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 September 22, 2022

In the matter of the Trading Member M/s. Bajaj Financial 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 Bajaj Financial Securities Limited** ("**Noticee**") 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 July 2019.

2. The Exchange conducted a regular inspection of books of accounts and records of the Noticee covering the period from January 1, 2020, to March 31, 2021, across segments, from May 2021 to August 2021. Post-inspection, the Exchange issued a show-cause notice ("**SCN-1**") to the Noticee dated November 18, 2021, for the observed non-compliances with the regulatory provisions. The Noticee, vide its letter dated December 6, 2021, replied to the SCN-1.

3. The Exchange conducted a limited purpose inspection of the books of accounts and records of the Noticee in May 2022 to verify the availability of funds on March 22, 2022, and March 23, 2022. Post-inspection, the Exchange issued a show-cause notice ("**SCN-2**") to the Noticee dated June 14, 2022, for the observed non-compliances with the regulatory provisions. The Noticee, vide its letter dated June 29, 2022, replied to the SCN-2.

INSPECTION OBSERVATIONS/VIOLATIONS

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

SCN-1

4.1 Non-collection of adequate margins in the form of cash, cash equivalent or Group 1 equity shares with appropriate hair cut under MTF offered to clients in the case of 3 instances of 3 clients out of 20 instances of 20 clients (15% of total sample instances) involving Rs.4.74 crores

4.2 Non-adherence to leverage and exposure limits while granting MTF in 1 instance of 1 client involving Rs.65.16 lakhs as of September 17, 2020

4.3 Incorrect reporting of margin collected from clients in 4 out of 150 instances selected for sample scrutiny (2.67% of the total sample instances) involving Rs.2.71 crores

4.4 Failure to provide MTF in accordance with the prescribed guidelines with respect to dealing only in approved securities in 3 instances of 1 client

4.5 Non-settlement of clients' funds and securities in 3 instances of 3 clients out of 5,233 instances of 5,135 clients selected for sample scrutiny (0.06% of the total sample instances) involving Rs.5.54 lakhs

4.6 Funding of clients' transactions in 1 instance of 1 client out of 70 instances of 35 clients selected for sample scrutiny (1.43% of the total sample instances) involving Rs.67.27 lakhs

4.7 Issuance of daily margin statement with incorrect fund balances to clients

in 2 instances out of 5 instances selected for sample scrutiny (40% of the total sample instances) involving Rs.56 crores

4.8 Use of client bank accounts for purposes other than specified in 16 out of 39,796 instances selected for sample scrutiny 0.04% of the total sample instances) involving Rs.102.16 crores

4.9 Non-maintenance of daily reconciliation statement for fund transfers between proprietary and client bank accounts in 55 out of 39,796 instances selected for sample scrutiny (0.14% of the total samples instances) involving a net transfer of funds from own to client bank accounts involving Rs.272.29 crores

4.10 Non-reconciliation of funds in the suspense account as of March 31, 2021

4.11 Incorrect data submitted in the weekly client-level cash and cash equivalent balances in 115 instances as of March 26, 2021

4.12 Incorrect submitted for the weekly monitoring of clients' funds as of March 26, 2021

4.13 Non-closure of 2 demat account of MTF funded stocks by August 31, 2020

SCN-2

4.14 Misuse of clients' funds to the extent of Rs.2.42 crores and Rs.2.19 crores as of March 22, 2022, and March 23, 2022, respectively (Principle 1 of the Enhanced Supervision of Stockbrokers)

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 **Non-collection of adequate margins in the form of cash, cash equivalent or Group 1 equity shares with appropriate hair cut under MTF offered to clients**

Exchange Circular No. NSE/COMP135125 dated June 15, 2017

Securities eligible for margin trading

3. *Equity shares that are classified as 'Group I security' as per SEBI Master Circular No. SEBI/HO/MRD/DP/C|R/P/2016/135 dated December 16, 2016, shall be eligible for margin trading facility.*

Margin Requirement

4. *In order to avail margin trading facility, initial margin required shall be as under:*

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

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

5. *The initial margin payable by the client to the stockbroker shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in SEB/ Master Circular No. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016.*

5.2 **Non-adherence to leverage and exposure limits while granting MTF**

Exchange Circular No. NSE/COMP/35135 dated June 15, 2017

Leverage and Exposure Limits

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

17. *The maximum allowable exposure of the broker towards the margin trading facility shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his "net worth".*

18. *While providing the margin trading facility, the broker shall ensure that:*

    a) *exposure to any single client at any point of time shall not exceed 10% of the broker's maximum allowable exposure, as specified in para 17 above.*

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

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

a. Regulation 3.9 of NSEIL Regulations (CM Segment)

The Trading Members shall have the right to 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. 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.

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

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?

Capital Market 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.

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 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 TM/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.

5.4 **Failure to provide MTF in accordance with the prescribed guidelines with respect to dealing only in approved securities**

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

Leverage and Exposure Limits

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

17. *The maximum allowable exposure of the broker towards the margin trading facility shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his "net worth".*

18. *While providing the margin trading facility, the broker shall ensure that:*

    c) *exposure to any single client at any point of time shall not exceed 10% of the broker's maximum allowable exposure, as specified in para 17 above.*

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

5.5 **Non-settlement of clients' funds and securities**

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

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

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

While settling the account, the broker shall send to the client a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

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

8.1. In partial modification of circular on running account settlement, the stockbroker shall ensure that:

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

5.6 **Funding of clients' transactions**

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

Stock brokers 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.

5.7 **Issuance of daily margin statement to clients with incorrect fund balances**

Exchange Circular No. NSE/INSP/43069 dated December 31, 2019
Are Members required to provide the margin related information to clients?

Members should send margin related information to their clients, which shall, inter-alia, include:

- *Client code and name, Trade Day (T)*
- *Margin deposit available for the client on day T (with break-up in terms of cash, FDRs, 8Gs and securities)*
- *Margin adjustments (including MTM losses) for day T after adjusting MTM profit if any*
- *Margin status (balance with the member / due from the client) at the end of T Day*

Such margin related information (Daily margin statement) should be issued by Members to clients on a daily basis at the end of the trade day (T-Day) itself or by such timelines as may be specified from time to time.

An indicative format of daily margin statement stipulating the minimum information to be provided to clients is enclosed as Annexure B.

5.8 **Use of client bank account for purposes other than specified**

a. 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.

b. Regulation 6.1.5 (c) of NSEIL Regulations - Part A (CM Segment) and Regulation 6.1.6.2 of NSEIL 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.*

5.9 **Non-maintenance of daily reconciliation statement for fund transfers between own and client bank accounts**

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

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.

