

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER No. Order/AN/RG/2025-26/31586**

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995; AND UNDER SECTION 23-I OF SECURITIES CONTRACTS (REGULATION) ACT, 1956 READ WITH RULE 5 OF SECURITIES CONTRACTS (REGULATION) (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 2005

In respect of:

Motisons Shares Private Limited

(PAN: AAECM3530C / SEBI Registration Number: INZ000191336)

In the matter of Motisons Shares Private Limited

A. BACKGROUND

1. Securities and Exchange Board of India (hereinafter also referred to as '**SEBI**') carried out joint inspection of Motisons Shares Private Limited (hereinafter also referred to as 'Noticee/ Entity/ Motisons/ MSPL/ Stock Broker/ SB/ Broker/ Member/ TM/ Trading Member'), along with Stock Exchanges (NSE and BSE) during October 13, 2022 to October 24, 2022 inter alia for the inspection period from April 01, 2021 to August 31, 2022 ("inspection 1") and a limited purpose inspection Motisons Shares Private Limited for the inspection period 01 April, 2023 – 30 June, 2024 during August 13-14, 2024 ("inspection 2").
2. Pursuant to the inspection 1 and inspection 2, the findings were communicated to the Noticee by SEBI vide its letters dated December 12, 2022 and September 11, 2024 respectively. The entity submitted its replies to the observations vide its letters dated December 26, 2022 and September

19, 2024 respectively. Thereafter, post inspection analysis ("PIA") was carried out by SEBI for inspection 1 and inspection 2.

3. Based on the findings arising out of its inspection 1 and inspection 2, analysis of replies received and examination in the matter by SEBI, briefly stated, it was inter alia observed by SEBI that Noticee had allegedly violated various provisions of Securities Contracts (Regulation) Act, 1956 ("SCR Act" / "SCR Act, 1956"), Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 ("SEBI Stock Broker Regulations" / "SEBI Stock Broker Regulations, 1992"), Securities Contracts (Regulations) Rules, 1957 ("SCR Rules" / "SCR Rules, 1957") and Circulars viz.,

Inspection 1:

- 3.1. Section 23D of SC(R) Act, 1956 read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
- 3.2. Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
- 3.3. Clause 4.1.2, 4.1.5 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020.
- 3.4. Clause A(5) of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/ INSP/49929 dated October 12, 2021 and NSE/INSP/ 53525 dated September 02, 2022.
- 3.5. Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.

- 3.6. Regulation 17 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.
- 3.7. Clause III of SEBI circular no. SEBI/HO/MIRSD/DoP1/CIR/2018/54 dated March 22, 2018.
- 3.8. Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and Annexure A to NSE Circular NSE/COMP/48895 dated July 10, 2021.
- 3.9. Clause 3.2 of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE circular NSE/ INSP/33276 dated September 27, 2016, NSE/INSP/ 31912 dated March 07, 2016.
- 3.10. Clause 6.1.1.e of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, NSE circular NSE/ INSP/28925 dated February 20, 2015 read with NSE/ INSP/50229 dated November 08, 2021.
- 3.11. Clause 2.3.2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
- 3.12. Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957.

Inspection 2:

- 3.13. Regulation 9(b) and point A(5) of Code of Conduct of Schedule II of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with Point 15 of Annexure-A of NSE circular NSE/INSP/45191 dated July 31,2020 and NSE/INSP/49929 dated October 12, 2021.
- 3.14. Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957, SMD/POLICY/CIR-6 dated May 7, 1997 and regulation 9(b) and point A(5) of Code of Conduct of Schedule II of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with

Exchange circular NSE/COMP/50957 dated January 07, 2022, Rule (5) (b) of Chapter III of the Rules of NSEIL.

B. APPOINTMENT OF ADJUDICATING OFFICER

4. Whereas, the Competent Authority was prima facie of the view that there were sufficient grounds to adjudicate upon the alleged violations by the Noticee, as stated and therefore, in exercise of the powers conferred under Section 19 of SEBI Act, 1992 read with Section 15-I (1) of the SEBI Act, 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter also referred as 'SEBI Rules') and under Section 23 I of the SCR Act, 1956 read with Rule 3 of the Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter also referred as 'SCR Rules, 2005'), the Competent Authority appointed the undersigned as Adjudicating Officer ("AO") to inquire into and adjudicate under Section 15HB of the SEBI Act, 1992, and Sections 23D and 23H of SCR Act, 1956, for the alleged violations of the Noticee. The said proceedings of appointment were communicated to the undersigned vide Communique dated April 08, 2025.

C. SHOW CAUSE NOTICE, REPLY AND HEARING

5. A Show Cause Notice no. SEBI/HO/EAD/EAD5/P/OW/2024/2291/1-2 dated January 17, 2024 ("SCN") and a Supplementary SCN SEBI/HO/EAD/EAD5/P/OW/2025/10413/1 dated April 09, 2025 ("SSCN"), was served upon the Noticee under Rule 4 of the SEBI Rules to show cause as to why an inquiry should not be held and penalty not be imposed against the Noticee under Section 15HB of the SEBI Act, 1992 and under Sections 23D and 23H of SCR Act, 1956, for the violations alleged to have been committed by the Noticee (for brevity, SCN and SSCN conjointly also referred to as SCNs, unless the context specifies or requires otherwise).
6. The allegations in respect of the Noticee inter alia brought out in the SCN are as under:

“
... ”

Based on the inspection in the matter, briefly summarized findings/allegations by SEBI are interalia given below:

4.1. Finding A: Misuse of clients funds:

G negative – On 5 out of 20 sample instances, funds of credit balance clients mis-utilized for meeting the obligations of debit balance clients and/or for its own purpose. The average misutilised amount is Rs. 1.09 Crore. The amount of mis-utilization ranges from Rs.40.72 Lakh to Rs.1.52 Crore.

4.1.1. As per the calculations based on the submissions and supporting available, following was observed -
The value of 'G' was negative for five days in the sample period as follows:

Date	G (in Rs) (-ve)
22.08.2022	10300689.00
23.08.2022	14948309.43
24.08.2022	15200908.28
25.08.2022	10008548.15
26.08.2022	4072924.72

No of Instances (G): 5/20 (sample instances)

Average (G): Rs. 1.09 Crore

Range of Misutilisation (G): Rs. 40.72 Lakh to Rs. 1.52 Crore

Further, value of 'J' is positive in 8 out of 20 sample instances, funds of clients mis-utilised towards margin obligations of debit balance clients and proprietary trading. The average misutilised amount is Rs. 3.06 Crore. The amount of mis-utilisation ranges from Rs.17.08 Lakh to Rs.8.5 Crore.

4.1.2. The value of 'J' is positive for eight days in the sample period as follows -

Date	J (in Rs.)
18.05.2021	9557971.04
20.05.2021	3235994.33
21.05.2021	54289903.04
13.12.2021	84982173.78
14.12.2021	1708588.38
15.12.2021	3054903.76
17.12.2021	7953098.19
22.08.2022	80152870.97

No of Instances (J): 8/20 (sample instances)

Average (J): Rs. 3.06 Crore

Range of Misutilisation (J): Rs. 17.08 Lakh to Rs. 8.5 Crore

4.1.3. The value of 'I' was negative in the sample period. The detailed calculations supporting the above observations of G, I & J are placed at Annexure 1 to IR.

4.1.4. The Noticee in its reply to the findings of Inspection report submitted that, "during this given period we have given amount of Rs. 1 crore to HDFC Bank Limited to intraday limit facility, where they assured/ misguided us that it will not effect to our enhance supervision, but due to this our value of G reflected as negative we have taken note of the same and taken corrective measure for non-repentance of such error."

4.1.5. However, SEBI in this regard observed that, Member's submission that Bank has misguided regarding usage of Fixed Deposit for enhanced supervision purpose is not acceptable.

In view of the above, it is alleged that the Noticee had violated the following provisions:

Section 23D of SC(R) Act, read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

4.2. Finding B: Segregation of client's funds and Own funds and Non maintenance of daily reconciliation statement

Net amount transferred from Settlement Bank Account to Own bank Account of broker during inspection period is Rs. 29.56 Crores for various purposes like brokerage as per member. However, he has not maintained a daily reconciliation statement for transfer of brokerage, charges etc to its own account. Thus, trading member has not maintained proper segregation between client and own funds.

4.2.1. It has been observed that member has transferred funds from Own to Settlement bank account amounting to Rs.72.47 Crores and from Settlement bank account to Own bank account amounting to Rs. 102.02 Crores. Net amount transferred from Settlement Bank account to Own Bank Account is Rs. 29.56 Crores. As per Broker, funds have been transferred for below mentioned purposes:

Particulars	Amount (in Rs crores)
Brokerage	5.47
Income from Depository Services	0.19
Other charges recovered from clients/exchange	0.01
Dividend Income	0.07
Profit From Currency F&O A/c	0.68
Profit From F&O - Pro A/C	6.31
Profit from Intraday Trading	1.96
FD for BG Apr to Aug.22	4.50
Interest income on Fixed deposits with bank	1.36
Recovery of bad Debts (Kewal chand jain)	7.85
Total	28.40

4.2.2. Further, trading member has not maintained a daily reconciliation statement for transfer of brokerage, charges etc to its own account. In the absence of daily reconciliation statement and abovementioned submission of TM, prima facie it appears that trading member has not maintained proper segregation between client and own funds.

4.2.3. It is also to be noted that as per Enhance supervision working, there is a fund shortfall of Rs 40.83 lakhs as on 26-08-2022. Details as provided in Annexure 2 to IR.

4.2.4. The Noticee in its reply to the findings of Inspection report submitted that, "As mentioned above an amount given to HDFC Bank Limited for intraday limit facility, due to a difference occurs. Earlier we are not in practice of daily maintaining reconciliation statement. And we were not doing fund flow reconciliation too. We assure you that we will comply the same from herein after. As we already mentioned in above clarification that a shortfall of Rs. 40.73 lacs is occurred due to we have given fund to HDFC bank for Intra Day Limit Facility."

4.2.5. However, SEBI in this regard observed that, Member's submission that they have made a fixed deposit is not acceptable. And further, member has accepted that they are not maintaining daily reconciliation statement, thereby concludes non-compliance in segregation of client's funds.

In view of the above, it is alleged that the Noticee had violated the following provisions:

Clause 2.4.2 of Annexure to SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

4.3. Finding C: Reporting and short collection of Margin

4.3.1. Member has done incorrect margin reporting to the Exchange. 5 instances - 5 clients Amount – Rs. 9.16 Lakhs.

4.3.2. On verification of margin reporting to exchange, it was observed that trading member has done incorrect margin reporting to the Exchange in 5 instances pertaining to 5 clients amounting to Rs. 9.16 Lacs (3 instances of Peak margin amounting to Rs 2.05 lacs and 2 instances pertaining to 2 clients amounting to Rs. 7.11Lacs). Details as provided in Annexure 4 to IR.

4.3.3. The Noticee in its reply to the findings of Inspection report submitted that, "we have reported correctly from our end as per client's ledger. We have reported Cash & Cash Equivalent Balance, where peak margin was wrongly counted due to software error, which resulted in wrong reporting of peak margin."

4.3.4. However, SEBI in this regard observed that, Member's submission that violation exists due to software error, does not absolve him from non-compliance.

In view of the above, it is alleged that the Noticee had violated the following provisions:

Clause 4.1.2, 4.1.5 of SEBI Circular CIR/HO/MIRSD/ DOP/CIR/P/2019/139 dated November 19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020.

4.4. Finding D: Member has passed penalty to clients on account of short/ non-collection of upfront margins

Member has passed penalty to clients for short/non-collection of upfront margins. 19 instances. Total penalty amounting to Rs. 1.80 lacs.

4.4.1. On verification of sample instances where penalty has been levied, it has been observed that TM has passed penalty to clients for short/non-collection of upfront margins in case of 19 instances. Total penalty amounting to Rs. 1.80 lacs. CM -06 instances & FO -13 instances. Details as provided in Annexure 5 to IR.

4.4.2. The Noticee in its reply to the findings of Inspection report submitted that, "the clients as per the annexure 4 (to the reply dated December 26, 2022), are regularly ignore our surveillance call to square up their position and after we have taken necessary step to avoid such instances we have penalised the clients to not repeat in future."

4.4.3. However, SEBI in this regard observed that, Member's submission that the clients ignore the surveillance call is not an appropriate reason for passing on penalties for short collection of margins to clients and Member has not submitted any evidence substantiating the same. Thus, member's reply is not acceptable.

In view of the above, it is alleged that the Noticee had violated the following provisions:
Clause A(5) of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/ INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.

4.5. Finding E: Stock reconciliation

Member has wrongly reported demat account wise holding on Exchange portal with actual holding in demat account. Also, Member has not reconciled client securities with actual demat holding with the broker.

4.5.1. During verification of securities reported to Exchange as on August 31, 2022, it has been observed that the Stock Broker has wrongly reported demat account wise holding on Exchange portal with actual holding in demat account, Also the Stock Broker has not reconciled client securities with actual demat holding with the broker. Details as provided in Annexure 6 to IR.

4.5.2. The Noticee in its reply to the findings of Inspection report submitted that, which is interalia as reproduced below (as been in attached annexure 5 to the reply dated December 26, 2022):

DMAT ACCOUNT NO.	ISIN	AS PER HOLDING UPLOADED	AS PER DP	Member Remarks
,120xx000xxxxx08x	INE869Y20010	0	90	These received in Corporate Action, by which a delay occurred in allocation. Now these have been updated.
,120xx000xxxxx08x	INE405E01023	0	64	
,120xx000xxxxx24x	INE852S01026	0	530	
"INxx0xx61xxx90xx"	IN8028B01036	1000	0	These holding are lying with our CM' DP for pledge, who shifted to their another account.
"INxx0xx61xxx90xx"	INE528G01027	412	0	

4.5.3. However, SEBI in this regard observed that, with respect to mismatch between demat account wise holding on Exchange portal with actual holding in demat account, for 3 instances, Member has submitted that mismatch is due to non-updation of shares received in corporate action, thus Member has accepted the violation.

4.5.4. SEBI in this regard further observed that, with respect to the other 2 instances, Member has submitted that these holding are lying with CM' DP for pledge, who shifted to their another account. Member's reply in this regard is not acceptable. Member has not submitted any reply for not reconciling client securities with actual demat holding with the broker. Thus, Member has accepted the violation.

In view of the above, it is alleged that the Noticee had violated the following provisions:
Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/ 2008 dated April 17, 2008.

