer of funds between "Name of Stock Broker - Client Account" and "Name of Stock Broker - Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker - Client Account" to "Name of Stock Broker - Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.

5.11 **Non-reconciliation of securities**

a. 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.

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

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

5.12 **Non-maintenance of books and records in the prescribed format**

Exchange Circular No. NSE/INSP/41498 dated July 3, 2019

The standardized format of client financial ledger has been specified vide Exchange circulars NSE/INSP/38743 dated August 30, 2018 & NSE/INSP/39393 dated November 13, 2018.

With respect to segments forming part of interoperability, client financial ledgers can be prepared segment wise and consolidated across Exchanges. (For instance, in case of CM, FO & CD Segment, Member shall maintain separate ledger for CM Segment across all Exchanges & separate ledger for FO segment across all Exchanges & separate ledger for CD segment across all Exchanges). The bills posted shall mention the relevant Clearing Corporation's (CC) settlement number, as available. However, during inspections, Members should be able to demonstrate the break-up of trades (Segment-wise & Exchange-wise) for the bills so posted.

5.13 **Non-adherence to the surveillance policy prescribed by the Exchange**

Exchange Circular No. NSE/SURV/40148 dated February 5, 2019

In continuation to the Exchange Circular No. NSE/INVG/22908 dated March 7, 2013, Trading Members have the responsibility of monitoring the trading activity of their clients. Accordingly, the Trading Members are advised to step up monitoring of their clients including intraday activity and proactively report to the Exchange observations/findings, if any.

5.14 **Non-reporting of closure of 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.

5.15 **Non-closure/winding up of client beneficiary accounts within prescribed timeline**

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.

5.16 **Non-closure of demat accounts tagged as client margin/collateral within prescribed timeline**

a. SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2020/28 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.

b. Exchange Circular No. NSE/INSP/43602 dated November 6, 2020

All the members are directed to close the client collateral and client margin trading securities accounts by November 13, 2020, failing which the Exchange will issue suitable directions to freeze such accounts for both debits & corporate actions).

5.17 **Excess transaction charges levied in the contract notes issued to clients**

Exchange Circular No. NSE/FA/40632 dated April 2, 2019

SEBI, vide Notification bearing reference No. SEBI/L.A.D.-N.R.O./G.N./2019/03 dated March 22, 2019, amended the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992. Vide the said amendment, the charge of fees is Rs.10/- per crore for the transactions executed by the clients in CM and F&O Segments.

5.18 **Non-assignment of appropriate nomenclature to bank account**

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

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

1.2.1. Bank account(s) which hold clients' funds shall be named as "Name of Stock Broker - Client Account".

1.2.2. Bank account(s) which hold own funds of the stock broker shall be named as "Name of Stock Broker - Proprietary Account".

5.19 **Incorrect data submitted for weekly monitoring of clients' funds**

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

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

A-Aggregate of fund balances available in all client bank accounts, including the settlement account, maintained by the stockbroker across stock exchanges

B-Aggregate value of collateral deposited with clearing corporations and/or clearing member (in cases where the trades are settled through clearing member) in form of cash and cash equivalents (fixed deposit (FD), bank guarantee (BG), etc.) (across stock exchanges). Only funded portion of the BG, i. e. the amount deposited by 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, 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

5.20 **Incorrect data submitted in weekly client-level cash and cash equivalent balances and bank account balances**

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

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

2. *Day-wise upload of bank balances (as per the bank statement) of all bank accounts on a weekly basis for all the calendar days of that week except Sunday (i.e. Monday to Saturday)*

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

PAST MCSGFC PROCEEDINGS

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

6.1 April 22, 2022

a. The Exchange, vide its email dated April 13, 2022, provided 4A Securities with an opportunity of a personal hearing before the Committee. 4A Securities, vide its email dated April 20, 2022, sought an adjournment due to non-availability of concerned officials.

b. While acceding to the adjournment request, the Committee directed 4A Securities to submit its reply to the LO with all supporting documents within 15 days from the date of communication of the direction, failing which 4A Securities will be prohibited from registering new clients.

c. Accordingly, the Exchange, vide its email dated May 4, 2022, informed 4A Securities to comply with the aforesaid direction of the Committee, failing which 4A Securities will be prohibited from registering new clients with effect from May 20, 2022.

d. Since 4A Securities failed to comply with the direction of the Committee, 4A Securities was prohibited from registering new clients with effect from May 20, 2022.