5.10 **Incorrect data submitted in the weekly client level cash and cash equivalent 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. …

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

5.11 **Incorrect submitted for the weekly monitoring of clients' funds**

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

Stockbrokers shall submit the following data as on 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)

MC-Aggregate value of margin utilized for positions of credit balance clients across stock exchanges

5.12 **Non-closure of demat account of MTF funded stock**

a. Exchange Circular No. NSE/INSP/45191 dated July 31, 2020

Whether members are required to open a separate demat account for funded stock under the margin trading facility? Further, all existing demat account of MTF funded stock, which are not tagged as specified above, wilt have to be closed by August 31 , 2020.

Yes. Members are required to open a separate demat account for MTF funded stock which should be tagged as 'client securities under Margin Funding Account'.

Further, alt existing demat account of MTF funded stock, which are not tagged as specified above, wilt have to be closed by August 31 ' 2020'.

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

All the members are directed to close the client collateral and client margin trading securities accounts by November 3, 2020, failing which the Exchange will issue suitable directions to freeze such accounts for both debits & credits (except corporate actions).

5.13 **Misuse of clients' funds**

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

3.3.1. Funds of credit balance clients used for margin obligations of debit balance clients or own purpose:

Principle

The total available funds, i.e. cash and cash equivalents, with the stockbroker and with the clearing corporation/clearing member (A + B), should always be equal to or greater than Clients' funds as per ledger balance (C)

$$G = (A+B)-C$$

PRESENT MCSGFC PROCEEDINGS

6. The Exchange, vide its email dated September 15, 2022, granted the Noticee with an opportunity of personal hearing before the Committee. Mr. Manish Jain - Director, Mr. Nirmal Pareek - Head-Operations, Mr. Anik Shah - Head of Risk and Underwriting, and Mr. Bineet Jha - Compliance Officer, attended the personal hearing and made the following oral submissions before the Committee:

a. *Misuse of clients' funds* - The credit balances as of March 22, 2022, and March 23, 2022, included funds payable to promoters to the extent of Rs.90 crores due to an accounting error. If the funds payable to promoters are excluded, the value of 'G' is positive.

b. *Incorrect reporting of margin collected from clients* – The MTF ledger of the clients was in credit by Rs.2.18 crores which was considered for margin purpose. However, due to system failure, the journal voucher entry was not passed from the MTF account to margin account. The amount was excess margin, and the client did not have any open position in the MTF.

CONSIDERATION & FINDINGS

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

7.1 Non-collection of adequate margins in the form of cash, cash equivalent under MTF offered to clients

7.1.1 The Exchange verified the client ledgers, collateral stocks, funded stocks, register of securities relating to MTF and records of the Exchange. Upon verification, the Exchange observed that the Noticee did not collect adequate margin in the form of cash and cash equivalent in 3 instances of 3 clients out of 20 instances of 20 clients selected for sample scrutiny (15% of total sample instances) amounting to Rs.4.74 crores.

7.1.2 In reply to the SCN-1, the Noticee submitted as under:

a. The Noticee collected the required margin from the clients within the stipulated time and as per the mode prescribed by the Exchange. The clients had sufficient collateral which was given in early pay in.

b. The client-wise details are summarized hereunder:

i. ***Client Code PUN598*** - For the trade date March 26, 2021, the client squared off the MTF position for 75,000 shares of SBI Cards & Payment Services Ltd. valuing Rs.6.95 crores and the early pay-in of the shares was done on the same day. The Noticee provided early pay-in success file and client demat statement to the Exchange for verification. The Exchange did not consider the value of early pay-in as margin for MTF. Further, on the said date, the client did not have any additional exposure or margin requirement for other

segments. There is no violation of non-collection of margins if the early pay-in is considered.

ii. ***Client Code PUN586*** - For the trade date September 17, 2020, the client gave 50,000 shares of Lauras Ltd. valuing Rs.5.41 crores by way of margin pledge. The Noticee provided the client demat account statement to the Exchange for verification. There is no violation of non-collection of margins if the said collateral is considered.

iii. ***Client Code ON3949*** - The Exchange considered the maximum margin requirement based on the inspection period rather than margin requirement on the date of position. The Noticee always collects initial margin, i.e. VaR + 5 times of the applicable ELM for MTF funded stocks.

7.1.3 The Committee finds as under:

a. ***Client Code PUN598*** – The Noticee claimed that for the trade date March 26, 2021, the client squared off the MTF position for 75,000 shares of SBI Cards & Payment Services Ltd. valuing Rs.6.95 crores. There is no violation of non-collection of margins if the early pay-in of shares is considered. The Noticee provided early pay-in success file and demat statement of the client demat account to substantiate its claim. Upon verification, it is observed that the Noticee's claim is valid. Post-consideration of the early pay-in shares, the violation does not persist.

b. ***Client Code PUN586*** – The Noticee claimed that for the trade date September 17, 2020, the client gave 50,000 shares of Lauras Ltd. valuing Rs.5.41 crores by way of margin pledge. There is no violation of non-collection of margins if the pledged shares are considered. The Noticee provided the client demat account statement to substantiate its claim. Upon verification, it is observed that the Noticee's claim is valid. Post-consideration of the pledged shares, the violation does not persist.

c. ***Client Code ONL3949*** – The Noticee claimed that the total margin obligation calculated was incorrect, i.e. the Exchange considered the maximum margin requirement based on the inspection period rather than the margin requirement as of the date of the position. Upon verification, it is observed that the Noticee's claim is valid. However, even after considering the

margin requirement as of the date of the position, the violation persists. The revised shortfall is to the extent of Rs.16,428/-.

d. In view of the above findings, the violation stands revised to 1 out of 20 instances (5% of the total sample instances) amounting to Rs.16,428/-.

e. As per Exchange Circular No. NSE/COMP/35125 dated June 15, 2017, to avail margin trading facility, the initial margin payable by the client to the stockbroker shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in SEB/Master circular No. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016. Thus, the Noticee violated the regulatory provision mentioned above by not collecting adequate margins in the form of cash and cash equivalent under MTF offered to clients.

7.1.4 Considering the number of instances and non-materiality of the amount involved, the Committee decided to warn the Noticee to ensure non-recurrence of the observed violation.

7.2 **Non-adherence to leverage and exposure limits while granting MTF**

7.2.1 The Exchange verified the client ledgers, net worth of the Noticee, funds borrowed relating to MTF and records of the Exchange. Upon verification, the Exchange observed that the Noticee granted exposure in 1 instance of 1 client in excess of the prescribed exposure limit involving Rs.65.16 lakhs as of September 17, 2020.