4.6. Finding F: Verification of Trade files (including Net sell Pay in, Pay out Verification) (BSE)

Member had not recorded trade details of BSE CDS trades of 14th June 2021.
During verification of trade data from back office of member with exchange data, it has been observed that the stock broker had not recorded trade details of BSE CDS trades of 14th June 2021. Details as provided in Annexure 7 to IR.

4.6.1. The Noticee in its reply to the findings of Inspection report submitted that, "as we confirm from BSE Exchange No trade has been done on the given date."

4.6.2. However, SEBI in this regard observed that, Member has submitted that they have confirmed from BSE that no trade has been done. However, he has not submitted any evidence substantiating the same and Annexure 7 to Inspection report contains trades executed on 14.06.2023 on BSE platform. Hence, Member's reply is not acceptable.

In view of the above, it is alleged that the Noticee had violated the following provisions:
Regulation 17 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

4.7. Finding G: Client order placement/ recording (SEBI)

Member has not maintained the proof of order placement for 2 trades.

4.7.1. Out of 20 trades, entity has provided the proof of call order placement of 18 trades. The details of 20 orders and our observations are mentioned in Annexure 8 to IR.

4.7.2. The summary of observations is given below:

4.7.2.1. For 2 orders belonging to one client code M1674, the broker could only provide the signature on visiting register, no signed order sheet was provided for order placed. Therefore, broker has not maintained the sufficient proof of order placed by client UCC- M1674 in terms of SEBI circular no. SEBI/HO/MIRSD/DoP1/CIR/2018/54 dated March 22, 2018.

4.7.2.2. In case of remaining 18 trades, 2 trades belong to one of the directors of company Mr. Rajeev Jain (client code M1290). For 16 trades belonging to UCC – 12981, M1864 & MUM10, broker has provided the authorization letter for dealers and the orders were placed by same dealer. Therefore, there is no adverse observation for 18 trades.

4.7.3. The Noticee in its reply to the findings of Inspection report submitted that, "we were not maintain Order Sheet, but now we assure you to start such practice to comply with guidelines of SEBI & Exhnges."

4.7.4. However, SEBI in this regard observed that, Member has accepted the violations.

In view of the above, it is alleged that the Noticee had violated the following provisions:
Clause III of SEBI circular no. SEBI/HO/MIRSD/ DoP1/CIR/2018/54 dated March 22, 2018.

4.8. Finding H: Net worth verification

There is discrepancy in the computation of Networth submitted to the Exchange. Total value of Net worth overstated is Rs. 18 Lakh.

4.8.1. It was observed that trading member has not adjusted correct value of capital and Free reserve, Fixed Assets, intangible Assets, Doubtful debts, 30% of marketable securities and Prepaid expenses while calculating its network. As on 31-Mar-2022, net worth submitted by trading member to the Exchange is Rs. 1.32 Crores. Revised net worth after considering actual values under various heads is Rs 1.31 Crores. The revised net worth is in compliance with the net worth requirement of the stockbroker. Details as provided in Annexure 9 to IR.

4.8.2. The Noticee in its reply to the findings of Inspection report submitted that, "this difference occurred because of we have earlier submitted unaudited net worth later we have revised with an audited network certificate due to that a difference has been occurred."

4.8.3. However, SEBI in this regard observed that, Member's submission that the variance in network is due to submission based on unaudited data is not acceptable. Thus, member has overstated his network by Rs. 18 Lakh.

In view of the above, it is alleged that the Noticee had violated the following provisions:
Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and Annexure A to NSE Circular NSE/COMP/48895 dated July 10, 2021.

4.9. Finding I: Analysis of Enhanced supervision data (Weekly) (NSE):

Incorrect reporting with respect to, multiple heads of weekly submission as on Aug 26, 2022. Amount of mis-statement ranges from Rs. (29.61 Crore) to Rs. 2.99 Crore.

4.9.1. Incorrect reporting wrt to multiple heads of weekly submission as on Aug 26, 2022. Further, after considering correct values principal 1(G) was violated.

4.9.2. On verification of principles of enhanced supervision as on Dec 15, 2021 Violation of principle pertaining to funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading has been observed. Details as provided in Annexure 10 to IR.

4.9.3. Summary of Annexure 10 to IR with respect to incorrect reporting in weekly submission on Aug 26, 2022 is as below:

Sr.No	Particulars	26/08/2022
1	Collateral deposited with exchanges in form of Cash and Cash Equivalents (In Rs.)	(35,00,000.00)
B	Collateral deposited with clearing member in form of Cash and Cash Equivalents (In Rs.)	2,50,00,000.00
E	Value of Own Securities Deposited as Collateral with Clearing Member (In Rs.)	2,99,51,378.20
F	Value of Non funded portion of the Bank Guarantee (In Rs.)	(1,00,00,000.00)
P	Proprietary margin Obligation (In Rs.)	81,25,196.76
MC	Margin utilized for positions of Credit Balance Clients (In Rs.)	2,07,01,177.56
MF	Free/unblocked Collateral deposited with Clearing corporation (In Rs.)	(29,61,46,099.62)

4.9.4. The Noticee in its reply to the findings of Inspection report submitted that, "during this given period we have given amount of Rs. 2 crore to HDFC Bank Limited to intraday limit facility, where they assured/misguided us that it will not effect to our enhance supervision, but due to this our value of G reflected as negative. Data mentioned in Annexure 9 to IR is mismatch from our data".

4.9.5. However, SEBI in this regard observed that, Member's submission for incorrect reporting of data that bank has misguided them, is unacceptable.

4.9.6. SEBI in this regard further observed that, Pertaining to Violation of principle pertaining to funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading, member has submitted that there exists mismatch of data, but have not submitted any supportings in this regard. Thus, Member's reply is unacceptable.

4.9.7. SEBI in this regard also observed that, the mentioned violations of principle G on 26.08.2022 and principle J on 15.12.2021 were already charged under head Misuse of client funds. Hence, member shall be charged for Incorrect reporting in weekly submission of enhanced supervision data.

In view of the above, it is alleged that the Noticee had violated the following provisions:

Clause 3.2 of Annexure to SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE circular NSE/INSP/33276 dated September 27, 2016, NSE/ INSP/31912 dated March 07, 2016.

4.10. Finding J: Risk based supervision (RBS) (NSE)-

Differences were observed in Collateral of debit balance clients, Brokerage income and Operating profit in data submitted for RBS.

4.10.1. On verification of RBS data for the period data submitted by TM as on 31-03-2022 differences were observed in the following heads of the submission:

4.10.1.1. Collateral of debit balance clients (6 clients out of 10 sample clients)

4.10.1.2. Brokerage income

4.10.1.3. Operating profit

Details as provided in Annexure 11 to IR.

4.10.2. The Noticee in its reply to the findings of Inspection report submitted that:

"1. Collateral of Debit balance of 6 client has been wrongly reported in RBS of 31.03.22."

2. Brokerage income was wrongly reported due to typographically mistake.

3. Our details are from unaudited data."

4.10.3. However, SEBI in this regard observed that, Member has accepted all the violations.

In view of the above, it is alleged that the Noticee had violated the following provisions:

Clause 6.1.1.e of Annexure to SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, NSE circular NSE/ INSP/28925 dated February 20, 2015 read with NSE/INSP/50229 dated November 08, 2021.

4.11. Finding L: Member has not undertaken Reporting/ tagging of Bank accounts as required

Member has incorrectly tagged 05 of its bank account.

4.11.1. Details of the observations are given below:

ACCOUNT_NO	PURPOSE as per reported	PURPOSE as per Bank records
600340xxxx88	SETTLEMENT ACCOUNT	Tagging not available
40xxxx163	SETTLEMENT ACCOUNT	Exchange Dues
40xxxx073	ANY OTHER	Settlement Account
9611xxxx32	CLIENT BANK ACCOUNT	Tagging not available
1205xxxx51	ANY OTHER	Settlement Account

4.11.2. The Noticee in its reply to the findings of Inspection report submitted that, "we have updated the same."

4.11.3. However, SEBI in this regard observed that, Member's compliance post-inspection does not absolve him for his liability of non-compliance for inspection period.

In view of the above, it is alleged that the Noticee had violated the following provisions:

Clause 2.3.2 of Annexure to SEBI circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

4.12. Finding N: Member is engaged as a principal in a business other than that of securities involving personal financial liability:

Member has given loans to multiple parties from own bank account. Gross value of loan given is Rs 81.60 crores during the inspection period. As on August 31, 2022 outstanding value of loan is Rs. 10.65 crores.

4.12.1. On verification of Member's own bank books, bank statements and loan ledgers for the inspection period, it was observed that loan transactions were executed with multiple parties from bank account number viz HDFC Bank- 540340003765 (own-A/c). Gross value of transactions between member and such parties is Rs 81.60 crores during the inspection period.

4.12.2. As on August 31, 2022 outstanding value of loan is Rs, 10.65 crores details of which is given below:

Party Code	Name	Amount
MSHW	MS HOSPxxxxxY & xxxNESS Pxx Lxx	(63,500,000.00)
MUNI	MUNxxxxxAT VExxxxE PRxxxTE LxxxxED	(3,000,000.00)
PITA	PxxxxxAR COxxxxxTY FUxxxxS PxT LxD	(40,000,000.00)
Total		(106,500,000.00)

4.12.3. Prima facie it may be construed that Member is engaged as a principal in a business other than that of securities involving personal financial liability. Details as provided in Annexure 14 to IR.

4.12.4. The Noticee in its reply to the findings of Inspection report submitted that, "we have given some loan amount to other entities as at that time our Net worth shows sufficient balance as we maintaining at that time. We assure you to non- repentance of such instances and we will fully comply with rules & regulations of Exchange."

4.12.5. However, SEBI in this regard observed that, Member has accepted that they have given loans during the inspection period. However, Member's submission that they have sufficient networth is not tenable, as the requirement for broker not indulging in activities other than broking activities is applicable irrespective of networth compliance.

In view of the above, it is alleged that the Noticee had violated the following provisions:
Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957.

... ”

7. Vide letter dated February 01, 2024, the Noticee had filed settlement application to settle the Adjudication proceedings initiated against it vide Show Cause Notice no. SEBI/HO/EAD/EAD5/P/OW/2024/2291/1-2 dated January 17, 2024.
8. Having regard to principles of natural justice, an opportunity of hearing was afforded to the Noticee on February 15, 2024, vide Hearing Notice dated February 07, 2024 and the Noticee was advised to submit the reply to the SCN atleast 2 working days prior to the scheduled date of hearing. Subsequently, vide letter dated February 14, 2024, the Noticee sought adjournment of hearing and sought 4 weeks' time to submit the reply to the SCN. Subsequently, vide letter dated February 16, 2024, the Noticee sought

inspection of documents and the same was provided to the Noticees on May 31, 2024.

9. Vide Hearing Notice dated June 25, 2024, an opportunity of hearing was afforded to the Noticee on July 03, 2024 and the Noticee was advised to submit the reply to the SCN atleast 2 working days prior to the scheduled date of hearing. Subsequently, vide letter dated June 26, 2024, the Noticee sought adjournment of hearing and sought 3 weeks' time to submit the reply to the SCN. Having regard to the request of the Noticee, the hearing scheduled on July 03, 2024 was deferred.
10. Vide letter dated July 04, 2024, the Noticee submitted its reply to the SCN dated July 04, 2024. The key submissions made are as below:

“ ...

Our reply to the allegations as alleged against us in the said SCN is as under:-

6. Submissions on the allegation of Misuse of clients funds

(i) W.r.t. negative value of G, we humbly submit that during the inspection period, we have given an amount of Rs. 1 Crore to HDFC Bank Limited (In Form of an FDR) for intraday limit facility and we were of the view that it will not effect to our enhance supervision. Due to the said miscalculation, value of G reflected as Negative.

The aforesaid was a genuine miscalculation and pursuant thereto we have taken all corrective measures in this regard and now our data is in accordance with the norms of SEBI and Exchanges.

(ii) We further submit that NSE vide letter dated 11.05.2023 were the Inspection Period covered the period as mentioned in the present SCN, and we have been penalized by NSE for the same violation for an amount of Rs. 2,24,400/- A copy of NSE Letter dated 11.05.2023 bearing reference no. NSE/INSP/MCSGFC-90/CMFOCDs/OFFSITE/ 22-23/ACT/12981 is enclosed hereto marked as Annexure – “1”

(iii) W.r.t. positive value of J, we submit that the same was due to some clients who utilized higher margin value against the creditors balance due to improper limit given by our surveillance department. We further submit that the alleged instances of J being positive, we submit that the same was due to miscalculation of balances by our back office software which has been resolved and now the said software is perfectly updated.

(iv) Further, we have adopted daily reconciliation process, by which there is no instance of value of “G” being negative or value of “J” being positive.

(v) Therefore, no adverse inference be drawn against me in this regard.

7. Submissions on the allegation of not maintaining proper segregation of client and own funds.

(i) As stated aforesaid, the difference in amount is due to an amount which was given to HDFC Bank for intraday limit facility.

(ii) We have started daily reconciliation along with fund flow reconciliation and there is no repeat of the alleged violation at our end.

8. Submissions on the allegation of incorrect margin reporting to the Exchange

(i) We submit that we had correctly reported at our end as per client's ledger.

(ii) We have reported cash and cash equivalent balance, where peak margin was wrongly calculated due to software error, which resulted in wrong reporting of peak margin.

(iii) We submit that we have adopted daily reconciliation process and also we have changed our back office software. Pursuant to change in back office software there are no instances of wrong reporting of margin.

9. Submissions on the allegation that we have passed penalty to the clients for short/non-collection of upfront margins

(i) We submit that the clients as mentioned were regularly ignoring our surveillance call to square up their position. However, they failed to do so. Due to which penalty was levied on them.

(ii) However, we started to take necessary steps to avoid penalizing clients by squaring up the positions of clients who have debit balance for more than 5 days. It is pertinent to note that no such amount is debited from the client.

10. Submissions on the allegation that we have wrongly reported demat account wise holding on Exchange portal with actual holding in demat account. Further, it is also alleged that we have not reconciled client securities with actual demat holding with the broker.

(i) The aforesaid alleged error was due to corporate action and other corporate benefits not transferred automatically to concerned Beneficiary Owners accounts. So, there was difference in holding statement.

(ii) It is pertinent to note that we now on regularly basis reconcile client securities with client holding and there are no instances of mismatch between demat account wise holding on Exchange portal and actual holding in demat account.

11. Submissions on the allegation that we have not maintained proof of order placement for 2 trades

(i) It is pertinent to note that at the time of inspection, we had provided visiting register which had signature of the client. However, at the relevant time we were not maintaining order book. However, later we have started to maintain order book as per the guidelines of SEBI and Exchanges.

(ii) Additionally, the said client has not disputed the trades so executed through us. This shows that the trades were executed on the instruction received by the said client.