6.2 June 1, 2022

The Exchange, vide its email dated May 26, 2022, provided 4A Securities with an opportunity of a personal hearing before the Committee. However, the Committee deferred the matter due to paucity of time. Accordingly, the Exchange, vide its email dated June 3, 2022, informed 4A Securities.

CONSIDERATION & FINDINGS

7. The observations/violations, the reply of 4A Securities and the findings of the Committee are as under:

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

7.1.1 Upon verification of the party ledgers and bank statements of 4A Securities as of June 30, 2021, the Exchange observed that 4A Securities advanced/obtained loans to/from parties and charged interest to 2 out of 7 parties at the end of the financial year. The details are as under:

(Rs in crores)

Sr.	Particulars	Amount
1	Total payments	2.58
2	Total receipts	3.05
3	Net receipts	0.46
4	Interest charged	1.43

7.1.2 4A Securities did not submit its reply to the LO.

7.1.3 4A Securities violated the provisions of Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957, by extending loans to parties not in connection with or incidental to or consequential upon the securities business.

7.1.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.2.58 lakhs (1% of Rs.2.58 crores) for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021, and direct 4A Securities to recover the outstanding loans from the parties within 3 months from the date of the order.

7.2 **Misuse of clients' securities**

7.2.1 Upon verification of the demat transaction statement and back-office records of 4A Securities, the Exchange observed that 4A Securities used the securities of one client, i.e. Avtar Instalments Private Limited (Client Code: DLA11) to meet the obligations of 4 clients, i.e. Mr. Arun Kumar (Client Code: DLA54), Mr. Ashish Gupta (Client Code: KPA22), Ms. Paramita Sur (Client Code: DLP20), and Mr. Rajesh Kumar Shukla (Client Code: KPR17) amounting to Rs.5.81 lakhs.

7.2.2 4A Securities did not submit its reply to the LO.

7.2.3 4A Securities violated the provisions of Regulation 4.5.3 (e) of the NSEIL Regulations (CM and F&O Segment) by using the securities of one client to meet other clients' obligations.

7.2.4 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.

7.3 **Funding of clients' transactions**

7.3.1 Upon verification of the clients' financial ledgers, the Exchange observed that 4A Securities granted further exposure to the clients, beyond the fifth trading day, as reckoned from the date of pay-in, despite debit balance in the clients' financial ledgers in 12 out of 2,671 instances selected for sample scrutiny (0.45% of the total sample instances) involving Rs.1.65 crores.

7.3.2 4A Securities did not submit reply to the LO.

7.3.3 4A Securities violated the provisions of Exchange Circular No. NSE/INSP/35184 dated June 23, 2017, by funding the clients' transactions despite debit balance in the clients' financial ledgers.

7.3.4 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.

7.4 **Non-settlement of clients' funds**

7.4.1 Upon verification of the settlement declaration, register of securities, client ledgers, trial balance, and records of the Exchange as of June 30, 2021, the Exchange observed that 4A Securities failed to settle the clients' funds in 56 out of 151 instances selected for sample scrutiny (37.09% of the total sample instances) involving Rs.83.70 lakhs. The details are as under: -

a. Active Clients

- 2 out of 20 instances involving Rs.59,031/-
- 4 out of 4 instances (deemed not settled after removing the effect of journal voucher payment entries) involving Rs.60.61 lakhs

b. Inactive Clients

- 50 out of 127 clients involving Rs.22.50 lakhs

7.4.2 4A Securities did not submit reply to the LO.

7.4.3 4A Securities violated the provisions of Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, and Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, by failing to settle the clients' funds.

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

7.5 **Misleading transactions executed on the Exchange**

7.5.1 Upon verification of the trade data and transaction statement of beneficiary accounts maintained by 4A Securities, the Exchange observed that 4A Securities took counter positions by executing sell/buy obligation in the code of its related parties against positions of other clients in 52 instances with a gross transaction value of Rs.1.45 crores. Since there was no securities movement, it is deemed that 4A Securities adopted this practice to nullify/avoid the delivery obligations to the Exchange/clients with respect to the securities.

The details of counter positions taken by 4A Securities is as under: -

Sr.	Particulars	Quantity	Value (Rs)
1	Total buy	86,553	74,40,785
2	Total sell	1,14,056	71,25,879
	Total	2,00,609	1,45,66,664

7.5.2 4A Securities did not submit its reply to the LO.

