

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER No. Order/AN/PR/2025-26/31538]**

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:

Prabhudas Lilladher Private Limited

(PAN: AAACP2733Q / SEBI Registration Number: INZ000196637)

In the matter of Prabhudas Lilladher Private Limited

A. BRIEF BACKGROUND

1. Securities and Exchange Board of India ('SEBI') along with the Exchanges viz., NSE, BSE and MCX carried out a comprehensive joint inspection of Prabhudas Lilladher Private Limited (hereinafter also referred to as 'Noticee'/ 'Entity'/ 'Broker'/ 'PL'/ 'Member'/ 'TM'/ 'Trading Member'/ 'SB') from November 02, 2022 to November 08, 2022 for the Inspection period April 01, 2021 to October 31, 2022 ('Inspection period'/ 'IP').
2. Pursuant to the inspection, the findings were communicated to the Noticee by SEBI vide letter dated January 17, 2023. Noticee vide its letter dated February 13, 2023, submitted its reply to the findings and observations of SEBI.
3. Pursuant to the above, SEBI carried out post inspection analysis and inter alia observed the alleged violation of the following provisions:

- 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 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021; Clause 8.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 12 (e) and 12 (g) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 5.1 of SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022.
- 3.3. Section 23D of SC(R) Act, 1956 read with Clause 1 of the SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 2.4.2. and Clause 2.5.3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
- 3.4. Clause 5 & 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2 of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020.
- 3.5. Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 read with Question no. 15 in Annexure A to NSE circular NSE/INSP/45191 dated July 31, 2020 , NSE/INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.
- 3.6. Clause 13 of Annexure-6 to SEBI Circular no. CIR/MIRSD/16/2011 dated August 22, 2011 and point 5.6 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, SEBI Circular no. MIRSD/SE/Cir-21/2011 dated October 05, 2011, CIR/MIRSD/22/2011 dated October 25, 2011, CIR/MIRSD/66/2016 dated July 21, 2016, CIR/MIRSD/120/2016 dated November 10, 2016, and SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020; Clause 1(i) of SEBI Circular no. MIRSD/Cir-26/2011 dated December 23, 2011.

- 3.7. Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
- 3.8. Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017.
- 3.9. Clause 6.1.1(j) of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2 /CIR/P/2016/95 dated September 26, 2016.
- 3.10. Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
- 3.11. Clause 4.1 of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.
- 3.12. Clause 3 and 19 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020.
- 3.13. Clause 18 of Annexure 4 of SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011 and SEBI Circular dated February 04, 1991 on Contract Notes and Brokerage.
- 3.14. Clause 6 (b) of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 read with Clause 1 of SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019.

In view thereof, SEBI initiated Adjudication Proceedings in respect of the Noticee under Section 15-I of SEBI Act, 1992 and under Section 23-I of the Securities Contract (Regulation) Act, 1956 ('SCRA') for the alleged violations of the provisions, as stated.

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,

therefore, in exercise of the powers conferred under Section 19 of SEBI Act read with Section 15I (1) of the SEBI Act, and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter also referred as 'SEBI Adjudication Rules'), and under Section 23I of the Securities Contracts (Regulation) Act, 1956 ('SCRA, 1956') read with Rule 3 of the Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 ('SCRA Adjudication Rules'), the Competent Authority appointed the undersigned as Adjudicating Officer vide order dated December 28, 2023 to inquire into and adjudge under Section 15HB and 15 F(c) of the SEBI Act, and Section 23D of the SCRA, 1956, for the alleged violations by the Noticee, as stated. The said proceedings of appointment were communicated to the undersigned vide Communique dated December 29, 2023.