(iii) Further, the Ld. Adjudicating Officer, SEBI in the SCN has accepted some of our submissions w.r.t. present violation as observed during the said inspection. This shows that it was never our intention to violate any securities law, and the alleged violation is only technical in nature.

(iv) Additionally, we would like to submit that we do not take off line order of any client.

12. Submission on the allegation that there is discrepancy in computation of Net Worth submitted to the Exchange. It is alleged that Net Worth is overstated by Rs. 18 Lakhs

(i) It is pertinent to mention that the discrepancy in Net Worth is because earlier we had submitted Un Audited Net Worth and later on we had submitted Audited Net Worth certificate. Due to the aforesaid, there was discrepancy in Net Worth.

(ii) The SCN itself states that the revised Net Worth is in compliance with the Net Worth requirement of the Stock broker.

(iii) We further submit that we have not concealed any information.

(iv) Additionally, our Net Worth if considered based on un-audited Net Worth or on Audited Net Worth, it is in compliance with minimum required net worth for trading member.

13. Submission on the allegation that we have incorrectly reported multiple heads of weekly submission as on 26.08.2022

(i) During the said period, we had given an amount of Rs. 2 Crore to HDFC Bank to avail intraday limit facility. We were given to understand that the said amount given to HDFC Bank will not affect our enhanced supervision data. Due to the aforesaid reason, the value of G was negative.

(ii) As stated aforesaid, we have adopted daily reconciliation process and pursuant thereto there are no instances of G being negative.

14. Submission on the allegation that there were differences observed in collateral of debit balance clients, Brokerage income and operating profit in data submitted for RBS

(i) The difference in brokerage income was due to typographical mistake.

(ii) The difference in operating profit was due to submission of details based on unaudited data.

(iii) We have made necessary changes at our end so that the aforesaid alleged error does not get repeated.

(iv) It is pertinent to note that no adverse observation is drawn by BSE on the said alleged allegation.

15. Submission on the allegation that we have incorrectly tagged 5 of our bank accounts.

We submit that as on date all the bank accounts including the 5 mentioned are properly updated.

16. Submission on the allegation that we are engaged as a principal in a business other than that of securities involving personal financial liability.

(i) During the period of inspection, we have given loan of Rs. 81.60 crores. The outstanding loan as on 31.08.2022 was Rs. 10.65 Crores only.

(ii) We submit that the loans were given for a very short period and more than 80% of the loan given during the inspection period has been returned as on 31.08.2022.

- (iii) The said loan which were granted, did not affect our Net Worth in any manner whatsoever.
- (iv) We humbly submit that the loans given to entities were out of the surplus funds available with us.
- (v) Loans given were highly liquid as compared to other types of investments.
- (vi) The funds given by us were out of our own surplus fund with intent to retain liquidity at any given point in time.
- (vii) The said loan transaction did not affect the client's dealings with us. The said loan was not given out of clients funds.
- (viii) The said loan given to entities did not possess risk to our business as "Stock Broker".
- (ix) Further, we would like to rely on the following:

(a) We place reliance on an interpretive letter dated 14.02.2022 bearing reference no. SEBI/HO/MIRSD/DoP/P/OW/2022/6143/1 issued under SEBI (Informal Guidance) Scheme, 2003 in the matter of HDFC Securities Limited. Therein it is mentioned that interpretation of Rule 8(3) (f) of SCRR is that the Stock Brokers are not deemed to be engaged in business other than securities market as far as they do not incur any personal financial liability. A copy of SEBI's interpretive letter dated 14.02.2022 bearing reference no. SEBI/HO/MIRSD/DoP/P/OW/2022/ 6143/1 is enclosed herewith as Annexure – "2"

(b) Further, we place reliance on Adjudication Order dated 31.10.2017 bearing reference no. EAD-12/AO/SM/95/2017-18 passed in the matter of inspection of Geojit BNP Paribas Financial Services Limited which states that "14 For any activity to be classified as business activity there should be several activities with several clientele " (Ref. Para No. 14 on Page No. 11, 7th and 8th Line of the Para of the Order dated 31.10.2017). Besides, extract from the said Order relevant to the present case is reproduced as under: (Ref. Para No. 18 on Page No. 12 of Order dated 31.10.2017):

Quote:

"18. I note as per law there is no restriction on the inter corporate loans given by a SEBI registered intermediary. An inter-corporate loan given by a stock broker out of the surplus funds, which exceed the minimum networth requirement applicable to stock broker as well as the working capital requirement for its business, as a temporary financial accommodation would not pose the risk to the business of the stock broker and affect the clients dealing with them. The main purpose of rule 8(3) (f) of SCRR was to prohibit the brokers to invest the clients' money in other businesses. However, in the present case, there is a clear demarcation of the clients' fund and its own fund. The loan that was advanced to GCPL was the excess fund of the Noticee. In no way was the fund of the client used to advance loan to the subsidiary. The clients' money was never exposed to any risk. The Noticee extended loans from its own excess funds".

Unquote:

A copy of Order dated 31.10.2017 bearing reference no. EAD-12/AO/SM/95/2017-18 passed by the Ld. Adjudicating Officer; SEBI in the matter of Geojit BNP Paribas Financial Services Limited is enclosed herewith as Annexure – "3"

(c) Additionally, we crave to place reliance on the Order dated 29.11.2023 passed by Hon'ble Securities Appellate Tribunal in the matter of Magnum Equity Broking Limited Vs. NSE (Appeal No. 461 of 2022). Relevant extract of the said Order is mentioned herein under: (Ref. Para No. 9 and 10 on Page No. 7 and 8 of Order dated 29.11.2023)

Quote:

"9. A plain reading of the Rule 8(3)(f) of SCR Rules and Rule 5(b) of the Chapter II of the Rules of the Exchange would indicate that a trading member cannot engage as a principal or employee in any business involving any personal financial liability other than that of securities. SEBI's circular dated May 7, 1997 clarified that borrowing and lending funds by a trading member, in connection with or incidental to or consequential upon the securities business would not disqualify a trading member under Rule 8(3)(f) of the SCR Rules.

10. In our view, investment of surplus funds, generated as a consequence of securities business, with an NBFC registered with RBI cannot lead to an inference that the Appellant is engaged as a principal in business other than that of securities involving personal financial liability. The Respondent Committee given a clear finding that the funds were advanced from the account of the Appellant therefore there is no dispute that the funds were their own moneys."

Unquote

A copy of Order dated 29.11.2023 passed by the Hon'ble Securities Appellate Tribunal in the matter of Magnum Equity Broking Limited Vs NSE (Appeal No. 461 of 2022) is enclosed hereto marked as Annexure – "4"

17. Legal Submissions:

On the subject matter of the proceedings, i.e. Inspection of Books of Accounts and records, we would like to refer to and rely upon the Orders passed by Hon'ble Securities Appellate Tribunal ("Tribunal"). The Gist is as under:

(i) Order dated 16.06.2011 passed by Hon'ble Tribunal in the matter of Religare Securities Limited Vs. SEBI (Appeal No. 23 of 2011) wherein Hon'ble Tribunal held that:

Quote:

"5. It must be remembered that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements in regard to the maintenance of records. We also cannot lose sight of the fact that every minor discrepancy/ irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved

by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant. This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent.

For the reasons recorded above, the appeal is allowed and the impugned order set aside with no order as to costs."

Unquote

(ii) Order dated 25.07.2011 passed by Hon'ble Tribunal in the matter of UPSE Securities Limited Vs. SEBI (Appeal No. 109 of 2011) wherein Hon'ble Tribunal held that:

Quote:

"5. Before concluding we cannot resist observing that the object of carrying out inspection of the books of accounts and records of any intermediary including a stock exchange or its subsidiaries is to ensure compliance with the provisions of the Act, Rules, Regulations, By-laws and circulars issued from time to time which are meant to regulate the securities market. Every little irregularity / deficiency noticed during the course of the inspection is not culpable and does not call for initiation of penalty proceedings. The purpose of inspection in quite a few cases could be better achieved if the inspecting team at the time of the inspection were to advise the erring entity. However, if any serious lapse is discovered, it would always be open to the Board to take penal action in accordance with law. Having said this, we leave the matter at that.

In the result, the appeal is allowed and the impugned order set aside with no order as to costs."

Unquote:

(iii) Order dated 11.09.2012 passed by Hon'ble Tribunal in the matter of M/s DSE Financial Services Limited Vs. SEBI (Appeal No. 153 of 2012) wherein Hon'ble Tribunal held that:

Quote:

"3. Under similar circumstances in one of the cases decided by us earlier (Religare Securities Limited vs. SEBI Appeal no. 23 of 2011 decided on 16.6.2011), we have observed that it must be remembered that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements in regard to the maintenance of records. We have also observed that every minor discrepancy/ irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved by pointing out the irregularities / deficiencies to the intermediary at the time of inspection and making it compliant. As per the observations made by the adjudicating officer himself, the violations committed by the appellant are mostly technical in nature; some of them are solitary instances and for others the appellant has mostly taken/initiated corrective measures. In view of this, we are of the view that the adjudicating officer was not justified in taking punitive action.

We, therefore, set aside the impugned order and allow the appeal with no order as to costs."

Unquote

We submit with humility before your honour to kindly consider our case on similar lines and exonerate us from the charges levelled against us in the present proceeding

(iv) Further, we also rely on the following Order/Judgment of Akbar Badrudin Badrudin Jiwani V. Collector of Customs, Bombay AIR 1990 SC 1579

It is noteworthy to mention wherein the Hon'ble Court had stated that :-Para 61:"We refer in this connection the decision of Merck Spares v. Collector of Central Excise & Customs, New Delhi, 1983 ELT 1261, Shama Engine Valves Ltd., Bombay v. Collector of Customs, Bombay (1984) 18 ELT 533 and Madhusudhan Gordhandas & Co. v. Collector of Customs, Bombay, (1987) 29 ELT 904, wherein it has been held that in imposing penalty the requisite mens rea has to be established.

18. In view of the aforesaid, we deny that we have violated the alleged provisions as mentioned in the SCN.

19. We submit and say that we have always followed all the procedures as stipulated by any regulatory authority, followed all Rules/Regulations/instructions etc. issued by any government agency.

20. In view of the above circumstances, we submit as follows:

(a) We have never indulged in any action that could result in violation of securities laws and have adequately mitigated the risk as and when the need arose.

(b) Over a period of time, we have performed our duties in the best interest of our clients.

(c) We have never derived any unfair gain in any manner whatsoever while performing our duties as a stock broker.

(d) Importantly, no loss is caused to any person due to our acts and omission, if any.

(e) Post inspection we had reviewed all our operations including the process and procedures followed by us and wherever required we had taken all remedial and corrective measures so as to ensure that lapses, if any, do not reoccur.

(f) It is humbly stated that alleged lapses, if any have occurred unintentionally.

(g) Violations, if any, are merely technical in nature.

21. Conclusion

We would like to submit that we are a law abiding company and we have always complied with Rules/Regulations governing securities market. In case penalty is imposed by a reputed and credible organization like SEBI, it shall cause loss of goodwill, credibility, market standing and reputation which has been built over past many years. Thus, we humbly request that we may be discharged from present proceedings at the earliest.

...”

11. Vide Hearing Notice dated July 10, 2024, an opportunity of hearing was afforded to the Noticee on July 18, 2024. On the date of hearing viz., on July 18, 2024, the Noticee availed the hearing opportunity through its Authorised Representatives (“ARs”) viz. Dr. Keyur Shah (Advocate) and Meit Shah (Advocate) during which the AR relied upon and reiterated the submissions made vide its reply dated July 04, 2024. Further, the ARs interalia submitted that, Settlement Application in the matter has also been filed in the matter.

12. Vide email dated October 14, 2024, settlement division of SEBI had informed the undersigned that the settlement application in the instant matter had been rejected and that the same was intimated to the Noticee.

13. Vide letter dated October 23, 2024, the Noticee made additional submissions and requested for another opportunity of personal hearing. The key submissions made by Noticee vide its letter dated October 23, 2024 were as follows:

“ ...

3. The present matter pertains to the inspection of the operations of Motisons Shares Private Limited conducted by SEBI for the Inspection Period from 01.04.2021 to 31.08.2022. In this regard, we humbly submit that we have always followed and worked in compliance with the Rules, Regulations, guidelines and framework as applicable to us from time to time. Further, we humbly submit that in respect of the alleged deficiencies, if any, as mentioned in the SCN, corrective and remedial steps have been taken on most of the observations as mentioned in the SCN.

4. Submission on the allegation that Company engaged as a principle in a business other than that of securities involving personal financial liability. In this regard, we submit as under:

(i) We would like to reiterate our submissions made by our letter dated 04.07.2024 and for the sake of brevity the same is not repeated herein.

(ii) Additionally, we would like to submit as under:

(a) We humbly submit that the validity of NSE Circular dated 07.01.2022 bearing reference no. NSE/COMP/50957 which pertains to clarification to the Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957, which is one of the subject matter of present proceedings, is under challenge before the Hon'ble Bombay High Court in Writ Petition (L) No. 32739 of 2023 and said Writ Petition is admitted on 24.07.2024. The outcome of the said Writ Petition will have direct bearing on the subject matter of the present proceedings.

(b) Further, on similar subject matter, the Hon'ble Securities Appellate Tribunal in the matter of Arihant Capital Markets Ltd Vs. National Stock Exchange of India Ltd. (Appeal No. 431 of 2023) has vide Order dated 10.09.2024 stated as under:

Quote:

"1. Learned advocate for the NSE submits that circular is under challenge before the Hon'ble Bombay High Court. Matter is adjourned sine die. ..."

Unquote

A copy of Order dated 10.09.2024 passed by Hon'ble Securities Appellate Tribunal in the matter of Arihant Capital Markets Ltd Vs. National Stock Exchange of India Ltd. (Appeal No. 431 of 2023) is enclosed hereto and marked as Annexure – "1"

(c) Additionally, Ministry of Finance, Department of Economic Affairs, Financial Markets Division has issued Consultation Paper for Public Comments on Rule 8 of the SCRR. In the said Consultation Paper, it is proposed that the following rules be inserted: (Ref. Annexure – B on Page No. 12 and 13 of the said Consultation Paper)

Quote:

"2. In Rule 8 of the Securities Contracts (Regulation) Rules, 1957,

(i) in sub-rule(1), in clause (f), after the first proviso, the following proviso shall be inserted, namely

:-

"Provided further that investment made by a member shall not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker."

(ii) in sub-rule(3), after clause (f), following proviso shall be inserted, namely:-

"Provided further that investment made by a member shall not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker."