7.2.2 In reply to the SCN-1, the Noticee submitted as under:

a. ***Client Code: PUN586*** – The client had free credit balance of Rs.1.23 crores lying in the non-MTF books. The exposure given to the client on September 10, 2020, was against the credit balance of Rs.3.76 crores in the MTF ledger and free credit balance of Rs.1.23 crores lying in the non-MTF books. However, the Noticee inadvertently did not pass the journal voucher entry of Rs.1.23 crores from non-MTF to MTF books. Further, the client had no other open position in any other segment.

b. The Noticee requested the Exchange to consider the amount lying in non-MTF books. The funds were free fund of the client/free deposits in the form of cash collateral for the MTF exposure given to him.

c. The observed instance pertains to the Covid-19 pandemic period wherein the respective teams of the Noticee were operating from home.

7.2.3 The Committee finds as under:

a. The Noticee granted exposure under MTF to a single client in excess of 10% of the maximum allowable exposure, i.e. total of borrowed funds and 50% of its net worth. The Noticee's contention that free credit balance was available in non-MTF books and a journal entry had not been recorded is not tenable as the Noticee failed to record the transfer of funds in its books. Hence, the violation persists.

b. As per Exchange Circular No. NSE/COMP/35125 dated June 15, 2017, while providing the margin trading facility, the broker shall ensure that exposure to any single client at any point of time shall not exceed 10% of the broker's maximum allowable exposure. Thus, the Noticee violated the regulatory provision mentioned above by not adhering to the leverage and exposure limits while granting MTF.

c. As per Exchange Circular No. NSE/INSP/39732 dated December 21, 2018, where the irregularity exceeds 20% of the latest net worth, the prescribed penalty is Rs.1 lakh or 1% of the amount involved, whichever is higher. For all other cases, the prescribed penalty is Rs.10,000/-. The amount involved is Rs.65.16 lakhs. The net worth of the Noticee is Rs.95.65 crores as of September 30, 2020.

7.2.4 Given the findings mentioned 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/39732 dated December 21, 2018.

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

7.3.1 The Exchange verified the register of securities, client ledgers, demat transaction statements, bank statements, and records of the Exchange. Upon verification, the Exchange observed that the Noticee incorrectly reported the margin collected from the clients in 4 instances of 4 clients out of 150 instances of 150 clients selected for sample scrutiny (2.67% of the total instances) involving Rs.2.71 crores. The details are as under:

a. ***CM Segment*** - 2 instances of 2 clients out of 75 instances of 75 clients selected for sample scrutiny involving Rs.2.67 crores

b. ***F&O Segment*** - 2 instances of 2 clients out of 75 instances of 75 clients involving Rs.3.86 lakhs

7.3.2 In reply to the SCN-1, Noticee submitted as under:

a. The Noticee follows a policy to collect upfront margin from its clients before punching the orders irrespective of the stock exchange or segment. The clients must provide margin either in cash or collateral and at all times maintain at least 25% margin as per its prudent risk management policy.

b. The Noticee provided client-wise explanation as under:

CM Segment

i. ***Client Code: PUN650*** - For the trade date March 30, 2021, the margin obligation amounted to Rs.17.73 crores. The Noticee made an early pay in of 1,79,928 shares of Jubilant Ingrevia Ltd. sold on March 30, 2021. Since it was full coverage, the Noticee reported the margin duly collected from the client. However, due to system issue, the early pay-in was captured by the system for 20,072 shares rather than 1,79,928 shares. The remaining quantity was not captured. Due to this error, the margin was reported wrongly. The Noticee raised this concern with its vendor who provided an email confirmation on the error. The client had sufficient collateral by virtue of early pay-in to cover the margin obligation. The Noticee provided the email confirmation from the vendor to the Exchange.

ii. ***Client Code: AHM128*** - The MTF ledger was in credit by Rs.2.18 crores which was considered for margin since there was no position in MTF from August 19, 2020, to October 8, 2020. The Noticee provided MTR file for trade date October 7, 2020, to the Exchange for verification. The client had sufficient credit in his MTF ledger but the same was not passed by virtue of journal voucher entry.

F&O Segment

iii. ***Client Code: PUN598*** - The client had sufficient balance to cover the margin obligation for the trade date February 1, 2021. The client had a balance of Rs.29.28 crores vis-à-vis a margin requirement of Rs.29.27 crores. Thus, there was no margin shortfall at the time of margin reporting. However, due to back-dated entry of delay payment charges of Rs.0.02 crore, the difference of Rs.0.01 crore was observed as incorrect reporting. If the back-dated charges were not levied, the margin was sufficiently covered.

iv. ***Client Code: MUM159*** - The Noticee collected cheque from the client on the margin date i.e. January 6, 2020, itself and the trading limit was assigned accordingly. The cheque was deposited on January 7, 2020, and accounted in the client ledger. The delay in posting in the ledger was due to an unintentional manual error.

7.3.3 The Committee finds as under:

a. The client-wise findings are as under:

CM Segment

i. ***Client Code: PUN650*** – The Noticee claimed that it made an early pay-in of 1,79,928 shares of Jubilant Ingrevia Ltd. on March 30, 2021. However, due to technical error, the system captured the early pay-in for 20,072 shares rather than 1,79,928 shares of Jubilant Ingrevia Ltd. Upon verification of the Noticee's claim, it is observed that the Noticee completed an early pay-in of only 20,072 shares. Hence, the violation persists.

ii. ***Client Code: AHM128*** – The Noticee claimed that credit balance in the MTF ledger amounting to Rs.2.18 crores was considered for margin since there was no position in MTF from August 19, 2020, till October 8, 2020. However, journal voucher entry was not passed from MTF ledger to non-MTF ledger for the same. The Noticee's submission is not acceptable. As per Exchange Circular No. NSE/INSP/45191 dated July 31, 2020, excess margin/collateral available in MTF ledgers cannot be considered towards margins of non-MTF transactions. Hence, the violation persists.

F&O Segment

iii. ***Client Code: PUN598*** – The Noticee claimed that the client had a balance of Rs.29.28 crores vis-à-vis a margin requirement of Rs.29.27 crores. However, due to back-dated entry of delay payment charges of Rs.0.02 crore, the difference of Rs.0.01 crore was observed as incorrect reporting. The Noticee's claim is not acceptable as ledger balance was inadequate after considering charges posted in the ledger, resulting in incorrect reporting of margin. Hence, the violation persists.

iv. ***Client Code: MUM159*** – The Noticee claimed that it collected cheque for margin on January 6, 2020; however, the cheque was deposited on January 7, 2020, and accounted in ledger. The delay in posting in ledger was due unintentional manual error. Upon verification of the Noticee's claim, it is observed that the receipt of the cheque was posted in the client's ledger on January 7, 2020, and the cheque was cleared on January 8, 2020. i.e. within T+5 days. As the Noticee did not record the cheque on date of the margin requirement, it cannot be concluded that adequate margin was collected upfront. Hence, the violation persists.

b. The Committee observes that as per Regulation 3.9 of NSEIL Regulations (CM Segment), Regulation 3.10 of NSEIL Regulations (F&O Segment), Exchange Circular No. NSE/INSP/43069 dated December 31, 2019, the Trading Members are required to collect upfront initial margin from all the clients and report on daily basis details of such margin due and collected. Thus, the Noticee violated the regulatory provisions

mentioned above by incorrectly reporting the margin collected from the clients to the Exchange.

c. As per Exchange Circular No. NSE/INSP/42919 dated December 16, 2019, and Exchange Circular No. NSE/INSP/45533 dated August 31, 2020, the prescribed penalty is 5% of the amount involved. The Noticee incorrectly reported the margin in 4 instances of 4 clients out of 150 instances of 150 clients selected for sample scrutiny (2.67% of the total instances) involving Rs.2.71 crores.

