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 October 11, 2022

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

CORAM:

Ms Mona Bhide	- Chairperson
Mr K Narasimha Murthy	- Committee Member
Ms. Anuradha Rao	- Committee Member
Mr Ranganayakulu Jagarlamudi	- Committee Member
Mr Ashishkumar Chauhan	- 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 Axis Securities Securities Limited ("Axis Securities")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") and Futures & Options ("**F&O**") segments since April 2007 and Currency Derivatives ("**CD**") segment since November 2008.

2. The Exchange conducted four limited purpose inspections of the books and records of Axis Securities. Post-inspections, the Exchange issued letters of observations ("**LO**") to Axis Securities for the observed non-compliance with the regulatory provisions. The details are tabled hereunder: -

LO	Limited Purpose Inspection (LPI)	Period covered under Inspection	Month/Year of Inspection	Date of LO	Reply to LO
LO-1	LPI-1	09-Aug-21	Apr-22	28-Apr-22	12-Aug-22

		To 14-Aug-21			
LO-2	LPI-2	31-May-21 to 24-Jul-21	Dec-21	28-Apr-22	12-Aug-22
LO-3	LPI-3	31-Jan-22	Apr-22	23-May-22	12-Aug-22
LO-4	LPI-4	13-Sep-21 to 25-Sep-21	Sep-21	31-May-22	24-Jun-22

INSPECTION OBSERVATIONS/ALLEGED VIOLATIONS

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

LO-1

3.1 Incorrect data reported in the weekly holding statement in 35 instances involving Rs.0.80 crore as of August 14, 2021

LO-2

3.2 Incorrect data reported in the weekly holding statement in 574 instances involving Rs.5.45 crores from May 31, 2021, to July 23, 2021

LO-3

3.3 Non-settlement of the inactive clients' funds in 26 out of 55,614 instances selected for sample scrutiny (0.04% of the total sample instances verified) involving Rs.64.86 lakhs as of January 31, 2022

LO-4

3.4 Incorrect data reported in the weekly holding statement in 2 instances involving Rs.1.65 crores as of September 21, 2022

REGULATORY PROVISIONS

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

4.1 Incorrect data reported 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-I of this circular. .

4.2 Non-settlement of inactive clients' funds

Exchange Circular No. NSE/INSP/49458 dated August 31, 2021

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

PRESENT MCSGFC PROCEEDINGS

5. The Exchange, vide its email dated October 8, 2022, provided Axis Securities an opportunity for a personal hearing before the Committee. On behalf of Axis Securities, Mr. Anand Kumar Shaha - Designated Director and Compliance Officer and Mr. Jatin Sanghani - Compliance Officer attended the personal hearing and reiterated its written submissions.

CONSIDERATION & FINDINGS

6. The observations/violations, the reply of Axis Securities and the findings of the Committee are as under: -

LO-1

6.1 Incorrect data reported in the weekly holding statement

6.1.1. Upon verification of the weekly holding statement submitted by Axis Securities to the Exchange and the demat account holding statement as of August 14, 2021, the Exchange observed that Axis Securities reported incorrect data to the Exchange in 35 instances involving Rs.0.80 crore. The details are as under:

a. Non-reporting of early pay-in shares received from the clients on T day in 11 instances involving Rs.0.42 crore.

b. Non-reporting of holdings lying in client unpaid securities account (CUSA) in 24 instances involving Rs.0.38 crore

6.1.2. In reply to the LO-1, Axis Securities submitted as under:

The incorrect reporting was due to a technical issue. It subsequently rectified the technical issue.

6.1.3. The Committee finds as under:

a. Axis Securities attributed the inspection observation/violation to a technical issue.

b. As per Exchange Circular No. NSE/INSP/39855 dated January 3, 2019, all the 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. Axis Securities violated the regulatory provisions mentioned above by incorrectly reporting the data in the weekly holding statement to the Exchange.

6.1.4. Considering the amount involved, the Committee decided to warn Axis Securities to ensure non-recurrence of the observed violation.

LO-2

6.2 Incorrect data reported in the weekly holding statement

6.2.1. Upon verification of the weekly holding statement submitted by Axis Securities to the Exchange and the demat account holding statement, the Exchange observed that Axis Securities reported incorrect data to the Exchange in 574 instances involving Rs.5.45 crores from May 31, 2021, to July 23, 2021.

6.2.2. In reply to the LO-2, Axis Securities submitted as under:

The files uploaded to the Exchange are generated through a back-office application. Due to technical issues, double entries were reported to the Exchange, thereby resulting in mismatch of data. It subsequently rectified the technical issue.

6.2.3. The Committee levied a monetary penalty of Rs. 1,00,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/48655 dated June 18, 2021. Hence, no separate action is required.

LO-3

6.3 Non-settlement of inactive clients' funds

6.3.1. Upon verification of the client ledgers, bank books, weekly client-level cash and cash equivalent submission and trade data along with margin and obligation data from Clearing Corporations, the Exchange observed that Axis Securities failed to settle the inactive clients' funds in 26 out of 55,614 instances selected for sample scrutiny (0.04% of the total sample instances verified) involving Rs.64.86 lakhs as of January 31, 2022.