Unquote:

A copy of Consultation Paper for Public Comments on Rule 8 of the SCRR issued by Ministry of Finance, Department of Economic Affairs, Financial Markets Division is enclosed hereto and marked as Annexure – "2".

5. In addition to what is stated aforesaid, on the allegations as alleged against us in the SCN, we would like to submit as under:

(i) From September 2022 till date, there has not been a single instance where the value of "G" is negative. This shows the remedial steps taken by the Company to ensure that the alleged lapses, though unintentional and not malafide, are not repeated.

(ii) We have started daily reconciliation along with fund flow reconciliation and there is no repeat of the alleged violation at our end.

(iii) The wrong reporting of margin was due to software problem. We have changed the back office software and as on date there are no instances of wrong reporting of margin.

(iv) The observations and allegations as alleged did not have material impact on client's funds.

(v) The violations as alleged in the SCN are only technical in nature and no material benefit has occurred to the Company.

(vi) Our Net Worth is substantially above the required Net Worth as required in the provisions.

(vii) The loans given to entities were out of surplus funds available with us and the same did not affect our Net Worth.

Further, the said loans given by us did not affect the client's dealings with us and the said loan was also not given from clients funds. Further, the said loans given did not possess risk to our business as "Stock Broker"

(viii) There is no adverse observation w.r.t. non-settlement of active or non-active client's.

(ix) There is no adverse observation w.r.t. client funding.

(x) During the inspection period, there is no observation of pending complaints against us. There was only one complaint and the same was resolved.

(xi) Additionally, we would like to submit that post inspection, we have reviewed all our operations including the process and procedures followed by us and wherever required we have taken remedial steps and corrective measures on most of the observations as mentioned in the SCN.

(xii) The Company has ploughed enough funds for smooth financial functioning of our Company.

(xiii) The alleged procedural lapses in the context of our overall scale of operations handled by us are very miniscule.

(xiv) Further, we submit that we have a very competitive and experienced compliance team who are working with the Company for past many years.

(xv) The alleged lapses, if any, have occurred unintentionally and there was never any fraudulent intention on our part.

..."

14. Subsequently, in the interest of principles of natural justice, vide Hearing Notice dated October 28, 2024, an opportunity of hearing was afforded to the Noticee on November 07, 2024. On the date of hearing viz., on November 07, 2024, the Noticee availed the hearing opportunity through its Authorised Representatives ("ARs") viz. Dr. Keyur Shah (Advocate) and Meit Shah (Advocate) during which the ARs relied upon and reiterated the submissions made February 16, 2024, July 04, 2024 and October 23, 2024. Further, the ARs sought time till November 14, 2024 to make additional submissions as final and complete submissions in the matter, accordingly the same was allowed.
15. Vide letter dated November 13, 2024, the Noticee made following key additional submissions as reply to the SCN:

" ...

It is pertinent to note that out of 12 alleged violation as mentioned in the SCN, only 3 violations are alleged to be continuing, that is to say that for 9 alleged violations remedial and corrective steps have been taken by us and there is no repeat of the alleged violation. Further, w.r.t. the continuous non-compliance of alleged 3 violations, we submit that post inspection, corrective steps have been taken. In this regard, we submit as under:

(i) W.r.t. allegation that Member has passed penalty to clients on account of short/non-collection of upfront margins

(a) It is pertinent to note that post inspection i.e. 13.08.2024 and 14.08.2024, the penalty so passed to clients from August 2024 onwards have been reversed. A copy of statement of account from 01.08.2024 to 12.11.2024 of Motisons Shares Private Limited is hereto annexed and marked as Annexure – 1

(b) Presently, we do not pass penalty to clients on account of short/non-collection of upfront margins.

(c) It is also pertinent to note that till date, there is no client complaint w.r.t. imposition of penalty on account of short/non-collection of upfront margins.

(d) Therefore, we humbly request that no adverse inferences be drawn against us in this regard.

(ii) W.r.t. allegation about analysis of Enhanced Supervision data (Weekly)

(a) It is pertinent to note that on 29.12.2023, we have uploaded correct data as required under Enhanced Supervision Data. There is no adverse findings w.r.t. the same.

(b) Further, we submit that we have adopted daily reconciliation process and pursuant thereto there are no instances of G being negative.

(c) We have not mis-utilized client funds or securities.

(d) Further, without prejudice to our submissions, we submit that as per SEBI circular dated 12.01.2024 bearing reference no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/03, submission of data towards monitoring of client funds under enhanced supervision has been discontinued from the week ended 12.1.2024 onwards.

(e) Therefore, we humbly request that no adverse inferences be drawn against us in this regard.

(iii) Submission on the allegation of we engaged as a principal or employee in a business other than that of securities involving personal financial liability

(a) We would like to reiterate our submissions made by our letter dated 04.07.2024 and 23.10.2024 for the sake of brevity the same is not repeated herein.

(b) Additionally, we would like to submit as under:

- We humbly submit that the validity of NSE Circular dated 07.01.2022 bearing reference no. NSE/COMP/50957 which pertains to clarification to the Rule 8(1)(f) and 8(3)(f) of Securities Contract (Regulations) Rules, 1957 ("SCRR"), which is one of the subject matter of present proceedings, is under challenge before the Hon'ble Bombay High Court in Writ Petition (L) No. 32739 of 2023 and said Writ Petition is admitted on 24.07.2024. The outcome of the said Writ Petition will have direct bearing on the subject matter of the present proceedings.*

- Further, on similar subject matter, the Hon'ble Securities Appellate Tribunal in the matter of Arihant Capital Markets Ltd Vs. National Stock Exchange of India Ltd. (Appeal No. 431 of 2023) has vide Order dated 10.09.2024 stated as under:*

Quote:

"1. Learned advocate for the NSE submits that circular is under challenge before the Hon'ble Bombay High Court. Matter is adjourned sine die. ..."

Unquote

• Additionally, Ministry of Finance, Department of Economic Affairs, Financial Markets Division has issued Consultation Paper for Public Comments on Rule 8 of the SCRR. In the said Consultation Paper, it is proposed that the following rules be inserted: (Ref. Annexure – B on Page No. 12 and 13 of the said Consultation Paper)

Quote:

"2. In Rule 8 of the Securities Contracts (Regulation) Rules, 1957,

(i) in sub-rule(1), in clause (f), after the first proviso, the following proviso shall be inserted, namely:-

"Provided further that investment made by a member shall not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker."

(ii) in sub-rule(3), after clause (f), following proviso shall be inserted, namely:-

"Provided further that investment made by a member shall not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker."

Unquote

5. In addition to what is stated aforesaid, on the allegations as alleged against us in the SCN, we would like to submit as under:

(i) There is no allegation of misutilization of client's funds or securities.

(ii) The allegations did not have material impact on client's funds.

(iii) From September 2022 till date, there has not been a single instance where the value of "G" is negative. This shows the remedial steps taken by the Company to ensure that the alleged lapses, though unintentional and not mala fide, are not repeated.

(iv) The violations as alleged in the SCN are only technical in nature and no material benefit has occurred to the Company.

(v) As on date, there are no instances of non-settlement of client funds.

(vi) Our Net Worth is substantially above the required Net Worth as required in the provisions.

(vii) Further, the loans given by us were out of our own surplus funds and not otherwise. No client's funds were used for the same and the same did not affect our Net Worth.

(viii) Additionally, we would like to submit that post inspection, we have reviewed all our operations including the process and procedures followed by us and wherever required we have taken all remedial steps and corrective measures so as ensure that lapses, if any, as alleged in the SCN do not reoccur.

(ix) The alleged lapses, if any, have occurred unintentionally and there is no material benefit which is accrued to the Company.

(x) There was never any fraudulent intention on our part w.r.t. the alleged allegations as mentioned in the SCN.

..."

16. Subsequently, SEBI shared additional findings and a Supplementary SCN SEBI/HO/EAD/EAD5/P/OW/2025/10413/1 dated April 09, 2025 was issued against the Noticee. The allegations in respect of the Noticee inter alia brought out in the SSCN are as under:

"...

5.1. Stock broker has passed on short margin penalty to 13 clients out of 50 sample clients (>25% of sample clients) for short/non-collection of upfront Margins. (Annexure 2)

5.1.1. In this regard, the Noticee in its response to the findings of inspection submitted that, "The clients as per the Annexure used to ignore our surveillance call to square up their position on a very regular basis thus made us to take necessary step to avoid such instances we have penalized the clients for not repeat in future."

5.1.2. In this regard, SEBI observed the following:

From the reply of the stock broker, it is evident that stock broker has accepted the violation of passing of penalty to the clients. Thus, stock broker has violated regulation 9(b) and point A(5) of Code of Conduct of Schedule II of Securities and Exchange

Board of India (Stock Brokers) Regulations, 1992 read with Point 15 of Annexure-A of NSE circular NSE/INSP/45191 dated July 31,2020 and NSE/INSP/49929 dated October 12, 2021.

5.1.3. In view thereof, it is alleged that the Noticee has violated Regulation 9(b) and point A(5) of Code of Conduct of Schedule II of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with Point 15 of Annexure-A of NSE circular NSE/INSP/45191 dated July 31,2020 and NSE/INSP/49929 dated October 12, 2021.

5.2. Loan Transactions were executed with multiple parties. As on 30.06.2024 outstanding value of loan is Rs.22.40 Crores.

5.2.1. In this regard, on verification, SEBI observed that Loan Transactions were executed with multiple parties. As per member, the parties are not related entities, and they have not provided any Loan agreement with these parties.

As on 30.06.2024 outstanding value of loan is Rs. 22.40 Crores details of which is given below:

Party Code	Name	Amount (In Rs.)
MSHW	MS HOSPxxxxITY & WExxxxSS xxx xxx	5,47,45,000
MUNI	MUxxxxxRAT VExxxRE PRxxxTE LxxxxED	20,687
PITA	PlxxxxAR COxxxxxTY FUxxxES xxx xxx	6,22,20,698
SPPL	SxxxM PxxxR PRxxxTE LxxxxED	1,35,26,226
SPCL	SUxxxSH PxxxR CxxxxNY xxx	4,85,55,819
RIDP	RxxxxAT lxxxxA DExxxxxxRS xxx xxx	3,75,00,000
SWPL	SHxxxxxxxRI SxxxxS PRxxxTE LxxxxED	75,00,000

Therefore, it may be construed that Member is engaged as a principal in a business other than that of securities involving personal financial liability.

5.2.2. In this regard, the Noticee in its response to the findings of inspection submitted that, "We have given some loan amount to other entities as at that time our Net worth shows sufficient balance as were maintaining at that time."

5.2.3. In this regard, SEBI observed the following:

Stock broker has submitted that loan has been extended to other entities by the stock broker. Thus, stock broker has accepted the existence of violation in this regard. Thus, stock broker has violated rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957, SMD/POLICY/CIR-6 dated May 7, 1997 and regulation 9(b) and point A(5) of Code of Conduct of Schedule II of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with Exchange circular NSE/COMP/50957 dated January 07, 2022, Rule (5) (b) of Chapter III of the Rules of NSEIL.

5.2.4. In view thereof, it is alleged that the Noticee has violated Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957, SMD/POLICY/CIR-6 dated May 7, 1997 and regulation 9(b) and point A(5) of Code of Conduct of Schedule II of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with Exchange circular NSE/COMP/50957 dated January 07, 2022, Rule (5) (b) of Chapter III of the Rules of NSEIL.

... ”

17. Vide letter dated May 02, 2025, the Noticee submitted its reply to the SSCN and requested an opportunity of personal hearing. The Noticee made following key submissions as reply to the SSCN:

“ ...

6. We humbly submit that we have always followed and worked in compliance with the Rules, Regulations, guidelines and framework as applicable to us from time to time. Further, we humbly submit that in respect of the alleged deficiencies, if any, as mentioned in the SSCN, corrective and remedial steps have been taken wherever possible. We have strengthened our compliance department so that the Rules & Regulations as applicable to us are properly complied with and there is no non-compliance at our end.

The aforesaid proves our commitment for ensuring that our Company is in compliance with all the applicable provisions of securities laws and that there is no non-compliance of any provision at our end.

7. Submissions on the allegation that we have passed penalty to the clients for short/non-collection of upfront margins

(i) During the inspection period, the clients as mentioned in the Annexure – 2 of the SSCN, used to ignore surveillance call to square up their position on regular basis. Hence, to avoid such instances in future, we have penalized the said clients.

(ii) However, it is pertinent to note that presently, we do not pass any penalty to clients on account of short/non-collection of upfront margins.

(iii) We would also like to highlight that, there is no client complaint w.r.t. imposition of penalty on account of short/non-collection of upfront margins.

(iv) It is pertinent to note that post inspection i.e. 13.08.2024 and 14.08.2024, the penalty so passed to clients from August 2024 onwards have been reversed. A copy of statement of account from 01.08.2024 to 12.11.2024 of Motisons Shares Private Limited is hereto annexed and marked as Annexure – 1

(v) Therefore, we humbly request that no adverse inferences be drawn against us in this regard.

8. Submissions on the allegations that Loan transactions were executed with multiple parties. It is alleged that as on 30.06.2024, outstanding value of loan is Rs. 22.40 Crores

(i) The said loans which were granted, did not affect our Net Worth in any manner whatsoever.

(ii) We humbly submit that the loans given to entities were out of our surplus funds/reserves available with us.

(iii) The funds given by us were out of our own surplus fund with intent to retain liquidity at any given point in time.

(iv) The said loan transaction did not affect the client's dealings with us. The said loan was not given out of client's funds.

(v) The said loan given to entities did not possess risk to our business as "Stock Broker"

(vi) Therefore, we humbly request that no adverse inference be drawn against us in this regard.

9. Further, w.r.t. the aforesaid alleged violation of granting loan to multiple parties, we would like to make certain additional submissions as under:

(i) We place reliance on an interpretive letter dated 14.02.2022 bearing reference no. SEBI/HO/MIRSD/DoP/P/OW/2022/ 6143/1 issued under SEBI (Informal Guidance) Scheme, 2003 in the matter of HDFC Securities Limited. Therein it is mentioned that interpretation of Rule 8(3) (f) of SCRR is that the Stock Brokers are not deemed to be engaged in business other than securities market as far as they do not incur any personal financial liability.