7.3.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.13.55 lakhs for the observed violation in terms of Exchange Circular No. NSE/INSP/42919 dated December 16, 2019, and Exchange Circular No. NSE/INSP/45533 dated August 31, 2020.

7.4 **Failure to provide MTF in accordance with the prescribed guidelines with respect to dealing only in approved securities**

7.4.1 The Exchange verified the MTF data submitted by the Noticee. Upon verification, the Exchange observed that the Noticee allowed trading in securities other than Group 1 securities in 3 instances of 1 client out of 20 instances of 20 clients selected for sample scrutiny (15% of the total sample instances).

7.4.2 In reply to the SCN-1, the Noticee submitted as under:

The scrips are part of category 1 (CAT-1) as per Bombay Stock Exchange Ltd. (BSE) category files. The Noticee provided category files to the Exchange in support of its claim. However, the Noticee kept these stocks with 100% margin which can be verified from the margin files reported by the Noticee to the Exchange. The Noticee squared off the positions in the said scrips within T+2+5 days.

7.4.3 The Committee finds as under:

The Noticee claimed that the scrips mentioned were part of CAT-1 as per the BSE category file. The Noticee provided the CAT-1 file received from ICCL to the Exchange for verification. Upon

verification, it is observed that the CAT-1 file provided by the Noticee include scrips on which exposure was given. Hence, the violation does not persist.

7.4.4 Given the findings mentioned above, the Committee decided that no action is warranted against the Noticee for the observed violation.

7.5 **Non-settlement of clients' funds and securities**

7.5.1 The Exchange verified the settlement declaration, register of securities, client ledgers, and trial balance. Upon verification, the Exchange observed that the Noticee did not settle the funds and securities in 3 instances of 3 clients out of 5,233 instances of 5,135 clients selected for sample scrutiny (0.06% of the total sample instances) involving Rs.5.54 lakhs. The details are as under:

a. ***Active Client*** - 1 instance of 1 client out of 147 instances of 49 clients involving Rs.5.49 lakhs

b. ***Inactive Clients*** - 2 instances of 2 clients out of 5,086 instances of 5,086 clients involving Rs.5,648/-

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

a. Out of 149 instances involving 49 clients, the Noticee settled the clients' accounts as per the clients' preference.

b. ***Active Client (1 instance of 1 client)*** – Post-examination of the settlement cycle of the client (Client Code PUN11), the Noticee observed that the client was settled twice during the quarter January - March 2020. In the previous quarter, i.e. October - December 2019, the Noticee settled the client's account on December 10, 2019. The next settlement was due on March 9, 2020. However, the Noticee settled the client's account on January 15, 2020, itself. The Noticee inadvertently provided the settlement date of February 14, 2020, which was actually not the settlement date. If the settlement date of January 15, 2020, is considered, the client was settled within the timeframe of 90 days. The Noticee requested the Exchange to consider revised settlement date of January 15, 2020. The Noticee provided

retention statement and client ledger to the Exchange for verification.

c. ***Inactive Clients (2 instances of 2 clients)*** – The 2 clients' accounts were unsettled for amounts ranging from Rs.779 to Rs.4,870/-, respectively. As per the retention process, the Noticee does not settle the clients' accounts for an amount less than Rs.10,000/- on account of certain administrative and other charges such as client AMC charges, renewal of account charges etc.

7.5.3 The Committee finds as under:

a. ***Active Client (1 instance of 1 client)*** - The Noticee denied the observation/violation. It claimed that post-examination of the settlement cycle for Client Code PUN11, the client was settled twice during the quarter January - March 2020 and the date of settlement was January 15, 2020, instead of February 14, 2020. Upon verification of the client ledgers and statements of funds and securities, it is observed that the Noticee's claim is valid.

b. ***Inactive Clients (2 instances of 2 clients)*** - The Noticee submitted that as per the retention process, the Noticee does not settle the client accounts for an amount less than Rs.10,000/- on account of certain administrative and other charges. The Noticee's submission is not acceptable. As per Exchange Circular No. NSE/INSP/24849 dated October 29, 2013, the threshold limit of Rs.10,000/- on retention of amount is not applicable in case of clients who have not traded even once during the last one month/quarter. The Noticee provided documents and records to prove that the clients were settled post-inspection. Upon verification, it is observed that both the clients are settled. However, post inspection settlement does not absolve the Noticee from the observed non-compliance.

c. The observation/violation stands revised to 2 instances of 2 clients out of 5,233 instances of 5,135 clients selected for sample scrutiny (0.04% of the total sample instances) involving Rs.5,648/-.

7.5.4 Given the findings mentioned above, the Committee decided to advise the Noticee to ensure non-recurrence of the observed

violation in terms of Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

7.6 **Funding of clients' transactions**

7.6.1 The Exchange verified the client financial ledgers submitted by the Noticee for September 2020. Upon verification, the Exchange observed that the Noticee granted further exposure to the clients beyond the fifth trading day as reckoned from the date of pay in despite debit balance in the client financial ledgers in 1 instance of 1 client out of 70 instances of 35 clients selected for sample scrutiny (1.43% of the sample instances) involving Rs.67.27 lakhs on September 25, 2020.

7.6.2 In reply to the SCN-1, the Noticee submitted as under:

a. In the first year of implementation of the circular pertaining to margin obligations to be given by way of pledge/repledge, the Noticee faced several practical and technical hurdles in compliance. The Noticee was in the development phase to move the MTF position of the clients from old pledge mechanism to new margin pledge/repledge mechanism.

b. The client (Client Code PUN151) trades only in MTF segment. During the implementation of the new circular, the client was asked to square off his existing MTF positions thereby creating new position in non-MTF segment as per the new mechanism. Due to this, there was debit in non-MTF books. The system failed to identity the ageing of the client during the time of shifting of the position from MTF to non-MTF and vice versa. The same was identified in mid-October and the client was asked to square off all his positions to clear the ageing debit. The client cleared all the positions on November 3, 2020.

c. The observed instance pertains to the Covid-19 pandemic period. The employees working from home faced challenges. Further, the enormous development in the regulatory sphere created technical challenges with respect to development and implementation.