7.5.3 4A Securities violated the provisions of Exchange Circular No. NSE/INVG/2019/40175 dated February 7, 2019, by executing misleading transactions.

7.5.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.5,00,000/- for the observed violation since 4A Securities committed a similar violation in the regulator inspection conducted by the Exchange during the financial year 2019-20.

7.6 **Use of client bank account for the purposes other than specified**

7.6.1 The Exchange verified the bank books and bank statements submitted by 4A Securities. Upon verification, it is observed that 4A Securities paid/received funds to/from non-client parties from/in the client bank account as under:

(Rs in lakhs)

Sr.	Particulars	Instances	Amount
1	Funds paid to non-client parties	5	36.44
2	Funds received from non-client parties	5	24.65
Total			61.09

7.6.2 4A Securities did not submit reply to the LO.

7.6.3 4A Securities violated the provisions of Regulation 4.5.3 (e) of NSEIL (CM and F&O) Regulations by using the client bank account for purposes other than specified.

7.6.4 Given the findings mentioned above, the Committee decided to warn 4A Securities to ensure non-recurrence of the observed violation.

7.7 **Incorrect reporting of margin collected from clients**

7.7.1 Upon verification of the register of securities, client ledger, demat transaction statement, and records of the Exchange, the Exchange observed that the Noticee incorrectly reported the margin collected from the clients in 2 out of 36 instances amounting to Rs.7.68 lakhs (5.55% of total instances verified).

7.7.2 4A Securities did not submit its reply to the LO.

7.7.3 The Committee finds as under: -

a. 4A Securities violated the provision of Regulation 3.9 of NSEIL Regulations (CM Segment), Regulation 3.10 of NSEIL Regulations (F&O Segment), Exchange Circular No.

NSE/INSP/10367 dated February 28, 2008, and Exchange Circular No. NSE/INSP/43069 dated December 31, 2019, by incorrectly reporting margin collected from clients.

b. The total number of instances of incorrect reporting is 5 out of 36 instances, i.e. 5.50% of the total sample instances, involving Rs.7.68 lakhs. Exchange Circular No. NSE/INSP/42919 dated December 16, 2019, prescribes a graded penalty proportionate to the number of instances observed during the inspection and repeat violations. Hence, the applicable monetary penalty in the instant case is 5% of the falsely reported amount i.e. Rs.38,400/- (i.e. 5% of Rs.7.68 lakhs).

7.7.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.38,400/- for the observed violation in terms of Exchange Circular No. NSE/INSP/42919 dated December 16, 2019.

7.8 **Discrepancy in computation of net worth**

7.8.1 Upon verification of the net worth certificate submitted by 4A Securities certifying a net worth of Rs.13.20 crores vis-à-vis the trial balance and balance sheet as of March 31, 2021, the Exchange observed that 4A Securities incorrectly deducted the value of non-allowable assets, viz. doubtful debts and advances and 30% value of marketable securities to the extent of Rs.9.68 crores. Upon considering the correct value of the non-allowable assets mentioned above, the net worth of 4A Securities stands reduced to Rs.3.52 crores as of March 31, 2021.

7.8.2 4A Securities did not submit reply to the LO.

7.8.3 4A Securities violated the provisions of Exchange Circular No. NSE/COMP/47873 dated April 2, 2021, by failing to compute the net worth as per Dr. L.C. Gupta's net worth computation method.

7.8.4 Given the findings mentioned above, the Committee decided to warn 4A Securities to henceforth compute the net worth as per Dr. L.C. Gupta's net worth computation method.

7.9 **Incorrect data reported in the weekly holding statement**

7.9.1 Upon verification of the weekly holding statement submitted by 4A Securities as of June 30, 2021, vis-à-vis the demat account statement, the Exchange observed that 4A Securities incorrectly reported the data in the weekly holding statement in 6 instances involving Rs.0.83 lakh.

7.9.2 4A Securities did not submit reply to the LO.

7.9.3 4A Securities violated the provisions of Exchange Circular No. NSE/INSP/39855 dated January 3, 2019, by incorrectly reporting the data in the weekly holding statement to the Exchange.