(ii) Further, we place reliance on Adjudication Order dated 31.10.2017 bearing reference no. EAD-12/AO/SM/95/2017-18 passed in the matter of inspection of Geojit BNP Paribas Financial Services Limited which states that "14 For any activity to be classified as business activity there should be several activities with several clientele " (Ref. Para No. 14 on Page No. 11, 7th and 8th Line of the Para of the Order dated 31.10.2017). Besides, extract from the said Order relevant to the present case is reproduced as under: (Ref. Para No. 18 on Page No. 12 of Order dated 31.10.2017):

Quote:

"18. I note as per law there is no restriction on the inter corporate loans given by a SEBI registered intermediary. An inter-corporate loan given by a stock broker out of the surplus funds, which exceed the minimum network requirement applicable to stock broker as well as the working capital requirement for its business, as a temporary financial accommodation would not pose the risk to the business of the stock broker and affect the clients dealing with them. The main purpose of rule 8(3) (f) of SCRR was to prohibit the brokers to invest the clients' money in other businesses. However, in the present case, there is a clear demarcation of the clients' fund and its own fund. The loan that was advanced to GCPL was the excess fund of the Noticee. In no way was the fund of the client used to advance loan to the subsidiary. The clients' money was never exposed to any risk. The Noticee extended loans from its own excess funds".

Unquote

(iii) Additionally, we crave to place reliance on the Order dated 29.11.2023 passed by Hon'ble Securities Appellate Tribunal in the matter of Magnum Equity Broking Limited Vs. NSE (Appeal No. 461 of 2022). Relevant extract of the said Order is mentioned herein under: (Ref. Para No. 9 and 10 on Page No. 7 and 8 of Order dated 29.11.2023)

Quote:

"9. A plain reading of the Rule 8(3)(f) of SCR Rules and Rule 5(b) of the Chapter II of the Rules of the Exchange would indicate that a trading member cannot engage as a principal or employee in any business involving any personal financial liability other than that of securities. SEBI's circular dated May 7, 1997 clarified that borrowing and lending funds by a trading member, in connection with or incidental to or consequential upon the securities business would not disqualify a trading member under Rule 8(3)(f) of the SCR Rules.

10.

In our view, investment of surplus funds, generated as a consequence of securities business, with an NBFC registered with RBI cannot lead to an inference that the Appellant is engaged as a principal in business other than that of securities involving personal financial liability. The Respondent Committee given a clear finding that the funds were advanced from the account of the Appellant therefore there is no dispute that the funds were their own moneys."

Unquote

(iv) We humbly submit that the validity of NSE Circular dated 07.01.2022 bearing reference no. NSE/COMP/50957 which pertains to clarification to the Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957, which is one of the subject matter of present proceedings, is under challenge before the Hon'ble Bombay High Court in Writ Petition (L) No. 32739 of 2023 and said Writ Petition is admitted on 24.07.2024. The outcome of the said Writ Petition will have direct bearing on the subject matter of the present proceedings.

(v) Further, on similar subject matter, the Hon'ble Securities Appellate Tribunal in the matter of Arihant Capital Markets Ltd Vs. National Stock Exchange of India Ltd. (Appeal No. 431 of 2023) has vide Order dated 10.09.2024 stated as under:

Quote:

"1. Learned advocate for the NSE submits that circular is under challenge before the Hon'ble Bombay High Court. Matter is adjourned sine die. ..."

(vi) Additionally, Ministry of Finance, Department of Economic Affairs, Financial Markets Division has issued Consultation Paper for Public Comments on Rule 8 of the SCRR. In the said Consultation Paper, it is proposed that the following rules be inserted: (Ref. Annexure – B on Page No. 12 and 13 of the said Consultation Paper)

Quote:

“2. In Rule 8 of the Securities Contracts (Regulation) Rules, 1957,

(i) in sub-rule(1), in clause (f), after the first proviso, the following proviso shall be inserted, namely:-

“Provided further that investment made by a member shall not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker.”

(ii) in sub-rule(3), after clause (f), following proviso shall be inserted, namely:-

“Provided further that investment made by a member shall not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker.”

Unquote

10. It is also pertinent to note that the inspection pertaining to the present SSCN was conducted to verify compliance of 4 areas. Out of 4 areas, adverse observations are only alleged in 2 areas and there are no adverse observations w.r.t. misuse of clients funds and verification of trade files (including net sell pay in, pay out verification).

11. In addition to what is stated aforesaid, on the allegations as alleged against us in the SCN, we would like to submit as under:

(i) We have in right spirit performed our duties as a registered Stock Broker and, we have also adhered to high standards w.r.t. services rendered by us to our clients.

(ii) We submit that there is no allegation of misutilization of funds or securities for our personal gains against us in the present proceedings. W.r.t. the allegations as alleged in the SSCN, there is not even a single client complaint against our Company.

(iii) Further, as a result of the alleged violations in the SSCN, if any, we have not made any gains or derived any unfair advantage. The alleged procedural lapses, if any, in the context of our Company's overall scale of operations handled by us is very miniscule.

(iv) In respect of alleged deficiency, if any, all remedial and corrective steps are taken post inspection.

(v) We have always maintained high standard of integrity, promptitude and fairness in conduct of all our overall business as a Stock Broker.

(vi) As a Stock Broker, we have always acted with due skill, care and diligence in the conduct of all our overall businesses.

(vii) As a Stock Broker, we have abided by all the provisions of the Act and the Rules, Regulations issued by the Government, the Board and the Stock Exchanges from time to time as may be applicable to us.

(viii) We have never indulged in any action that could result in violation of securities laws and have adequately mitigated the risk as and when the need arose.

(ix) We have never derived any unfair gain in any manner whatsoever while performing our duties as a Stock Broker.

(x) Importantly, no loss is caused to any person due to our acts and omission, if any.

(xi) It is pertinent to note that, pursuant to Inspection in August 2024, there is no instance of passing short margin penalty to clients.

(xii) Violations, if any, are merely technical in nature.

...”

18. In the interest of principles of natural justice, vide Hearing Notice dated May 08, 2025, the Noticee was afforded an opportunity of hearing on May 16, 2025.

19. Vide letter dated May 13, 2025, the Noticee sought adjournment of personal hearing. Considering the Noticee's request, the hearing was rescheduled to June 10, 2025. On the rescheduled date of hearing viz., on June 10, 2025, the Noticee availed the hearing opportunity through its Authorised Representatives (“ARs”) viz. Dr. Keyur Shah (Advocate) and Meit Shah (Advocate) during which the ARs relied upon and reiterated the submissions made vide its reply dated May 02, 2025. Further, the ARs sought time till June

17, 2025 to make additional submissions as final and complete submissions in the matter, accordingly the same was allowed.

20. Vide letter dated June 14, 2025, the Noticee made following additional submissions as reply to the SCN:

“ ...

5. At the outset, it is humbly submitted that we have always followed and worked in compliance with the Rules, Regulations, guidelines and framework as applicable to us from time to time. Further, we humbly submit that in respect of the alleged deficiencies, if any as mentioned in the SSCN, corrective and remedial steps have been taken. The alleged lapses or deficiencies, if any, as observed are presently no longer in existence. We have strengthened our compliance department so that the Rules & Regulations as applicable to us are properly complied with and there is no non-compliance at our end.

The aforesaid proves our commitment for ensuring that our Company is in compliance with all the applicable provisions of securities laws and that there is no non-compliance of any provision at our end.

6. Further, we submit that the inspection period of SSCN is different from SCN (Inspection period from 01.04.2021 to 31.08.2022)

7. W.r.t. allegation that Member has passed penalty to clients on account of short/non-collection of upfront margins

(i) It is pertinent to note that post inspection i.e. 13.08.2024 and 14.08.2024, the penalty so passed to clients from August 2024 onwards have been reversed. A copy of statement of account from 01.08.2024 to 12.11.2024 of Motisons Shares Private Limited is already submitted as Annexure – 1 to our reply dated 02.05.2025.

(ii) Presently, we do not pass penalty to clients on account of short/non-collection of upfront margins.

(iii) It is also pertinent to note that till date, there is no client complaint w.r.t. imposition of penalty on account of short/non-collection of upfront margins.

(iv) Therefore, we humbly request that no adverse inferences be drawn against us in this regard.

8. Submission on the allegations that Loan transactions were executed with multiple parties.

(i) W.r.t. the alleged violation, we humbly submit as under:

(a) The said loans which were granted, did not affect our Net Worth in any manner whatsoever.

(b) We humbly submit that the loans given to entities were out of our surplus funds/reserves available with us.

(c) The said loan transaction did not affect the client's dealings with us. The said loan was not given out of client's funds. No client's securities were involved in the loans so granted by us.

(d) The loans given does not relate to any arrangements which are in the nature of creating financial liability on us.

(e) The said loan given to entities did not possess risk to our business as "Stock Broker"

(f) Therefore, no adverse inference be drawn against us in this regard.

(ii) Without prejudice to what is submitted aforesaid, we humbly submit that NSE vide Circular dated 10.06.2025 bearing Download Ref No. NSE/INSP/68456 has provided clarification to the Rule 8(1)(f) and 8(3)(f) of SCRR. NSE has stated that the Department of Economic Affairs, Ministry of Finance has published the amendment of Securities Contracts (Regulation) Rules, 1957. The amendment is w.r.t. 8(1)(f) and 8(3)(f) of SCRR. Further, due to amendment of the said Rules in SCRR, Point No. 10 of the NSE Circular dated 07.02.2022 and clarification provided in NSE Circular dated 22.09.2022 bearing reference no. NSE/COMP/53802 is deleted. A copy of NSE Circular dated 10.06.2025 bearing Download Ref No. NSE/INSP/68456 is hereto annexed and marked as Annexure – 1.

9. It is also pertinent to note that the inspection pertaining to the present SSCN was conducted to verify compliance of 4 areas. Out of 4 areas, adverse observations are only alleged in 2 areas and there are no adverse observations w.r.t. misuse of clients funds and verification of trade files (including net sell pay in, pay out verification).

10. In addition to what is stated aforesaid, on the allegations as alleged against us in the SCN, we would like to submit as under:

(i) We have in right spirit performed our duties as a registered Stock Broker and, we have also adhered to high standards w.r.t. services rendered by us to our clients.

(ii) We submit that there is no allegation of misutilization of funds or securities for our personal gains against us in the present proceedings. W.r.t. the allegations as alleged in the SSCN, there is not even a single client complaint against our Company.

(iii) Further, as a result of the alleged violations in the SSCN, if any, we have not made any gains or derived any unfair advantage. The alleged procedural lapses, if any, in the context of our Company's overall scale of operations handled by us is very miniscule.

(iv) In respect of alleged deficiency, if any, all remedial and corrective steps are taken post inspection.

(v) We have always maintained high standard of integrity, promptitude and fairness in conduct of all our overall business as a Stock Broker.

(vi) As a Stock Broker, we have always acted with due skill, care and diligence in the conduct of all our overall businesses.

(vii) As a Stock Broker, we have abided by all the provisions of the Act and the Rules, Regulations issued by the Government, the Board and the Stock Exchanges from time to time as may be applicable to us.

(viii) We have never indulged in any action that could result in violation of securities laws and have adequately mitigated the risk as and when the need arose.

(ix) We have never derived any unfair gain in any manner whatsoever while performing our duties as a Stock Broker.

(x) Importantly, no loss is caused to any person due to our acts and omission, if any.

(xi) It is pertinent to note that, pursuant to Inspection in August 2024, there is no instance of passing short margin penalty to clients.

(xii) Violations, if any, are merely technical in nature.

”
...

D. CONSIDERATION OF ISSUES AND FINDINGS

21. The issues that arise for consideration in the instant case are:

Issue No. I: Whether the Noticee has violated the provisions of SCR Act, 1956, SEBI Stock Broker Regulations, 1992, SCR Rules, 1957 and Circulars, as alleged?

Issue No. II: If yes, whether the Noticee is liable for imposition of monetary penalty under Section 15HB of the SEBI Act, 1992, and Sections 23D and 23H of SCR Act, 1956?

Issue No. III: If yes, what would be the monetary penalty that can be imposed upon the Noticee?

22. I now proceed to deal with the matter having regard to the submissions of the Noticee on merits:

Issue No. I: Whether the Noticee has violated the provisions of SCR Act, 1956, SEBI Stock Broker Regulations, 1992, SCR Rules, 1957 and Circulars, as alleged?

23. I note from the material available on record that the following was inter alia observed and alleged by SEBI in respect of the Noticee:

24.1. Finding 1: Misuse of clients funds:

24.1.1. In this regard, the following was inter alia observed and alleged:

a) G negative – On 5 out of 20 sample instances, funds of credit balance clients mis-utilized for meeting the obligations of debit balance clients and/or for its own purpose. The average misutilised amount was Rs. 1.09 Crore. The amount of mis-utilization ranged from Rs.40.72 Lakh to Rs.1.52 Crore.

b) Further, value of 'J' was positive in 8 out of 20 sample instances, funds of clients mis-utilised towards margin obligations of debit balance clients and proprietary trading. The average misutilised amount was Rs. 3.06 Crore. The amount of mis-utilisation ranged from Rs.17.08 Lakh to Rs.8.5 Crore.

Accordingly, it was inter alia alleged that the Noticee had violated provisions of Section 23D of SC(R) Act, 1956 read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

24.1.2. In this regard, I note that Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 reads as under:

“ ...

1. It shall be compulsory for all Member brokers to keep the money of the clients in a separate account and their own money in a separate account. No payment for transactions in which the Member broker is taking a position as a principal will be allowed to be made from the client's account. The above principles and the circumstances under which transfer from client's account to Member broker's account would be allowed are enumerated below.

... ”

Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

“ ...

Monitoring of Clients' Funds lying with the Stock Broker by the Stock Exchanges

3.1. Stock Exchanges shall put in place a mechanism for monitoring clients' funds lying with the stock broker to generate alerts on any misuse of clients' funds by stock brokers, as per the guidelines stipulated in para 3.2 & 3.3 below.

3.2. Stock brokers 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 stock broker 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 stock broker 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)

E-Aggregate value of proprietary non-cash collaterals i.e. securities which have been deposited with the clearing corporations and/or clearing member (across Stock Exchanges)

F-Aggregate value of Non-funded part of the BG across Stock Exchanges

P-Aggregate value of Proprietary Margin Obligation across Stock Exchanges

MC-Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges

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

3.3. Based on the aforesaid information submitted by the stock broker, Stock Exchanges shall put in place a mechanism for monitoring of clients' funds lying with the stock brokers on the principles enumerated below:

3.3.1. Funds of credit balance clients used for settlement obligation of debit clients or for own purpose:

Principle:

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

Stock Exchanges shall calculate the difference i.e. G as follows -

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

If difference G is negative, then the total available fund is less than the ledger credit balance of clients.

The value of G may indicate utilization of clients' funds for other purposes i.e. funds of credit balance clients are being utilized either for settlement obligations of debit balance clients or for the stock brokers' own purposes. The negative value of G acts as an alert to the Stock Exchanges.