7.6.3 The Committee finds as under:

a. The Noticee attributed the observation/alleged violation to shifting of the positions from MTF to non-MTF and vice versa wherein the system failed to identify the ageing of the transactions.

b. As per Exchange Circular No. NSE/INSP/35184 dated June 23, 2017, the stock brokers 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 continue 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. Thus, the Noticee violated the regulatory provision mentioned above by granting further exposure to the clients, beyond the fifth trading day, as reckoned from the date of pay-in, despite debit balance in the client's financial ledger.

7.6.4 Considering the number of instances, the Committee decided to advise the Noticee to ensure non-recurrence of the observed violation in terms of Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

7.7 **Discrepancies in daily margin statement sent to clients**

7.7.1 The Exchange verified the Noticee's records. Upon verification, the Exchange observed that the Noticee issued daily margin statement with incorrect fund balances in 2 instances of 2 clients out of 5 instances of 5 clients selected for sample scrutiny (40% of the total sample instances) involving Rs.56 crores.

7.7.2 In reply to the SCN-1, the Noticee submitted as under:

The Noticee collected the cheques from the clients. Based on the receipt of the cheques, the Noticee allowed trading limits. However, the same was not incorporated in the margin statement.

7.7.3 The Committee finds as under:

a. The Noticee contended that based on the cheques collected from the clients, the Noticee allowed trading limit. However, the same was not incorporated in margin statement.

b. As per Exchange Circular No. NSE/INSP/38154 dated June 27, 2018, Trading Members should send margin related information to their clients, which shall, *inter alia*, include client code and name, trade day, margin deposit available for the client on trade day, margin adjustments for trade day after adjusting MTM profit if any, margin status at the end of trade day. Such margin related information (daily margin statement) should be issued by Trading Members to clients on a daily basis at the end of the trade day itself or by such timelines as may be specified from time to time. Thus, the Noticee violated the regulatory provision mentioned above by issuing daily margin statement with incorrect details.

7.7.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.40,000/- in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

7.8 **Use of client bank account for purposes other than specified**

7.8.1 The Exchange verified the client bank books and bank statements. Upon verification, the Exchange observed that the Noticee utilized the client bank account for purpose other than specified in 16 out of 39,796 instances selected for sample scrutiny (0.04% of the total instances verified). The details are as under:

a. Funds received from entities other than clients in the client bank account - 2 instances amounting to Rs.55 crores

b. Payment to entities other than clients from client bank account - 14 instances amounting to Rs.157.16 crores

c. Net payment to entities other than clients from client bank account - Rs.102.16 crores

7.8.2 In reply to the SCN-1, the Noticee submitted as under:

a. The Noticee does not undertake proprietary trades. The bank account opened at the time of taking the broking license had one

account in the name of "Bajaj Financial Services Ltd. - Proprietary account" instead of business account. The transactions were from the business account to the client account. The issue was on account of posting of the entries in the book.

b. The Noticee did not misuse the clients' funds as it always had sufficient balance in its account. The Noticee had excess of own funds lying in the client account, which were transferred to BFL on loan repayment and does not include client funds. Further, due to the onset of Covid-19 pandemic situation, the Noticee's team could not effectively understand the nature of the entry and assuming it to be a client payment, passed the entry which was to be passed from own account instead of client account.

7.8.3 The Committee finds as under:

a. The Noticee attributed the observation/violation to interpretational issue by the team posting the entries in the ledger which led to non-segregation of accounts.

b. As per Regulation 6.1.5 (c)(ii) & (iii), no money shall be paid into the client account and no money shall be withdrawn from the client accounts other than reasons specified in the said Regulations. Thus, the Noticee violated the regulatory provision mentioned above by non-segregating the accounts.

7.8.4 Given the findings mentioned above, the Committee decided to advise the Noticee to ensure non-recurrence of the observed violation.

7.9 **Non-maintenance of daily reconciliation statement for fund transfers between proprietary and client bank accounts**

7.9.1 The Exchange verified own and client bank books. Upon verification, the Exchange observed that the Noticee failed to maintain a daily reconciliation statement indicating the details of funds transferred between the client bank account and own bank account in 55 out of 39,796 instances selected for sample scrutiny (0.14% of the samples instances). The details are as under:

a. Funds transferred from client bank account to own bank account: 15 instances involving Rs.190.58 crores

b. Funds transferred from own bank account to client bank account: 40 instances involving Rs.462.87 crores

c. Net funds transferred from own bank account to the client bank account: Rs.272.29 crores

7.9.2 In reply to the SCN-1, the Noticee submitted as under:

a. There was an understanding error by the Noticee's team posting the entries in the ledger. Due to onset of the Covid-19 pandemic, the team could not effectively understand the nature of entry, however, the said transfer of funds from client account to proprietary account was on account of pay-in and pay-out obligations of the clients.

b. Further, the Noticee received some credit entries on account of IPO done through its platform. However, inadvertently, the client bank account details were shared instead of the business account details. The Noticee rectified the same and mapped the business account for such IPO services. At any point of time, the Noticee did not misuse the credit balance of the clients for any other purpose other than specified.

c. The Noticee provided bank book and bank statement to the Exchange for verification.

7.9.3 The Committee finds as under:

a. The Noticee attributed the observation/violation to interpretational issue by the team posting the entries in the ledger.

b. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, as per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, Trading Members are required to maintain daily reconciliation statement clearly indicating the amount of funds transferred. Thus, the Noticee violated the regulatory provision mentioned

above by not maintaining daily reconciliation statement for fund transfers between proprietary and client bank accounts.

7.9.4 Considering that the net funds transferred from own bank account to the client bank account, the Committee decided to advise the Noticee to ensure non-recurrence of the observed violation.

7.10 **Non-reconciliation of funds in the suspense account**

7.10.1 The Exchange verified the suspense account ledger as of March 31, 2021. Upon verification, the Exchange observed that the Noticee failed to reconcile the funds lying in the suspense account. The following irregularities were observed:

a. Opening balance as of January 1, 2020 - Rs.2.30 lakhs
b. Debit during January 1, 2020, to March 31, 2021 - NIL
c. Credit during January 1, 2020, to March 31, 2021 - Rs.33.05 lakhs
d. Closing balance as of March 31, 2021 - Rs.35.35 lakhs

7.10.2 In reply to the SCN-1, the Noticee submitted that it reconciles the suspense account daily. The unreconciled balance is Rs.0.16 crore as of December 6, 2021. The amount in the suspense ledger is under verification. Once the same is reconciled, the Noticee will pass the suitable credit.