7.9.4 Considering the non-materiality of the amount involved, the Committee decided to warn 4A Securities to ensure non-recurrence of the observed.

7.10 **Payment of funds to clients through own bank account**

7.10.1 Upon verification of the client ledgers and bank statements, the Exchange observed that 4A Securities made payment to clients through own bank account in 5 instances to the extent of Rs.9.50 lakhs.

7.10.2 4A Securities did not submit its submit reply to the LO.

7.10.3 4A Securities violated the provisions of Regulation 6.1.5 (c) of NSEIL Regulations (CM Segment) and Regulation 6.1.6.2 of the NSEIL Regulations (F&O Segment) by making payment of funds to clients through own bank account.

7.10.4 Given the findings above, the Committee decided to warn 4A Securities to ensure non-recurrence of the observed violation.

7.11 **Non-reconciliation of securities**

7.11.1 Upon verification of the securities recorded in the register of securities vis-à-vis the securities available in the beneficiary accounts maintained by 4A Securities as of June 30, 2021, the Exchange observed that 4A Securities did not reconcile the securities. The details are as under: -

a. Securities recorded in the back-office vis-à-vis the securities available in the beneficiary accounts = Rs.44.53 lakhs

b. Securities available in the beneficiary accounts vis-à-vis the securities recorded in the back-office = Rs.69.97 lakhs

7.11.2 4A Securities did not submit its reply to the LO.

7.11.3 4A Securities violated the provisions of Exchange Circular No. NSE/INSP/10605 dated April 21, 2008, and Exchange Circular No. NSE/INSP/29096 dated March 11, 2015, by failing to reconcile the securities.

7.11.4 Given the findings 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.

7.12 **Non-maintenance of books and records in the prescribed format**

7.12.1 Upon verification of the client ledgers and bank statements of 4A Securities, the Exchange observed that 4A Securities passed journal voucher entries in the client ledger for transfer of funds thereby reducing the fund balance in 6 instances involving debit entries of Rs.26.59 lakhs and credit entries of Rs.2.01 lakhs

7.12.2 4A Securities did not submit its reply to the LO.

7.12.3 As per Exchange Circular No. NSE/INSP/41498 dated July 3, 2019, by passing journal voucher entries in the client ledger for transfer of funds thereby reducing the fund balance.

7.12.4 Given the findings 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.

7.13 **Non-adherence to the surveillance policy prescribed by the Exchange**

7.13.1 Upon verification of the trade data of 4A Securities, the Exchange observed that 4A Securities failed to adhere to the laid down surveillance policy prescribed in Exchange Circular No. NSE/INVG/22908 dated March 7, 2013.

Out of the total turnover of Rs.176.17 crores in CM Segment, Rs.142.18 crores (80.70%) were concentrated in only five scrips. Furthermore, out of Rs.142.17 crores, securities worth Rs.141.94 crores were traded by related parties of 4A Securities.

Upon verification of client-wise turnover in 5 scrips vis-à-vis overall turnover of the Exchange of such scrips on a particular day, the Exchange observed that there was a significant volume of trades in the said scrips with abnormal pattern which was not reported to the Exchange by 4A Securities under its surveillance obligation.

Furthermore, the Exchange observed that 4A Securities did not do due diligence as per its own surveillance policy. In 1 instance, shares were received from a third party in the demat account of client and were later transferred to the pool account of 4A Securities. Upon verification of pay-in and pay-out of clients, the Exchange observed that there are multiple off-market transactions in the demat account statement of the clients.

7.13.2 4A Securities did not submit reply to the LO.

7.13.3 4A Securities violated the provisions of Exchange Circular No. NSE/INVG/22908 dated March 7, 2013, by failing to adhere to the surveillance policy prescribed by the Exchange.

7.13.4 Given the findings above, the Committee decided to levy a monetary penalty of Rs.10,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

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

7.14.1 Upon verification of the client master list, the Exchange observed that 4A Securities failed to report the closure of 1 demat account to the Exchange within one week of the closure. The details are as under: -

Sr. No.	A/c. No.	Purpose
1.	IN30134820111568	Pool Account

7.14.2 4A Securities did not submit reply to the LO.

7.14.3 4A Securities violated the provisions of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, by failing to 1report the closure of demat account to the Exchange within the prescribed timeline.