C. SHOW CAUSE NOTICE, REPLY OF THE NOTICEE AND PERSONAL HEARING

5. A Show Cause Notice No. SEBI/HO/EAD/EAD5/P/OW/2024/20142/1 dated June 19, 2024 was served upon the Noticee under Rule 4 of the SEBI Adjudication Rules and under Rule 4 of the SCRA Adjudication Rules, to show cause as to why an inquiry should not be held and penalty not be imposed against the Noticee under Section 15HB and 15F(c) of the SEBI Act, 1992, and under Section 23D of SCR Act, 1956, for the alleged violations by the Noticee, as stated.
6. The key allegations in respect of the Noticee inter alia brought out in the SCN, briefly stated, are as under:

6.1. Finding No. A- Misuse of clients funds:

It was inter alia observed and alleged that in 3 out of 44 dates (12/07/2021, 13/07/2021 and 15/07/2021), the value of G was negative to the total amount of Rs.2,70,27,914/- thereby indicating that the broker had misused clients' funds (value of G was negative) in the ranges from Rs.39.18 lakh on 15/07/2021 to Rs.1.89 Crore on 12/07/2021. In view of the above, it was 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.

6.2. Finding No. B-

6.2.1. Non settlement of non-traded clients' accounts (Quarterly):

Funds of 1283 clients were not settled to the total amount of Rs.36,09,213.20. The amount of non-settlement ranged between Rs.500 to Rs.4,39,017.94.

6.2.2. Non settlement of non-traded clients' accounts (Monthly):

Funds in 677 instances were not settled within the stipulated time to the total amount of Rs.2,85,33,272.12. The amount of non-settlement ranged between Rs.500 to Rs.16,82,179.7.

In view thereof, for 7.2.1 and 7.2.2, it was alleged that Noticee had violated Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021.

6.2.3. Non settlement of traded clients' (Quarterly):

Funds in 3 instances were not settled to the total amount of Rs.39,00,618.17. The amount of non-settlement ranged between Rs.34,905 to Rs.21,70,761.48

In view thereof, it was alleged that Noticee had violated Clause 8.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 12 (e) and 12 (g) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 5.1 of SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022.

6.3. Finding No. C: Verification of Pro-MTM Loss:

In this regard, it was inter alia observed and alleged that Trading member had transferred PRO MTM funds payin obligation from client bank account to settlement bank account instead of transferring funds from own bank account to settlement

bank account. Trading member had kept excess funds in the client bank account and through excess funds trading member had met PRO MTM obligation.

In view thereof, it was alleged that Noticee had violated provisions of Section 23D of SC(R) Act, 1956 read with Clause 1 of the SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 2.4.2. and Clause 2.5.3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

6.4. Finding No. D: Incorrect reporting of margin:

Incorrect reporting of total EOD Margin of Rs. 1,14,13,585.97 with respect to 4 clients in 4 instances

Incorrect reporting of total Peak Margin of Rs. 1,54,97,492.36 with respect to 5 clients in 5 instances

Short collection of peak margin of Rs.55,46,865/-

In view thereof, it was alleged that Noticee had violated provisions of Clause 5 & 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2 of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020.

6.5. Finding No. E: Passing of penalty on short reporting of margin to clients:

6.5.1. Member had passed on penalty to clients for short-collection of upfront margin during inspection period:

CM- 18 clients (Amount of penalty passed on to clients- Rs.2.93 lakhs)

FO- 20 clients (Amount of penalty passed on to clients-Rs.12.28 lakhs)

CD- 4 clients (Amount of penalty passed on to clients-Rs.0.43 lakhs)

In view thereof, it was alleged that Noticee had violated provisions of Clause A(5) of Schedule II read with Regulation 9(f) of SEBI(Stock Brokers) Regulations, 1992 read with Question no.15 in Annexure A to NSE circular NSE/INSP/45191 dated July 31, 2020 , NSE/INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.

6.5.2. Member was required to refund the penalty passed on to clients for short collection of upfront margin as per NSE circular no. NSE/INSP/53525 dated

September 02, 2022 with effect from October 11, 2021. In the following instances the same had not been refunded.