Thereafter, the absolute value of G shall be compared with debit balance of all clients as per client ledger D as follows:

If the absolute value of (G) is lesser than |D|, then the stock broker has possibly utilised funds of credit balance clients towards settlement obligations of debit balance clients to the extent of value of G.

If the absolute value of (G) is greater than |D|, then the stock broker has possibly utilised a part of funds of credit balance clients towards settlement obligations of debit balance clients and remaining part for his own purposes. In such cases the amount of client funds used for own purpose is calculated as follows:

$$H = |G| - |D|$$

....

3.3.3. Funds of credit balance clients used for Margin obligations of debit balance clients and proprietary trading:

Stock Exchanges shall thereafter, verify whether the clients funds lying with the clearing corporation/clearing member are utilised towards margin obligations of debit balance clients and proprietary margin obligations.

Principle:

The clients' funds lying with the clearing corporation/clearing member should be less than or equal to sum of credit clients' margin obligations (MC) and free collateral deposits available with the clearing corporation/clearing member (MF)

If value of G is negative (i.e. $A+B < C$), then fund lying with the clearing corporation/ clearing member (B) is entirely clients' fund. In such cases, B is compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/ clearing member. The value of J is calculated as under:

$$J = B - (MC + MF)$$

If value of G is positive (i.e. $A+B > C$), then fund lying with the clearing corporation/clearing member (B) may contain proprietary and clients' fund. Hence, the value of clients funds lying with the clearing corporation/ clearing member i.e. (C-A) shall be considered in the place of B.

In such cases, (C-A) is compared with Margin obligations of credit balance clients and the free deposits available with the clearing corporation/clearing member. The value of J, which is clients' funds utilised

towards margin obligations of debit balance clients and proprietary margin obligations, is calculated as under:

$$J = (C - A) - (MC + MF)$$

The value of J, if positive, indicates the extent of clients' funds utilised towards margin obligations of debit balance clients and proprietary margin obligations. This value of J acts as an alert to the Stock Exchanges on the possible mis-utilisation of clients' funds towards margin obligations of debit balance clients and proprietary margin obligations.

...”

24.1.3. In this regard, as regards the violation with respect to G value, I note the following from the material available on record:

Date	G (in Rs) (-ve)
22.08.2022	10300689.00
23.08.2022	14948309.43
24.08.2022	15200908.28
25.08.2022	10008548.15
26.08.2022	4072924.72

24.1.4. In this regard, the Noticee in its submissions as reply dated July 04, 2024 to the SCN has inter alia submitted that, “...NSE vide letter dated 11.05.2023 were the Inspection Period covered the period as mentioned in the present SCN, and we have been penalized by NSE for the same violation for an amount of Rs. 2,24,400/- A copy of NSE Letter dated 11.05.2023 bearing reference no. NSE/INSP/MCSGFC-90/CMFOCDS/OFFSITE/ 22-23/ACT/12981 is enclosed hereto marked as Annexure – “1”...”

In this regard, on perusal of NSE letter dated 11.05.2023 and as confirmed by NSE, I note that a penalty was imposed on the Noticee in this regard for violation of G between August 10, 2022 – September 02, 2022.

24.1.5. Therefore, having regard to the submissions of the Noticee and to the material available on record, I am inclined to allow the benefit of doubt to the Noticee in this regard.

24.1.6. As regards the violation with respect to J value, I note the following from the material available on record:

Date	J (in Rs.)
18.05.2021	9557971.04
20.05.2021	3235994.33
21.05.2021	54289903.04
13.12.2021	84982173.78
14.12.2021	1708588.38
15.12.2021	3054903.76
17.12.2021	7953098.19
22.08.2022	80152870.97

24.1.7. In this regard, I note that the Noticee's submissions as reply dated July 04, 2024 to the SCN are in nature of admission in so far as the Noticee has inter alia submitted that, *"...the same was due to some clients who utilized higher margin value against the creditors balance due to improper limit given by our surveillance department...we submit that the same was due to miscalculation of balances by our back office software which has been resolved and now the said software is perfectly updated..."*

24.1.8. In view thereof, I find that the allegation that value of 'J' was positive in 8 out of 20 sample instances, stands established. Therefore, I hold that the Noticee had violated the provisions of Section 23D of SC(R) Act, 1956 read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

24.2. Finding 2: Segregation of client's funds and Own funds and Non maintenance of daily reconciliation statement:

24.2.1. In this regard, the following was inter alia observed and alleged:

Net amount transferred from Settlement Bank Account to Own bank

Account of broker during inspection period was Rs. 29.56 Crores for various purposes like brokerage as per member. However, he had not maintained a daily reconciliation statement for transfer of brokerage, charges etc to its own account.

Thus, trading member had not maintained proper segregation between client and own funds.

Accordingly, it was inter alia alleged that the Noticee had violated provisions of Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

24.2.2. In this regard, I note from the material available on record that SEBI had inter alia observed that member had transferred funds from own to settlement bank account amounting to Rs.72.47 Crores and from Settlement bank account to Own bank account amounting to Rs. 102.02 Crores. Net amount transferred from Settlement Bank account to Own Bank Account was Rs. 29.56 Crores.

I further note from the material available on record that as per TM, funds were transferred for below mentioned purposes:

Particulars	Amount (in Rs crores)
Brokerage	5.47
Income from Depository Services	0.19
Other charges recovered from clients/exchange	0.01
Dividend Income	0.07
Profit From Currency F&O A/c	0.68
Profit From F&O - Pro A/C	6.31
Profit from Intraday Trading	1.96
FD for BG Apr to Aug.22	4.50
Interest income on Fixed deposits with bank	1.36
Recovery of bad Debts (Kewal chand jain)	7.85
Total	28.40

In this regard, SEBI inter alia observed that trading member had not maintained a daily reconciliation statement for transfer of brokerage, charges etc to its own account.

24.2.3. In this regard, I note that the Noticee's submissions as reply dated July 04, 2024 to the SCN are in nature of admission in so far as the Noticee has inter alia submitted that, *"...the difference in amount is due to an amount which was given to HDFC Bank for intraday limit facility...We have started daily reconciliation along with fund flow reconciliation and there is no repeat of the alleged violation..."*

I further note that the Noticee's submissions to SEBI earlier in response to the findings of inspection were in nature of admission in so far as the Noticee had inter alia submitted to SEBI that, *"...Earlier we are not in practice of daily maintaining reconciliation statement. And we were not doing fund flow reconciliation too. We assure you that we will comply the same from herein after ..."*

24.2.4. In view thereof, I find that the allegation that the Noticee had not maintained a daily reconciliation statement for transfer of brokerage, charges etc to its own account and that the Noticee had not maintained proper segregation between client and own funds, stands established. Therefore, I hold that the Noticee had violated the provisions of Clause 2.4.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

24.3. Finding 3: Reporting and short collection of Margin:

24.3.1. In this regard, the following was inter alia observed and alleged:

Member had done incorrect margin reporting to the Exchange.

5 instances - 5 clients Amount – Rs. 9.16 Lakhs.

Accordingly, it was inter alia alleged that the Noticee had violated the provisions of Clause 4.1.2, 4.1.5 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/ MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020.

24.3.2. In this regard, I note that Clause 4.1.2, 4.1.5 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 reads as under:

“ ...

4. Incash segment, the VaR margin is collected by Clearing Corporation (CC) upfront from trading member/clearing member by adjusting against the available liquid assets of TM/CM at the time of trade. However, the quantum, form and mode of collection of the margin from the client is left to the discretion of TM/CM. 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, following guidelines are issued:

4.1. Collection of margins from the clients by TM/CM in cash segment:

4.1.2. Henceforth, like in derivatives segment, the TMs/CMs in cash segment are also required to mandatorily collect upfront VaR margins and ELM from their clients. The TMs/CMs will have time till 'T+2' working days to collect margins (except VaR margins and ELM) from their clients. (The clients must ensure that the VaR margins and ELM are paid in advance of trade and other margins are paid as soon as margin calls are made by the Stock Exchanges/TMs/CMs. The period of T+2 days has been allowed to TMs/CMs to collect margin from clients taking into account the practical difficulties often faced by them only for the purpose of levy of penalty and it should not be construed that clients have been allowed 2 days to pay margin due from them.)

...

4.1.5. As like in derivatives segments, the TMs/CMs shall report to the Stock Exchange on T+5 day the actual short-collection/ non-collection of all margins from clients.

...”

I further note that Clause 2 of SEBI Circular SEBI/HO/ MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020 reads as under:

“ ...

2. In view of the representations received from investors, TMs/ CMs, stock broker associations, in this regard, following has been decided:

2.1. If TM / CM collects minimum 20% upfront margin in lieu of VaR and ELM from the client, then penalty for short-collection / non-collection of margin shall not be applicable. However, it is reiterated that Clearing Corporation shall continue to collect the upfront margin from the TM / CM based on VaR and ELM.

2.2. The penalty provision for short-collection / non-collection of upfront margin in cash segment shall be implemented with effect from September 01, 2020.

...”

24.3.3. In this regard, I note from the material available on record that on verification of margin reporting to exchange, SEBI inter alia observed that trading member had done incorrect margin reporting to the Exchange in 5 instances pertaining to 5 clients amounting to Rs. 9.16 Lacs (3 instances of Peak margin amounting to Rs 2.05 Lacs and 2 instances pertaining to 2 clients amounting to Rs. 7.11Lacs):

I note from material available on record the 3 instances with respect to peak margin were as below:

Trade date	Client code	Shortfall peak
21-May-21	Hxx88	(12,445.09)
15-Apr-21	Hxx86	(82,376.35)
26-May-21	Wxxx71	(12,445.09)

I note from material available on record the 2 instances with respect to EoD margin were as below:

Trade date	Client code	Shortfall EoD
20-Jul-22	MYxx06	(1,700.00)
28-Jul-22	Hxx10	(7,08,915.03)

24.3.4. In this regard, I note that the Noticee's submissions as reply dated July 04, 2024 to the SCN are in nature of admission in so far as the Noticee has inter alia submitted that, “...*peak margin was wrongly calculated due to software error, which resulted in wrong reporting of peak*

margin...we have adopted daily reconciliation process and also we have changed our back office software. Pursuant to change in back office software there are no instances of wrong reporting of margin..."

24.3.5. In view thereof, I find that the allegation that the Noticee had done incorrect margin reporting to the Exchange in 5 instances pertaining to 5 clients amounting to Rs. 9.16 Lacs, stands established. Therefore, I hold that the Noticee had violated the provisions of Clause 4.1.2, 4.1.5 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 read with Clause 2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020.

24.4. Finding 4: Member had passed penalty to clients on account of short/non-collection of upfront margins:

Inspection period April 01, 2021 to August 31, 2022:

24.4.1. In this regard, the following was inter alia observed and alleged:

Member had passed penalty to clients for short/non-collection of upfront margins on 19 instances.

Total - Rs. 1.80 lakhs.

Accordingly, it was inter alia alleged that the Noticee had violated provisions of Clause A(5) of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/INSP/49929 dated October 12, 2021 and NSE/INSP/ 53525 dated September 02, 2022.

24.4.2. In this regard, I note from the material available on record that SEBI had inter alia observed that TM had passed penalty to clients for

short/non-collection of upfront margins in case of 19 instances. Total penalty amounting to Rs. 1.80 lakhs

CM -06 instances

FO -13 instances

24.4.3. In this regard, I note from the material available on record that 13 instances with respect to FO segment were as below:

Date	Client code	Penalty (in Rs.)
26-Apr-21	Mxxx22	17,083.33
26-Apr-21	Mxxx23	16,750.87
04-May-21	Gxxx8	4,686.94
27-Aug-21	Jxx9	7,359.59
16-Sep-21	Mxx1	9,227.45
27-Oct-21	Hxx3	12,852.56
23-Nov-21	Hxx08	14,837.44
21-Dec-21	Vxx1	9,121.44
03-Mar-22	Mxxx20	5,077.67
07-Mar-22	Mxxx34	9,074.28
30-Mar-22	Jxx6	35,513.28
16-Jun-22	Mxxx19	10,915.02
23-Aug-22	Wxxx3	6,288.09
	Total	1,58,787.96

I note from the material available on record that 6 instances with respect to CM segment were as below:

Date	Client code	Penalty (in Rs.)
30-Jun-21	Axxx3	1,837
27-Sep-21	Gxxx6	1,058
28-May-21	Hxxx3	4,085
08-Apr-21	Hxx8	3,825
15-Jul-21	Jxx9	6,279
12-Aug-21	Wxxx8	4,556
	Total	21,639

24.4.4. In this regard, I note that Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020 reads as under:

“...

15. In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, Can member pass on the penalty to the clients?

In case of failure (cheque not cleared or margin requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member*

for short reporting of client upfront margins/ margin on consolidated crystallized obligation/MTM losses, member may pass on the actual penalty to the client, provided he has evidences to demonstrate the failure on part of the client .Wherever penalty for short reporting of upfront margin/ margin on consolidated crystallized obligation/ MTM losses is being passed on to the client relevant supporting documents for the same should be provided to the client.

**Member cannot pass on the penalty w.r.t. short collection of upfront margin to client.*

...”

NSE Circular NSE/ INSP/49929 dated October 12, 2021 inter alia reads as under:

“ ...

15. In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, Can member pass on the penalty to the clients?

Member shall not pass on the penalty w.r.t short collection of upfront margins to clients under any circumstances. In case of failure (requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member for short reporting of margins other than “upfront margins” such as consolidated crystallized obligation, Delivery margins, other margins (Mark-to-market & additional margins), member may pass on the actual penalty to the client, provided he has evidence to demonstrate the failure on part of the client. Wherever penalty for short reporting of margins other than “upfront margins” is being passed on to the client relevant supporting documents for the same should be provided to the client.

...”

NSE Circular NSE/INSP/ 53525 dated September 02, 2022 inter alia reads as under:

“ ...

This has reference to Exchange circular NSE/INSP/45191 dated July 31, 2020 wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margin to client. Further, it has been reiterated again vide Exchange circular NSE/INSP/49929 dated October 12, 2021 that members are not permitted to pass on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to clients under any circumstances. However, Exchange has observed that certain members are passing on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins from clients” to respective clients.

In view of the above, it is once again reiterated that members are not permitted to pass on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to clients under any circumstances.

...”

Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 reads as under:

“...

Conditions of registration.

9. Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,-

(f) he shall at all times abide by the Code of Conduct as specifies in Schedule II;

...

SCHEDULE II

CODE OF CONDUCT FOR STOCK BROKERS

A. General

..

(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

...”