6.3.2. In reply to the LO-3, Axis Securities submitted as under:

i. Most of the accounts are opened as in 3-in-1 accounts. The accounts are mostly settled on bill-to-bill basis.

ii. The instance-wise clarification is as under:

i. 7 instances involving Rs.13.58 lakhs

The clients' account had 'NIL' balance before infusion of new funds. Post-inspection, Axis Securities settled the clients' funds between January 2022 to March 2022.

ii. 2 instances involving Rs.5.72 lakhs

The clients had a debit balance in margin trading funding ledger. Hence, there was no requirement for settlement of clients' funds.

iii. 17 instances involving Rs.45.56 lakhs

The clients were registered in January 2022. Hence, the settlement is not applicable.

6.3.3. The Committee finds as under:

a. The instance-wise findings is as under:

i. 7 instances involving Rs.13.58 lakhs

Axis Securities claimed that the clients' account had 'NIL' balance before infusion of new funds. Upon verification of the clients' ledger, it is observed that the claim of Axis Securities is acceptable. Hence, no violation persists.

ii. 2 instances involving Rs.5.72 lakhs

Axis Securities claimed that the clients had a debit balance in margin trading funding ledger. The claim of Axis Securities is not acceptable as the balance in the margin trading facility ledger cannot be used to set off non-margin trading facility ledger balance to avoid settlement of the clients. Hence, the violation persists.

iii. 17 instances involving Rs.45.56 lakhs

Axis Securities claimed that the clients were registered in January 2022. Hence, the settlement is not applicable. The claim of Axis Securities is not acceptable. As per Exchange Circular No. NSE/INSP/49459 dated August 31, 2021, in the case of new clients, no settlement would be required in the month/quarter in which funds are received by the Trading Member for the first time. However, the Trading Member shall ensure that if the client is having credit balance and has not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by the Trading Member within next three working days. Hence, the violation persists.

iv. In view of the above, the violation stands reduced to 19 out of 55,614 instances selected for sample scrutiny (0.03% of the total sample clients verified) involving Rs.51.28 lakhs.

b. The concept of monthly or quarterly running settlement of clients' accounts by the Trading Member is incorporated to instill greater transparency and discipline in the dealings between the clients and the stockbrokers. Non-settlement of clients' accounts is prejudicial to the investors' interests.

c. As per Exchange Circular No. NSE/INSP/49458 dated August 31, 2021, 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 Trading Member, within next three working days irrespective of the date when the running account was previously settled. Axis Securities violated the regulatory provisions mentioned above by failing to settle the clients' funds.

6.3.4. Given the findings mentioned above, the Committee decided to advise Axis Securities to ensure non-recurrence of the observed violation in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

LO-4

6.4 Incorrect data reported in the weekly holding statement

6.4.1. Upon verification of the weekly holding statement submitted by Axis Securities to the Exchange and the demat account holding statement, the Exchange observed that Axis Securities reported incorrect data to the Exchange in 2 instances involving Rs.1.65 crores as of September 21, 2022.

6.4.2. In reply to the LO-4, Axis Securities submitted as under:

The client (Client Code: 779790) bought the shares in SLBM segment to meet pay-in obligation in the normal segment while the client (Client Code: 2277987) sold the shares in SLBM segment. Post-settlement of the trade in SLBM segment, the client (Client Code: 779790) bought the shares from normal market and intended to pay the shares through SLBM segment on September 17, 2021. However, due to an issue in order placement in SLBM segment, it was decided to do early pay-in to NSE Clearing Limited (NCL) to settle the second leg in SLBM segment after receipt of confirmation from NCL. The back office marked the pay-out as settled in the client's account to avoid any further excess sell and the said shares were not captured while reporting to the Exchange. The shares remained in the pool account for 2 days.

6.4.3. The Committee levied a monetary penalty of Rs.1,00,000/- for the observed violation in terms of Exchange Circular No. NSE/INSP/48655 dated June 18, 2021. Hence, no separate action is required.

DECISION

7. In view of the above, the Committee levies the following penalty as indicated against the said violations:

Sr. No.	Committee's Findings	Prescribed penalty as per the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021, and NSE/INSP/48655 dated June 18, 2021	Penalty Levied
		LO-1	
1	Incorrect data reported in the weekly holding statement in 35 instances involving Rs.0.80 crore as of August 14, 2021	Warning to Rs.1,00,000/-	Warning
		LO-3	
2.	Non-settlement of clients' funds in 19 out of 55,614 instances selected for sample scrutiny (0.03% of the total sample clients) involving Rs.51.28 lakhs	Less than 2% of the number of instances – Advise	Advise

8. Axis Securities shall note the non-monetary penalties mentioned above and ensure non-recurrence of the observed violations.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
K Narasimha Murthy
(Committee Member)

Sd/-
Mr. S Ravindran
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Chairperson)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: August 10, 2023