7.10.3 The Committee finds as under:

The Noticee submitted that it is verifying the amount lying in suspense ledger and will pass a suitable entry once the same has been reconciled. Hence, the violation persists.

7.10.4 Given the findings mentioned above, the Committee decided to warn and direct the Noticee to park funds in a separate fixed deposit and inform the Exchange accordingly.

7.11 **Incorrect data submitted in the weekly client-level cash and cash equivalent balances**

7.11.1 The Exchange verified the details submitted by the Noticee towards client-level cash and cash equivalent balances vis-à-vis the trial balance as of March 26, 2021. Upon verification, the Exchange observed the following irregularities:

a. Mismatches in client financial ledger balances reported – 2 instances involving Rs.926/-

b. Clients traded across exchanges but not reported – 113 instances

7.11.2 In reply to the SCN-1, the Noticee submitted as under:

Mismatch in client financial ledger balances reported (2 instances involving Rs.926/-)

a. *Client Code ONL203* – The reporting of Rs.21,262/- was based on the trial balance as of March 26, 2021. However, subsequently, an entry which was not getting tallied led to a difference of Rs.850/- as per trial balance dated September 25, 2020.

b. *Client Code ONL264* – The reporting of Rs.71/- was based on trial balance as of March 26, 2021. However, subsequently, an entry which was not getting tallied led to a difference of Rs.77/- as per trial balance dated September 25, 2020. The Noticee streamlined the process and set proper mechanism to validate and reconcile the data.

Clients traded across exchange but not reported (113 instances)

c. As per the requirement, even the zero balance in MTF/non-MTF ledger is required to be reported which was duly reported by the Noticee. However, for the week ended March 26, 2021, the system did not capture zero balance of MTF/non-MTF ledger due to a technical error. The Noticee reported the issue to the software vendor, which was subsequently rectified.

7.11.3 The Committee finds as under:

a. *Mismatches in client financial ledger balances reported (2 instances amounting to Rs.926/-)* - The Noticee attributed the observation/alleged violation to mismatch in entry which was not getting tallied. Hence, the violation persists.

b. *Clients traded across exchanges but not reported (113 instances amounting to Rs zero)* - The Noticee attributed the observation/alleged violation to a system error which did not capture the zero balance of MTF/Non-MTF ledger. The issue was reported to the back-office vendor and was rectified in the subsequent reporting. However, post-inspection compliance does not absolve the Noticee from the violation committed. Hence, the violation persists.

c. The Committee observes that as per Exchange Circular No. NSE/INSP/43926 dated March 23, 2020, the Trading Members are required to upload day-wise client-level cash and cash equivalent balances and bank balances of all bank accounts on a weekly basis. The said circular was put in place to enhance the level of monitoring and to prohibit the pledging of clients' securities for raising funds. Hence, the Trading Members must verify the data before submission to the Exchange. Thus, the Noticee violated the regulatory provision mentioned above by submitting incorrect data towards the weekly client-level cash and cash equivalent balances.

d. Exchange Circular No. NSE/INSP/48655 dated June 18, 2021, on disciplinary action for incorrect data submitted in the weekly client-level cash and cash equivalent balances, is applicable with effect from June 18, 2021. Since the violation is observed prior to the date of the said circular, the said circular is not applicable to the Noticee.

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

7.12 **Incorrect data submitted towards the weekly monitoring of clients' funds**

7.12.1 The Exchange verified the data submitted towards weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of March 26, 2021. Upon verification, the Exchange observed that the Noticee submitted incorrect data to the Exchange in 4 areas as under:

Sr. No.	Particulars
1	Total day end balance in all client bank accounts
2	Collateral deposited with Clearing Corporation in the form of cash and cash equivalents
3	Total credit balance of all clients
4	Margin utilized for positions of credit balance clients

The differences in amounts were in the range of (-ve) Rs.109.85 crores to Rs.14.40 crores.

7.12.2 In reply to the SCN-1, the Noticee submitted as under:

a. *Total of day end balance in all client bank accounts* – The difference arose on account of negative balance in the settlement account to the extent of Rs.50 crores. While reporting total day end balance in all client bank accounts, the Noticee has to provide total EOD fund balances available in all client bank accounts including settlement account across all exchanges. Since the settlement account had a debit balance and the available client bank balance was less, the Noticee reported the value as 0. If full available balance lying in the client bank account instead of 0 balance is reported, it will increase the value of 'G' in the enhanced reporting.

b. *Collateral deposited with exchanges in the form of cash and cash equivalents* – The difference of Rs.25 lakhs is of security deposit given in the F&O segment. The Noticee reported all collaterals deposited with the Clearing Corporation which is in the nature of cash and cash equivalents. Since the said amount is in the nature of security deposit, the Noticee did not consider

it while reporting. The Noticee has done post-inspection compliance and provided revised submission to the Exchange.

c. *Total credit balance of all clients* – The difference arose due to non-reporting of fixed deposits in aggregate value of credit balances of all clients. The Noticee considered the value of fixed deposits while reporting towards the collateral deposited with exchanges in the form of cash and cash equivalents. The Noticee has made a revised submission to the Exchange after incorporating the fixed deposits value.

d. *Margin utilized for position of credit balance clients* – The Noticee assumed that it had to report minimum of credit balance and total margin, hence, it reported the value of total margin. Even if the criteria of minimum of credit balance or total margin, no principles of enhanced circular are violated. The Noticee made a revised submission to the exchanges on June 24, 2021.

7.12.3 The Committee finds as under:

a. *Total of day end balance in all client bank accounts* – The Noticee stated that while reporting the total day end balance, the settlement account had negative balance and the available client bank account balance was less. Thus, the value reported was "zero".

b. *Collateral deposited with Clearing Corporation in form of cash and cash equivalents* – The Noticee stated that the difference of Rs.25 lakhs is of security deposit and the same was not considered while reporting.

c. *Total credit balance of all client* - The Noticee attributed the observation/alleged violation to the non-reporting of the value of fixed deposits while considering the credit balance of clients.

d. *Margin utilized for positions of credit balance clients* - The Noticee stated that due to interpretational issue, the Noticee reported only total margin whereas the Noticee is required to report "minimum of credit balance and total margin".

e. Post-inspection, the Noticee provided the revised report. However, post-inspection compliance does not absolve the Noticee from the violation committed.

f. The Committee observes that as per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the stock exchanges are advised to put in place a mechanism for monitoring clients' funds lying with the stockbrokers to generate alerts on any misuse of clients' funds by stockbrokers. The Exchange monitors the details submitted by the Trading Members as a part of its regulatory supervision, and any incorrect submission, therefore, defeats the purpose of regulation. Any incorrect reporting for reasons whatsoever is not acceptable. Hence, the Trading Members must verify the data before submission to the Exchange. Thus, the Noticee violated the regulatory provision mentioned above by submitting incorrect data towards weekly monitoring of clients' funds.