24.4.5. In this regard, I note that the Noticee's submissions as reply dated July 04, 2024 to the SCN are in nature of admission in so far as the Noticee has inter alia submitted that, *“...We submit that the clients as mentioned were regularly ignoring our surveillance call to square up their position. However, they failed to do so. Due to which penalty was levied on them...”*.

I further note that the Noticee's submissions dated December 26, 2022 to SEBI earlier in response to the findings of inspection were in nature of admission in so far as the Noticee had inter alia submitted to SEBI that, *“...The clients as per the Annexure -4 are regularly ignore our surveillance call to square up their position and after we have taken necessary step to avoid such instances we have penalised the clients to not repeat in future...”*.

24.4.6. Further in this regard, the Noticee's submissions as reply to the SCN has inter alia submitted that, *“...It is pertinent to note that post inspection i.e. 13.08.2024 and 14.08.2024, the penalty so passed to clients from August 2024 onwards have been reversed...”*.

In this regard, I note that the allegation is with respect to instances of passing penalty to clients on account of short/ non-collection of upfront margins in year 2021 and 2022 and the Noticee has submitted that the penalty so passed to clients from August 2024 onwards have been reversed. Therefore, I note that the Noticee's submissions out of context and hence not acceptable.

24.4.7. In view thereof, I find that that the allegation that the member had passed penalty to clients for short/non-collection of upfront margins on 19 instances (total - Rs. 1.80 lakhs), stands established. Therefore, I hold that the Noticee had violated the provisions of Clause A(5) of Schedule II of Regulation 9(f) of SEBI (Stock Broker) Regulations, 1992 read with Clause 15 to Annexure A of NSE circular NSE/INSP/45191 dated July 31, 2020, NSE/ INSP/49929 dated October 12, 2021 and NSE/INSP/ 53525 dated September 02, 2022.

Inspection period April 01, 2023 to June 30, 2024:

24.4.8. In this regard, the following was inter alia observed and alleged:

Stock broker had passed on short margin penalty to 13 clients out of 50 sample clients (>25% of sample clients) for short/non-collection of upfront Margins.

Accordingly, it was inter alia alleged that the Noticee had violated provisions of Regulation 9(b) and point A(5) of Code of Conduct of Schedule II of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with Point 15 of Annexure-A of NSE circular NSE/INSP/45191 dated July 31,2020 and NSE/INSP/49929 dated October 12, 2021.

24.4.9. In this regard, I note that the Noticee's submissions as reply dated May 02, 2025 to the SSCN are in nature of admission in so far as the

Noticee has inter alia submitted that, “...*the clients as mentioned in the Annexure – 2 of the SSCN, used to ignore surveillance call to square up their position on regular basis. Hence, to avoid such instances in future, we have penalized the said clients...*”.

24.4.10. In this regard, I note that the Noticee in its response dated May 02, 2025 to the SSCN has also submitted that, “...*it is pertinent to note that presently, we do not pass any penalty to clients on account of short/non-collection of upfront margins ...*”.

In this regard, I note that the Noticee in its response dated July 04, 2024 to the SCN had inter alia submitted that, “...*we have taken necessary step to avoid such instances we have penalised the clients to not repeat in future...*”

Therefore, I note that the same violation has persisted for the inspection period April 01, 2021 to August 31, 2022 and 01 April, 2023 – 30 June, 2024.

24.4.11. In view thereof, I find that the allegation that member had passed on short margin penalty to 13 clients out of 50 sample clients (>25% of sample clients) for short/non-collection of upfront Margins, stands established. Therefore, I hold that the Noticee had violated provisions of Regulation 9(b) and point A(5) of Code of Conduct of Schedule II of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with Point 15 of Annexure-A of NSE circular NSE/INSP/45191 dated July 31, 2020 and NSE/INSP/49929 dated October 12, 2021.

24.5. Finding 5: Stock reconciliation:

24.5.1. In this regard, the following was inter alia observed and alleged:

Member had wrongly reported demat account wise holding on Exchange portal with actual holding in demat account. Also, Member had not reconciled client securities with actual demat holding with the broker.

Accordingly, it was inter alia alleged that the Noticee had violated the provisions of Clause 2.3 of SEBI Circular No. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.

24.5.2. In this regard, I note that Clause 2.3 of SEBI Circular No. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 reads as under:

“ ...

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

...”

24.5.3. In this regard, I note from the material available on record that during verification of securities reported to Exchange as on 31-08-2022, SEBI inter alia observed that the Stock Broker had wrongly reported demat account wise holding on Exchange portal with actual holding in demat account on following 5 instances:

DMAT ACCOUNT NO.	ISIN	AS PER HOLDING UPLOADED	AS PER DP
,120xx000xxxxx08x	INE869Y20010	0	90
,120xx000xxxxx08x	INE405E01023	0	64
,120xx000xxxxx24x	INE852S01026	0	530
"INxx0xx61xxx90xx"	IN8028B01036	1000	0
"INxx0xx61xxx90xx"	INE528G01027	412	0

24.5.4. In this regard, I note that the Noticee's submissions as reply to the SCN are in nature of admission in so far as the Noticee has inter alia submitted that, "...*The aforesaid alleged error was due to corporate action and other corporate benefits not transferred automatically to concerned Beneficiary Owners accounts. So, there was difference in*

holding statement...we now on regularly basis reconcile client securities with client holding...”.

24.5.5. In view thereof, I find that that the allegation that the member had wrongly reported demat account wise holding on Exchange portal with actual holding in demat account and that member had not reconciled client securities with actual demat holding with the broker, stands established. Therefore, I hold that the Noticee had violated provisions of Clause 2.3 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.

24.6. Finding 6: Verification of Trade files (including Net sell Pay in, Pay out Verification):

24.6.1. In this regard, the following was inter alia observed and alleged:

Member had not recorded trade details of BSE Currency Derivatives Segment (“CDS”) trades of 14th June 2021.

Accordingly, it was inter alia alleged that the Noticee had violated the provisions of Regulation 17 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

24.6.2. In this regard, I note that Regulation 17 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 reads as under:

“ ...

17. (1) Every Stock Broker shall keep and maintain the following books of account, records and documents, namely:—

(a) Register of transactions (Sauda Book);

(b) Clients ledger;

(c) General ledger;

(d) Journals;

(e) Cash book;

(f) Bank pass book;

⁴⁸(g) Documents register containing, inter alia, particulars of securities received and delivered in physical form and the statement of account and other records relating to receipt

and delivery of securities provided by the depository participants in respect of dematerialized securities;]

(h) Member's contract books showing details of all contracts entered into by him with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members;

(i) Counterfoils or duplicates of contract notes issued to clients;

...

24.6.3. In this regard, I note from the material available on record that the following trades were executed on 14th June 2021 that were not recorded by the Noticee:

TRADE DATE	PRODUCT TYPE	ASSETCD	BUYSELL	TRADE TIME	CLIENTCODE	TRADEID
2021-06-14	FUTCUR	USDINR	S	09:00:10.015299	M1xx6	17xx0
2021-06-14	FUTCUR	USDINR	S	09:00:10.363768	M1xx6	17xx0
2021-06-14	FUTCUR	USDINR	S	09:00:10.736450	M1xx6	17xx0
2021-06-14	FUTCUR	USDINR	S	09:00:10.902800	M1xx6	17xx0
2021-06-14	FUTCUR	USDINR	S	09:00:12.142430	M1xx6	20xx0
2021-06-14	FUTCUR	USDINR	S	09:00:12.595913	M1xx6	20xx0
2021-06-14	FUTCUR	USDINR	B	09:01:58.081288	M1xx6	24xx00

24.6.4. In this regard, I note that the Noticee has not submitted any response to the instant allegation in its reply to the SCN. Therefore, in absence of any response to the allegation, I am of the view that the Noticee has admitted to the violation alleged against it.

24.6.5. In view thereof, I find that that the allegation that member had not recorded trade details of BSE Currency Derivatives Segment ("CDS") trades of 14th June 2021, stands established. Therefore, I hold that the Noticee had violated provisions of Regulation 17 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

24.7. Finding 7: Client order placement/ recording:

24.7.1. In this regard, the following was inter alia observed and alleged:

Member had not maintained the proof of order placement for 2 trades.

Accordingly, it was inter alia alleged that the Noticee had violated the provisions of Clause III of SEBI circular no. SEBI/HO/MIRSD/DoP1/CIR/2018/54 dated March 22, 2018.

24.7.2. In this regard, I note that Clause III of SEBI circular no. SEBI/HO/MIRSD/DoP1/CIR/2018/54 dated March 22, 2018 reads as under:

“ ...

III. To further strengthen regulatory provisions against un-authorized trades and also to harmonise the requirements across markets, it has now been decided that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, which could be, inter alia, in the form of:

- a. Physical record written & signed by client,*
- b. Telephone recording,*
- c. Email from authorized email id,*
- d. Log for internet transactions,*
- e. Record of messages through mobile phones,*
- f. Any other legally verifiable record.*

...”

24.7.3. In this regard, I note from the material available on record that for 2 orders belonging to one client code Mxx74, the broker could only provide the signature on visiting register, no signed order sheet was provided for orders placed.

24.7.4. In this regard, I note that the Noticee's submissions as reply dated July 04, 2024 to the SCN are in nature of admission in so far as the Noticee has inter alia submitted that, “...*at the relevant time we were not maintaining order book. However, later we have started to maintain order book as per the guidelines of SEBI and Exchanges...*”.

I further note that the Noticee's submissions to SEBI earlier in response to the findings of inspection were in nature of admission in so far as the Noticee had inter alia submitted to SEBI that, “...*We were not maintain Order Sheet, but now we assure you to start such practice to copy*

(read “comply”) *with guidelines of SEBI...*”.

24.7.5. In view thereof, I find that that the allegation that the member had not maintained the proof of order placement for 2 trades, stands established. Therefore, I hold that the Noticee had violated the provisions of Clause III of SEBI circular no. SEBI/HO/MIRSD/DoP1/CIR/2018/54 dated March 22, 2018.

24.8. Finding 8: Net worth verification:

24.8.1. In this regard, the following was inter alia observed and alleged:

There was discrepancy in the computation of Networth submitted to the Exchange.

Total value of Net worth overstated was Rs. 18 Lakh.

Accordingly, it was inter alia alleged that the Noticee had violated the provisions of Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 and Annexure A to NSE Circular NSE/COMP/48895 dated July 10, 2021.

24.8.2. In this regard, I note that Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 reads as under:

“...

Conditions of registration.

9. Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,-

(f) he shall at all times abide by the Code of Conduct as specifies in Schedule II;

...

SCHEDULE II

CODE OF CONDUCT FOR STOCK BROKERS

B. General

..

(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

...”

24.8.3. In this regard, I note from the material available on record that SEBI inter alia observed that member had not adjusted correct value of capital and Free reserve, Fixed Assets, intangible Assets, Doubtful debts, 30% of marketable securities and Prepaid expenses while calculating its networth. I note that as per inspection report/ PIA, net worth submitted by trading member to the Exchange was Rs. 1.32 Crores and Revised net worth after considering actual values under various heads was Rs 1.31 Crores. However, as per the annexure to inspection report/ PIA, net worth submitted by trading member to the Exchange was Rs. 13.28 Crores and Revised net worth after considering actual values under various heads was Rs 13.1 Crores.

24.8.4. In this regard, I note that the Noticee in its submissions as reply dated July 04, 2024 to the SCN has inter alia submitted that, “...our Net Worth if considered based on un-audited Net Worth or on Audited Net Worth, it is in compliance with minimum required net worth for trading member ...”

I note that similar contention was provided by the Noticee to SEBI in its response earlier to the findings of inspection. In this regard, I note from the material available on record that SEBI had inter alia observed that the Noticee’s revised net worth was in compliance with the net worth requirement of a stockbroker.

24.8.5. In view thereof, having regard to the material available on record and to the submissions of the Noticee, I am inclined to allow the benefit of doubt to the Noticee and drop the violation in favour of the Noticee.

24.9. Finding 9: Analysis of Enhanced supervision data (Weekly):

24.9.1. In this regard, the following was inter alia observed and alleged:

Incorrect reporting with respect to multiple heads of weekly submission as on Aug 26, 2022. Amount of mis-statement ranged from Rs. (29.61 Crore) to Rs. 2.99 Crore.

Accordingly, it was inter alia alleged that the Noticee had violated the provisions of Clause 3.2 of Annexure to SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE circular NSE/ INSP/33276 dated September 27, 2016, NSE/INSP/ 31912 dated March 07, 2016.

24.9.2. In this regard, I note that Clause 3.2 of Annexure to SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

“ ...

3.2. Stock brokers 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 stock broker 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 stock broker 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)

E-Aggregate value of proprietary non-cash collaterals i.e. securities which have been deposited with the clearing corporations and/or clearing member (across Stock Exchanges)

F-Aggregate value of Non-funded part of the BG across Stock Exchanges

P-Aggregate value of Proprietary Margin Obligation across Stock Exchanges

MC-Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges

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

...

24.9.3. In this regard, I note from the material available on record the following as regards the alleged violation:

Sr.No	Particulars	Values as per calculation	Values as submitted by TM	Difference
A	Total of day end balance in all Client Bank Accounts (In Rs.)	88,33,744.32	88,33,744.32	-
1	Collateral deposited with exchanges in form of Cash and Cash Equivalents (In Rs.)	3,05,00,000.00	2,70,00,000.00	(35,00,000.00)
B	Collateral deposited with clearing member in form of Cash and Cash Equivalents (In Rs.)	30,93,33,960.36	33,43,33,960.36	2,50,00,000.00
E	Value of Own Securities Deposited as Collateral with Clearing Member (In Rs.)	-	2,99,51,378.20	2,99,51,378.20
F	Value of Non funded portion of the Bank Guarantee (In Rs.)	3,50,00,000.00	2,50,00,000.00	(1,00,00,000.00)
P	Proprietary margin Obligation (In Rs.)	3,43,28,512.14	4,24,53,708.90	81,25,196.76
MC	Margin utilized for positions of Credit Balance Clients (In Rs.)	9,36,02,484.17	11,43,03,661.73	2,07,01,177.56
MF	Free/unblocked Collateral deposited with Clearing corporation (In Rs.)	29,88,29,276.62	26,83,177.00	(29,61,46,099.62)

24.9.4. In this regard, I note that the Noticee's submissions, "...we had given an amount of Rs. 2 Crore to HDFC Bank to avail intraday limit facility. We were given to understand that the said amount given to HDFC Bank will not affect our enhanced supervision data. Due to the aforesaid reason, the value of G was negative..." are out of context as the allegation pertains to incorrect reporting with respect to multiple heads of weekly submission as on Aug 26, 2022 and the Noticee's response pertains to G value. Therefore, the Noticee's contentions are not acceptable.