7.14.4 Given the findings 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.

7.15 **Non-closure/winding up of client beneficiary accounts within prescribed timeline**

7.15.1 Upon verification of the client master list, the Exchange observed that 4A Securities failed to close/wind up 2 client beneficiary accounts by August 31, 2019. The details are as under: -

Sr. No.	A/c. No.	Purpose
1.	1207660000007742	Client Account
2.	1207660000000099	Client Account

7.15.2 4A Securities did not submit its reply to the LO.

7.15.3 4A Securities violated the provisions of Exchange Circular No. NSE/INSP/41359 dated June 20, 2019, by failing to close/wind up client beneficiary accounts within prescribed timeline.

7.15.4 Given the findings 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.

7.16 **Non-closure of demat accounts tagged as client margin/collateral within prescribed timeline**

7.16.1 Upon verification of the client beneficiary accounts, the Exchange observed that 4A Securities failed to close demat accounts tagged as client margin/collateral by August 31, 2020. The details are as under: -

Sr. No.	A/c. No.	Purpose
1.	1207660000008045	Client Collateral A/c.
2.	IN30134820133508	Client Collateral A/c.

7.16.2 4A Securities did not submit reply to the LO.

7.16.3 4A Securities violated the provisions of Exchange Circular No. NSE/INSP/41359 dated June 20, 2019, by failing to close/wind up demat accounts tagged as client margin/collateral within prescribed timeline.

7.16.4 Given the findings 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.

7.17 **Excess transaction charges levied in the contract notes issued to clients**

7.17.1 Upon verification of the contract notes issued by 4A Securities to its clients, the Exchange observed that 4A Securities levied excess transaction charges in the contract notes issued to 5 clients to the extent of Rs.18.03.

7.17.2 4A Securities did not submit its reply to the LO.

7.17.3 4A Securities violated the provisions of Exchange Circular No. NSE/FA/40632 dated April 2, 2019, by levying excess transaction charges in the contract notes issued to clients.

7.17.4 Considering the non-materiality of the amount involved, the Committee decided to warn 4A Securities to ensure non-recurrence of the observed violation.

7.18 **Non-assignment of appropriate nomenclature/Incorrect tagging of bank accounts**

7.18.1 Upon verification of the bank accounts, the Exchange observed that 4A Securities failed to assign appropriate nomenclature to 2 bank accounts and incorrectly tagged 1 bank account.

7.18.2 4A Securities did not submit its reply to the LO.

7.18.3 4A Securities violated the provisions of Exchange Circular No. NSE/INSP/33276 dated September 17, 2016, by failing to assign appropriate nomenclature to bank accounts.

7.18.4 Given the findings 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.

7.19 **Incorrect data submitted for weekly monitoring of clients' funds**

7.19.1 Upon verification of the data submitted by 4A Securities for weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of June 25, 2021, the Exchange observed that 4A Securities submitted incorrect data to the Exchange in the following 5 areas and the differences ranged from Rs.3,955/- to Rs.4.99 crores: -

Sr. No.	Particulars
1	Total end of the day balance in all client bank accounts
2	Collateral deposited with Clearing Corporation/Clearing Member in form of cash and cash equivalents
3	Credit balance of all clients
4	Debit balance of all clients
5	Free/unblocked collateral deposited with Clearing Corporation/Clearing Member

7.19.2 4A Securities did not submit its reply to the LO.

7.19.3 4A Securities violated the provisions of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, by submitting incorrect data for weekly monitoring of clients' funds.

7.19.4 Given the findings 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.

7.20 **Incorrect data submitted in the weekly client-level cash and cash equivalent balances and bank account balances**

7.20.1 Upon verification of the data submitted by 4A Securities in the weekly client-level cash and cash equivalent balances and bank account balances vis-à-vis the trial balance and bank statements as of June 25, 2021, the Exchange observed as under: -

a. Bank balances: 4A Securities did not report the bank balances in the case of 4 bank accounts involving Rs.3,955/-

b. Fund balances: 4A Securities reported incorrect fund balances in the case of 2 clients involving Rs.17.33 lakhs

7.20.2 4A Securities did not submit its reply to the LO.

7.20.3 4A Securities violated the provision of Exchange Circular No. NSE/INSP/44478 dated May 27, 2020, by submitting incorrect data in the weekly client-level cash and cash equivalent balances and bank account balances.

7.20.4 Given the findings above, the Committee decided to warn 4A Securities to ensure non-recurrence of the observed violation.