7.12.4 Given the findings mentioned above, 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.

7.13 **Non-closure of demat account of MTF funded stock**

7.13.1 The Exchange verified the demat accounts maintained by the Noticee. Upon verification, the Exchange observed that the Noticee failed to close the existing 2 demat accounts of MTF funded stock out of 24 demat accounts by August 31, 2020.

7.13.2 In reply to the SCN-1, the Noticee submitted as under:

a. *DPID IN304300* - The account was opened on September 26, 2019, in NSDL, for the purpose of "client margin trading". However, from the date of account opening till closure of account, the Noticee did not execute any transaction in the said demat account.

b. *DPID 12088600* - The Noticee could not close the demat account as there are 94 shares of Yes Bank (old ISIN) which are currently in lock-in period. Hence, the Noticee was unable

to transfer the shares to respective client demat account. However, the Noticee marked the demat account as “to be closed” in the depository system. The Noticee provided the client master report and email communication with the stock exchanges for verification

7.13.3 The Committee finds as under:

a. *Demat Account No. IN30430010000238* - The Noticee claimed that the account was opened on September 26, 2019, in NSDL for the purpose of client margin trading and no transactions were executed in the said demat account. Upon verification of the Noticee’s claim, it is observed that the Noticee’s claim is valid. However, the demat account was closed after August 31, 2020, i.e. September 14, 2020. Hence, the violation persists.

b. *Demat Account No. 1208860000001386* - The Noticee claimed that the demat account could not be closed as there are 94 shares of Yes Bank (old ISIN) which are currently in lock-in period. The account has been marked as "to be closed" and is frozen for debit and credit. Upon verification of the Noticee’s claim, it was found that the Noticee’s claim is valid and the total value of holdings in the said demat account is Rs.1,377/-. Hence, the benefit is extended to the Noticee with regard to non-closure of demat account within specified timelines on account of lock-in period of securities and the status of the account i.e. "to be closed". Hence, the violation does not persist in this regard.

c. In view of the above, the observation/violation stands revised to 1 demat account.

7.13.4 Considering that the Noticee closed the demat account on September 14, 2020, and no transactions were executed in the said demat account, the Committee decided that no action is warranted against the Noticee.

SCN-2

7.14 **Misuse of clients' funds**

7.14.1 The Exchange verified the collaterals/deposits available with the Clearing Corporation/Clearing Member, bank balances lying in the client and settlement bank accounts of the Noticee, and client payables reported in the client-level cash and cash equivalent submission by the Noticee on March 22, 2022, and March 23, 2022. Upon verification, the Exchange observed that the Noticee used the funds of credit balance clients to meet the settlement obligation of debit balance clients and/or own purpose to the extent of Rs.2.43 crores and Rs.2.20 crores as of March 22, 2022, and March 23, 2022, respectively, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers.

7.14.2 In reply to the SCN-2, the Noticee submitted as under:

a. *Promoters' fund included in total creditors' balances:* The funds' shortfall observed as of March 22, 2022, and March 23, 2022, was based on the credit balances reported in the client-level cash and cash equivalents submission. The credit balances as of March 22, 2022, and March 23, 2022, included credit balance to the extent of Rs.22.49 lakhs and Rs.21.99 lakhs, respectively, of the Noticee's holding company i.e. Bajaj Finance Limited. The said amounts should be excluded while considering the credit balances of the clients.

The Noticee vide its email dated September 15, 2022, submitted that there was fund infusion of Rs.90 crores in the promoter group account for Client Codes: PUN2262 & PUN2264 (Rs.45 crores each) and the Noticee is wholly owned subsidiary of Bajaj Finance Limited which is a listed company. Mr. Sanjiv Bajaj is one of the nominee shareholders holding the share capital jointly with the Noticee. Mr.Sanjiv Bajaj is promoter as well as non-executive – non independent director-chairperson of Bajaj Finance Limited. It cannot be concluded that Mr. Sanjiv Bajaj is also the promoter cum shareholder of Bajaj Finance Limited. Hence, there is no shortfall.

b. *Effect of funds confirmed by payment gateway*: The Noticee is registered with Atom and CC Avenue, the online payment gateways for receiving funds from clients. While the funds

received from these platforms are confirmed on trade day, the credit is reflected in the bank account either on the same day or on a different day. As of March 22, 2022, the credit confirmed by the gateway was Rs.55.26 lakhs and the same was received on the next day i.e. March 23, 2022. However, the said funds were included in the creditors balance while reporting. As of March 23, 2022, the credit confirmed by the gateway was Rs.84.75 lakhs and the same was received on the next day i.e. March 24, 2022. The Noticee inadvertently missed to report the said amounts in the bank account balances. If the funds which got credited on T+1 day is excluded from the total credit balances of the clients, the creditors' value would be reduced to that extent. The Noticee provided bank statement to the Exchange in support of its claim.

c. *Clients' funds transferred to Exchange dues account:* The Noticee withdraws money from the client account only when the same is required for payment to or on behalf of clients and does not use clients' money for own purposes. As of March 22, 2022, and March 23, 2022, credit to the extent of Rs.43.89 lakhs was available in the Exchange dues account. Since the settlement account cannot be used for the purpose of paying statutory dues of the exchanges, the Noticee transferred the funds from the settlement account to the Exchange dues account to meet the Exchange transaction charges. The said funds belonged to the client. If the credit of Rs.43.89 lakhs in the Exchange dues account is considered along with the funds available in the client and settlement account, the total bank balance will be increased to that extent. The Noticee provided revised calculation of total creditors, bank balance and value of 'G' to the Exchange in support of its claim.

d. *Value of collaterals deposited with the Exchange:* As of March 22, 2022, and March 23, 2022, there was excess collateral with the Clearing Corporation. The Noticee already has excess collateral in the form of liquid mutual funds worth Rs.191.03 crores and Rs.191.05 crores as of March 22, 2022, and March 23, 2022, respectively, with the Clearing Corporation. The said mutual funds are made out of own money, signifying adequate liquidity to meet any obligation. In case of any shortfall of funds, the same can be redeemed immediately and at any given point of time.

e. *Value of 'G' in surplus:* The Noticee fulfilled all the requirements as stated in the SEBI Circular No. SEBI/HO/MIRSD2/CIR/P/2016/95 dated September 26, 2016. There has never been a single instance when the value of 'G' was negative. The Noticee provided the calculation of 'G' for the period March 1, 2022, to April 30, 2022, to the Exchange in support of its claim that it had sufficient balance at all times.