I further note that that the Noticee's submissions, "...on 29.12.2023, we have uploaded correct data as required under Enhanced Supervision Data..." are out of context as the allegation pertains to

incorrect reporting with respect to multiple heads of weekly submission as on Aug 26, 2022 and the Noticee's response pertains to data uploaded on 29.12.2023. Therefore, the Noticee's contentions are not acceptable.

24.9.5. In view thereof, I find that that the allegation that the Noticee had done incorrect reporting with respect to multiple heads of weekly submission as on Aug 26, 2022 and that amount of mis-statement ranged from Rs. (29.61 Crore) to Rs. 2.99 Crore, stands established. Therefore, I hold that the Noticee had violated the provisions of Clause 3.2 of Annexure to SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with NSE circular NSE/ INSP/33276 dated September 27, 2016, NSE/INSP/ 31912 dated March 07, 2016.

24.10. Finding 10: Risk based supervision (RBS):

24.10.1. In this regard, the following was inter alia observed and alleged:

Differences were observed in Collateral of debit balance clients, Brokerage income and Operating profit in data submitted for RBS.

Accordingly, it was inter alia alleged that the Noticee had violated the provisions of Clause 6.1.1.e of Annexure to SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, NSE circular NSE/ INSP/28925 dated February 20, 2015 read with NSE/ INSP/50229 dated November 08, 2021.

24.10.2. In this regard, I note that Clause 6.1.1.e of Annexure to SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

“ ...

6.1.1.Monitoring criteria for Stock Brokers

...

e. Failure to submit data for the half yearly Risk Based Supervision within the time specified

by Stock Exchange.

...

- 24.10.3. In this regard, I note from the material available on record that on verification of RBS data submitted by TM as on 31-03-2022, differences were observed in in the following heads of the submission:
- 1) Collateral of debit balance clients (6 clients out of 10 sample clients)

Client Code	Collaterals	Actual Value-Holdings	Difference
Mxx9	9,46,73,139.98	9,36,69,767.63	10,03,372.35
Gxx83	98,96,615.70	83,23,180.70	15,73,435.00
Gxx76	57,22,081.05	52,48,336.05	4,73,745.00
Mxx82	46,33,607.95	43,69,553.55	2,64,054.40
Mxx3	40,93,059.20	39,73,634.20	1,19,425.00
Gxx79	40,11,328.50	30,85,778.50	9,25,550.00
Total	12,30,29,832.38	11,86,70,250.63	43,59,581.75

2) Brokerage income

Particulars	As Per RBS submission	As Per Balance Sheet	Difference
Brokerage income for FY 2021-22	3,47,53,531.73	3,45,83,110.00	1,70,421.73

3) Operating profit

Particulars	As Per RBS submission	As Per Balance Sheet	Difference
Operating profit/ loss for the stock broker for FY 2021-22 (as per Annual Report figures)(in Rs.)	3,81,46,382.29	4,67,87,780.00	(86,41,397.71)

- 24.10.4. In this regard, I note that the Noticee's submissions are in nature of admission in so far as the Noticee has inter alia submitted that, "... *The difference in brokerage income was due to typographical mistake ... The difference in operating profit was due to submission of details based on unaudited data... We have made necessary changes at our end so that the aforesaid alleged error does not get repeated...*".

24.10.5. In view thereof, I find that that the allegation that differences were observed in Collateral of debit balance clients, Brokerage income and Operating profit in data submitted for RBS, stands established. Therefore, I hold that the Noticee had violated the provisions of Clause 6.1.1.e of Annexure to SEBI Circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, NSE circular NSE/ INSP/28925 dated February 20, 2015 read with NSE/ INSP/50229 dated November 08, 2021.

24.11. Finding 11: Member has not undertaken Reporting/ tagging of Bank accounts as required:

24.11.1. In this regard, the following was inter alia observed and alleged:

Member had incorrectly tagged, 05 of its bank account.

Accordingly, it was inter alia alleged that the Noticee had violated the provisions of Clause 2.3.2 of Annexure to SEBI circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

24.11.2. In this regard, I note that Clause 2.3.2 of Annexure to SEBI circular SEBI/HO/ MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 reads as under:

“ ...

2.3. Stock Exchanges and/or Depositories, as the case may be, shall ensure the following:

...

2.3.2. All existing bank accounts maintained by stock brokers which do not have the above mentioned nomenclature, shall be assigned appropriate nomenclature, within six months from the date of this circular.

...”

24.11.3. In this regard, I note the following from the material available on record as regards the alleged violation:

ACCOUNT_NO	PURPOSE as per reported	PURPOSE as per Bank records
600340xxx88	SETTLEMENT ACCOUNT	Tagging not available
40xxx163	SETTLEMENT ACCOUNT	Exchange Dues
40xxx073	ANY OTHER	Settlement Account
9611xxx32	CLIENT BANK ACCOUNT	Tagging not available
1205xxx51	ANY OTHER	Settlement Account

24.11.4. In this regard, I note that the Noticee's submissions as reply to the SCN are in nature of admission in so far as the Noticee has inter alia submitted that, "...*We submit that as on date all the bank accounts including the 5 mentioned are properly updated ...*".

I further note that the Noticee's submissions to SEBI earlier in response to the findings of inspection were in nature of admission in so far as the Noticee had inter alia submitted to SEBI that, "...*We have updated the same....*".

24.11.5. In view thereof, I find that that the allegation that member had incorrectly tagged, 05 of its bank account, stands established. Therefore, I hold that the Noticee had violated the provisions of Clause 2.3.2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

24.12. Finding 12: Member is engaged as a principal in a business other than that of securities involving personal financial liability:

Inspection period April 01, 2021 to August 31, 2022:

24.12.1. In this regard, the following was inter alia observed and alleged:

Member has given loans to multiple parties from own bank account. Gross value of loan given is Rs 81.60 crores during the inspection period. As on August 31, 2022 outstanding value of loan is Rs. 10.65

crores.

Networth of the entity as on 31.03.2022 – Rs. 1.31 Crore.

Accordingly, it was inter alia alleged that the Noticee had violated the provisions of Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957.

Inspection period April 01, 2023 to June 30, 2024:

24.12.2. In this regard, the following was inter alia observed and alleged:

Loan Transactions were executed with multiple parties. As on 30.06.2024 outstanding value of loan is Rs.22.40 Crores.

Accordingly, it was inter alia alleged that the Noticee had violated the provisions of Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957, SMD/POLICY/CIR-6 dated May 7, 1997 and regulation 9(b) and point A(5) of Code of Conduct of Schedule II of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with Exchange circular NSE/COMP/50957 dated January 07, 2022, Rule (5) (b) of Chapter III of the Rules of NSEIL

24.12.3. In this regard, I note that Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957 read as under:

“ ...

Qualifications for membership of a recognised stock exchange.

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 securities¹⁶[or commodity derivatives] except as a broker or agent not involving any personal financial liability, provided that—

(l) the governing body may, for reasons, to be recorded in writing, permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry on business on the stock exchange either as an individual or as a partner in a firm,

(ii) in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for severing their connection with any such business,

¹⁷*[(iii) nothing herein shall affect members of a recognised stock exchange which are corporations, bodies corporate, companies or institutions referred to in items [(a) to (n)] of sub-rule (8)]¹⁸.*

¹⁹*[Provided further that investments made by a member shall, at all times, not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker.]*

...

24.12.4. In this regard, I note that the Noticee has inter alia submitted that,
“...The said loan which were granted, did not affect our Net Worth in any manner whatsoever... We humbly submit that the loans given to entities were out of the surplus funds available with us... The said loan was not given out of clients funds...”

24.12.5. In this regard, before dealing with the argument of the Noticee, I note that Rule 8(3)(f) of the SCR Rules as amended on May 19, 2025 provides that investments made by a member shall, at all times, not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker.

24.12.6. In this regard, I note that whether the impugned loans were given from client’s funds or securities or these loans relate to an arrangement in the nature of creating a financial liability is not part of inspection findings.

However, post the amendment, SEBI has conducted an examination and found that the investments made by the Noticee appear to be created out of its own accumulated funds rather than by involvement of clients' funds or clients' securities. Further, SEBI inter alia observed that these arrangements do not appear to be in nature of creating a financial liability on the Noticee. In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

Issue No. II: If yes, whether the Noticee is liable for imposition of monetary penalty under Section 15HB of the SEBI Act, 1992, and Sections 23D and 23H of SCR Act, 1956?

25. It has been established in the foregoing paragraphs that Noticee had violated provisions of SCR Act, 1956, SEBI Stock Broker Regulations, 1992 and Circulars. Therefore, the Noticee is liable for penalty under Section 15HB of the SEBI Act, 1992 and under Section 23D of SCR Act, 1956. I also note that the Noticee is not liable for penalty under Section 23H of SCR Act, 1956 as per the discussion in paragraph 24.12.

26. In this regard, the Noticee in its submissions as reply to the SCN had inter alia cited the Hon'ble Securities Appellate Tribunal ('SAT') order dated 16.06.2011 in the matter of Religare Securities Limited Vs. SEBI (Appeal No. 23 of 2011), order dated 11.09.2012 in the matter of M/s DSE Financial Services Limited Vs. SEBI (Appeal No. 153 of 2012) and order dated 11.09.2012 in the matter of M/s DSE Financial Services Limited Vs. SEBI (Appeal No. 153 of 2012).

In this regard, in my opinion each case is peculiar in its facts and circumstances based on which the violations are ascertained. Noticee has merely cited and mentioned about the Orders, however, the Noticee has neither demonstrated as to how the cited orders was applicable in the instant matter nor demonstrated as to what are the relied upon findings in the respective orders which have a bearing on the alleged violations against Noticee in instant matter. Whether adjudication proceedings are to be initiated

in a case would depend on the facts and circumstances of each case. I also note that, initiation of Adjudication proceedings under the appropriate provisions of SEBI Act is a prerogative of SEBI depending upon the outcome of such exercise viz., Inspection and findings thereof. It would also be relevant to state that the subject matter of instant proceedings are as per the Communique of appointment of AO, duly approved by the Competent Authority.

Further in this regard, I also note that the alleged violations in respect of the Noticee are of extant applicable provisions of law as are otherwise applicable to the entire category of intermediary viz., Stock Broker in the instant case, and not just about minor procedural aspects specific to the Noticee.

I also note from the text of Hon'ble SAT order dated 16.06.2011 in the matter of Religare Securities Limited Vs. SEBI, as relied upon by the Noticee itself that Hon'ble SAT had inter alia held that "*... This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent...*".

27. In this regard, it is noted that the Hon'ble Supreme Court of India in the matter of SEBI v/s Shri Ram Mutual Fund [2006] 68 SCL 216(SC) inter alia held that:

" ... In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established "

28. Therefore, for the established violations, as dealt with and brought out in the foregoing, I find that the Noticee is liable for monetary penalty under Section 15HB of the SEBI Act, 1992 and under Section 23D of SCR Act, 1956 which provides as following:

SEBI Act, 1992

" ...

Penalty for contravention where no separate penalty has been provided

15HB. Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

...”

SCR Act, 1956

“ ...

23D: ¹²¹[Penalty for failure to segregate securities or moneys of client or clients

If any person, who is registered under section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) as a stock broker or sub-broker, fails to segregate securities or moneys of the client or clients or uses the securities or moneys of a client or clients for self or for any other client, he shall be ¹²²[liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.]

...”

Issue No. III: If yes, what would be the monetary penalty that can be imposed upon the Noticee?

29. While determining the quantum of penalty under Section 15HB of the SEBI Act and under Section 23D of SCR Act, 1956, it is important to consider the factors as stipulated in Section 15J of the SEBI Act, 1992 and Section 23J of the SCR Act, 1956 respectively, which reads as under: -

SEBI Act, 1992

“ ...

Factors to be taken into account while adjudging quantum of penalty.

15J. While adjudging quantum of penalty under 15- or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely:—

the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

the amount of loss caused to an investor or group of investors as a result of the default;

the repetitive nature of the default.

Explanation.—For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.

...”

SCR Act, 1956

“ ...

Factors to be taken into account while adjudging quantum of penalty.

23J. While adjudging the quantum of penalty under 138[section 12A or section 23-I], the 139[the Securities and Exchange Board of India or the adjudicating officer] shall have due regard to the following factors, namely:—

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default

Explanation.—For the removal of doubts, it is clarified that the power of an adjudicating officer to adjudge the quantum of penalty under sections 23A to 23C shall be and shall always be deemed to have exercised under the provisions of this section.

...”

30. In the instant matter, I note that the material on record does not indicate the amount of disproportionate gain or unfair advantage made by the Noticee, and the amount of loss caused to an investor or group of investors as a result of the aforesaid violations by the Noticee. As regards the repetitive nature of default, I note that the violation with respect to passing penalty to clients on account of short/ non-collection of upfront margins has persisted for the inspection period April 01, 2021 to August 31, 2022 and 01 April, 2023 – 30 June, 2024. I further note that the Noticee being a SEBI registered Stock Broker was required to comply with the applicable provisions of securities law, which it failed to, as dealt with and brought out in the foregoing and which SEBI is duty bound to enforce compliance of. Such non-compliance accordingly needs to be dealt with suitable penalty.

E. ORDER

31. Considering the facts and circumstances of the instant case, the material available on record, the factors mentioned in preceding paragraphs and in exercise of the powers conferred upon me under section 15-I of the SEBI Act, 1992 read with Rule 5 of the SEBI Rules and section 23-I of the SCR Act, 1956 read with Rule 5 of the Securities Contracts (Regulations) (Procedure for

Holding Inquiry and Imposing Penalties) Rules, 2005, I hereby impose a penalty of Rs. 12,00,000 (Rupees Twelve Lakhs only), as per Table below, on the Noticee, for the aforementioned violations, as discussed in this order. In my view, the said penalty will be commensurate with the violations committed by the Noticee in this case:

Name of the Noticee	Penalty under Section	Penalty (in Rs.)
Motisons Shares Private Limited	Section 23D of SCR Act, 1956	2,00,000/- (Rupees Two Lakhs only)
	Section 15HB of SEBI Act, 1992	10,00,000/- (Rupees Ten Lakhs only)

32. The Noticees shall remit /pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

ENFORCEMENT → ORDERS → ORDERS OF AO → PAY NOW

33. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under Section 28A of the SEBI Act, 1992 and Section 23JB of the SCR Act, 1956 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

34. In terms of the provisions of Rule 6 of the Adjudication Rules and Rule 6 of the SCR Rules, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

PLACE: MUMBAI
DATE: August 12, 2025

AMAR NAVLANI
ADJUDICATING OFFICER