DECISION

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

Sr. No.	Committee's Findings	Prescribed penalty as per: a. Exchange Circular No. NSE/INSP/42919 dated December 16, 2019 b. Exchange Circular No. NSE/INSP/45899 dated September 30, 2020 c. Exchange Circular No. NSE/INSP/47457 dated February 25, 2021	Penalty
a.	Engagement as a principal	Amount involved <= Rs. 5	Rs.2,58,000/-

	in a business other than securities involving personal financial liability to the extent of Rs.2.58 crores advanced to parties.	crores: 1% of the amount involved + Direction to recover the funds given as loans/advances within the time allotted	(1% of Rs.2.58 crores)
b.	Misuse of clients' securities to the extent of Rs.5.81 lakhs	Misuse up to Rs.50 lakhs – Monetary penalty of Rs.1 lakh	Rs.1,00,000/-
c.	Funding of client transactions in 12 out of 2,671 instances selected for sample scrutiny (0.45% of the total sample instances) involving Rs.1.65 crores	Where non-compliance is up-to 5% instances or amount exceeds Rs.1 crore – Rs.50,000/-	Rs.50,000/-
d.	Non-settlement of clients' funds and securities in 56 out of 151 instances selected for sample scrutiny (37.09% of the total sample instances) involving Rs.83.70 lakhs	In excess of 10% of number of instances – Rs.1,00,000/-	Rs.1,00,000/-
e.	Misleading transactions executed on the Exchange in 52 instances involving Rs.1.45 crores	No prescribed penalty	Rs.5,00,000/-
f.	Use of client bank account for the purposes other than specified involving Rs.61.09 lakhs	No prescribed penalty	Warning
g.	Incorrect reporting of margin collected from clients in 2 out of 36 instances selected for sample scrutiny (5.55% of total sample instances) involving Rs.7.68 lakhs	Less than 10% of instances with false reporting – 5% of amount of false reporting	Rs.38,400/-
h.	Discrepancy in computation of net worth	No prescribed penalty	Warning

i.	Incorrect data submitted in weekly holding statement in 6 instances involving Rs.0.83 lakh as of June 30, 2021	Warning to Rs.1 lakh	Warning
j.	Payment of funds to client through own bank account in 5 instances involving Rs.9.50 lakhs	No prescribed penalty	Warning
k.	Non-reconciliation of securities recorded in the back-office vis-à-vis the securities available in the beneficiary accounts	Rs.25,000/-	Rs.25,000/-
l.	Non-maintenance of books and records in the prescribed format	Rs.25,000/-	Rs.25,000/-
m.	Non-adherence to the surveillance policy prescribed by the Exchange	Rs.10,000/-	Rs.10,000/-
n.	Non-reporting of closure of 1 demat account to the Exchange within one week of the closure	Monetary penalty of Rs. 5,000/- per annum plus warning to be issued to the Trading Member and direction to report such details to the Exchange	Rs.5,000/-
o.	Non-closure/winding up of 2 client beneficiary accounts within prescribed timeline	Rs.50,000/- per account	Rs.1,00,000/-
p.	Non-closure of 2 demat accounts tagged as client margin/collateral within prescribed timeline	Rs.50,000/- per account	Rs.1,00,000/-
q.	Excess transaction charges levied in the contract notes issued 5 clients to the extent of Rs.18.03.	Amount of excess charges or Rs.1 lakh, whichever is less and Direction to refund	Warning

		excess charges to clients	
r.	Non-assignment of appropriate nomenclature / incorrect tagging of 3 bank accounts	Rs.5,000/-	Rs.5,000/-
s.	Incorrect data submitted in the weekly monitoring of clients' funds	Warning to Rs.1 lakh	Rs.25,000/-
t.	Incorrect data submitted in the weekly client-level cash and cash equivalent balances and bank account balances	Warning to Rs.1 lakh	Warning
Total			**Rs.13,41,400/-**

11. 4A Securities is directed to pay a monetary penalty of Rs.13,41,400/- (Rupees Thirteen Lakhs Forty-One Thousand Four Hundred only) as indicated above.

12. 4A Securities is directed to note the non-monetary penalty as indicated above and ensure non-recurrence of the observed violation.

Sd/-
K Narasimha Murthy
(Chairman)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Date: April 28, 2023