7.14.3 The Committee finds as under:

a. *Promoters' fund included in total creditors' balances*: The Noticee's claim that credit balance belonging to its holding company may be excluded while considering the credit balance of the clients, is not tenable. As per Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the aggregate value of credit balances of all clients as obtained from trial balance across stock exchanges is required to be considered. On verification, it was observed that Client Code: PUN2262 belongs to SANJALI BAJAJ and Client Code PUN2264 belongs to SIDDHANTNAYAN BAJAJ. Hence, contention of the Noticee that the client codes belong to promoters' funds is not acceptable as the balances are not of director/promoter and hence no benefit can be extended to the Noticee. Even after considering the credit balance lying in holding company M/s. Bajaj Finance Ltd. (Client Code PUN2) amounting to Rs 22.49 lakhs and Rs.21.99 lakhs for March 22, 2022, and March 23, 2022, respectively, the revised violation will be Rs 2.20 crores and Rs.1.98 crores).

b. *Effect of funds confirmed by payment gateway*: The Exchange verified the bank statements provided by the Noticee. Upon verification, it was observed that the Noticee received funds to the extent of Rs.54.53 lakhs and Rs.84.75 lakhs on March 23, 2022, and March 24, 2022, respectively. Hence, the benefit can be extended for the said amounts.

c. *Clients' funds transferred to Exchange dues account*: The Noticee's claim that the credit balance available in the Exchange dues account can be considered for the end of the day bank account balances is not tenable. As per Exchange Circular No. NSE/INSP/33276, only the aggregate of fund balances available in all client bank accounts, including the

settlement account, maintained by the Trading Member across stock exchanges, is to be considered.

d. *Value of collaterals deposited with the Exchange*: The Noticee's claim that it had sufficient balance in the form of liquid mutual funds is not tenable. As per Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, cash, fixed deposit receipts and bank guarantees deposited with the Clearing Corporation can be considered towards collateral deposited with the Clearing Corporations in form of cash and cash equivalents.

e. In view of the above, the revised value of 'G' stands at (-) Rs.1.66 crores as of March 22, 2022, and (-) Rs.1.13 crores as of March 23, 2022.

f. As per Regulation 4.5.3 (e) of the 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. Furthermore, as per Clause 3.3.1 of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, the total available funds i.e. cash and cash equivalents with the stock broker and with the Clearing Corporation/Clearing Member should always be equal to or greater than clients' funds as per ledger balance. Thus, the Noticee violated the regulatory provisions mentioned above by misusing the clients' funds.

g. The Committee notes that the value of 'G' was positive to the tune of Rs.439.70 crores as of July 18, 2022, indicating that the shortfall was recouped.

7.14.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.3.32 lakhs (2% of highest misuse of Rs.1.66 crores as of March 22, 2022) in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

DECISION

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

Sr. Nos	Committee's Findings	Prescribed penalty as per the following circulars: a. Exchange Circular No. NSE/INSP/36248 dated November 6, 2017 b. Exchange Circular No. NSE/INSP/42919 dated December 16, 2019 c. Exchange Circular NSE/INSP/45533 dated August 31, 2020 d. Exchange Circular No. NSE/INSP/47457 dated February 25, 2021	Penalty
SCN-1			
a.	Non-collection of adequate margins in the form of cash, cash equivalent or Group 1 equity shares with appropriate hair cut under MTF offered to clients in 1 out of 20 instances (5% of total sample instances) amounting to Rs.16,428/-.	Less than 10% of the number of instances – 5% of false reporting	Warning (Reason enumerated above)
b.	Non-adherence to leverage and exposure limits while granting MTF in 1 instance of 1 client involving Rs.65.16 lakhs as of September 17, 2020	Rs. 1,00,000/- or 1% of the amount involved, whichever is higher where the irregularity exceeds 20% of the latest net worth. Rs. 10,000 /- for all other cases	Rs.10,000/-

c.	Incorrect reporting of margin collected from clients in 4 out of 150 instances (2.67% of total sample instances) involving Rs.2.71 crores	Less than 10% of instances with false reporting – 5% of the amount of false reporting	Rs.13,55,000/-
d.	Non-settlement of clients' funds and securities in 2 out of 5,233 instances (0.04% of total sample instances) involving Rs.5.54 lakhs	Less than 2% of number of instances – Advise	Advise
e.	Funding of clients' transactions in 1 out of 70 instances (1.43% of total sample instances) involving Rs.67,27,066/-	Where non-compliance is up to 5% and amount is up to Rs.1 crore – Advise	Advise
f.	Discrepancy in daily margin statement sent to clients in 2 out of 5 instances (40% of the total sample instances) involving Rs.56 crores	In excess of 10% of number of instances – Rs. 40,000/-	Rs.40,000/-
g.	*Use of client bank account for purposes other than specified in 16 out of 39,796 instances (0.04% of the total sample instances) involving Rs.102.16 crores	Up to 2% of the number of instances – Advise *Non-segregation of transactions between client and own bank account	Advise
h.	*Non-maintenance of daily reconciliation statement for fund transfers between own and client bank accounts in 55 out of	Less than 2% - Advise *Non-segregation of transactions between client and own bank account	Advise

	39,796 instances (0.14% of the total samples instances) wherein net funds transfer from own to client bank account amounting to Rs.272.29 crores		
i.	Non-reconciliation of funds in the suspense account as of March 31, 2021.	Warning + Direction to park funds in a separate fixed deposit	Warning + Direction to park funds in a separate fixed deposit
j.	Incorrect data submitted towards client-level cash and cash equivalent balances in 115 instances	No prescribed penalty	Warning
k.	Incorrect submitted in the weekly monitoring of clients' funds as of March 26, 2021	Warning to Rs.1 lakh	Rs.1,00,000/-
SCN-2			
l.	Misuse of clients' funds to the extent of Rs.1.66 crores and Rs.1.13 crores as of March 22, 2022, and March 23, 2022, respectively (Principle 1 of the Enhanced Supervision of Stockbrokers). The highest misuse is Rs.1.66 crores as of March 22, 2022	Misuse above Rs.50 lakhs and up to Rs.2 crores – Monetary penalty up to 2% of misuse or Rs.2 lakhs whichever is higher	Rs.3,32,000/-
Total			**Rs.18,37,000/-**

9. The Noticee is directed to pay a monetary penalty of Rs.18,37,000/- (Rupees Eighteen Lakhs Thirty-Seven Thousand only) as indicated above.

10. The Noticee is directed to note the non-monetary penalty as indicated above and ensure non-recurrence of the observed violation.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
K Narasimha Murthy
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: March 3, 2023