CM- 9 clients (Amount of penalty passed on to clients- Rs.0.10 lakhs)

FO- 20 clients (Amount of penalty passed on to clients-Rs.12.28 lakhs)

CD- 4 clients (Amount of penalty passed on to clients-Rs.0.43 lakhs)

In view thereof, it was alleged that Noticee had violated provisions of Clause A (5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 read with NSE circular no. NSE/INSP/53525 dated September 02, 2022.

6.6. Finding No. F: Client registration process:

- 6.6.1. It was inter alia observed and alleged that the running a/c authorization of 22 instances contained a clause of retaining balance in ledger upto Rs. 10,000. As per SEBI circular dated June 16, 2021, retention of any amount of an active client is discontinued with effect from August 01, 2021.

In view thereof, it was alleged that Noticee had violated provisions of Clause 13 of Annexure-6 to SEBI Circular no. CIR/MIRSD/16/2011 dated August 22, 2011 and point 5.6 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, SEBI Circular no. MIRSD/SE/Cir-21/2011 dated October 05, 2011, CIR/MIRSD/22/2011 dated October 25, 2011, CIR/MIRSD/66/2016 dated July 21, 2016, CIR/MIRSD/120/2016 dated November 10, 2016, and SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020

- 6.6.2. Broker had not uploaded documents to KRA of 15 instances within 10 days.

In view thereof, it was alleged that Noticee had violated provisions of Clause 1(i) of SEBI Circular no. MIRSD/Cir-26/2011 dated December 23, 2011.

6.7. Finding No. G: Net Worth Verification:

It was inter alia observed and alleged that there was discrepancy in the computation of Networth submitted to the Exchange. Networth Reported as on 30th September, 2022 – Rs.59,82,17,278/-Networth as per calculation – Rs.59,51,07,517.57. Although the networth amount was above the prescribed value, however, total value of Networth had been overstated by Rs.31,09,760.

In view thereof, it was alleged that Noticee had violated provisions of Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

6.8. Finding No. H: Analysis of weekly enhanced supervision data:

It was inter alia observed and alleged that Member had not correctly uploaded details of all clients' funds lying with them on stock exchange system for three dates i.e. 30/07/2021, 25/03/2022 and 30/09/2022. However, as per calculations for the said dates no G negative was arrived.

In view thereof, it was alleged that Noticee had violated provisions of Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017.

6.9. Finding No. I: Client Level Cash & Cash Equivalent Balances and Bank Account Balances:

It was inter alia observed and alleged that there was incorrect reporting of Clear Ledger Balance of 3 clients in 3 instances in cash & cash equivalent; also there was incorrect reporting of Peak Ledger Balance of 53 clients in 53 instances in cash & cash equivalent

In view thereof, it was alleged that Noticee had violated provisions of Clause 6.1.1(j) of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2 /CIR/P/2016/95 dated September 26, 2016.

6.10. Finding No. J: Analysis of RBS data:

It was inter alia observed and alleged that Trading Member had not reported correctly the details of Brokerage, Total Debit Balance Client and Total available collaterals from all debit balance clients.

In view thereof, it was alleged that Noticee had violated provisions of Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

6.11. Finding No. K: Trading Member had transferred securities of Credit balance client to “Client unpaid securities account:

In this regard, it was inter alia observed and alleged that Trading Member had transferred securities value of Rs.1.30 Crores of 91 credit balance clients to “Client unpaid securities account”.

In view thereof, it was alleged that Noticee had violated provisions of Clause 4.1 of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.

6.12. Finding No. L: Margin Trading Facility :

In this regard, it was inter alia observed and alleged that exposure for an amount of Rs.13.68 lakhs was given on non-eligible securities for MTF to 1 client in 2 scrips; Incorrect reporting of exposure given to the clients on 27 instances.

In view thereof, it was alleged that Noticee had violated provisions of Clause 3 and 19 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020.

6.13. Finding No. M: Requirement related to Brokerage:

In this regard, it was inter alia observed and alleged that Member had collected total excess brokerage of Rs.4,322.75 from 4 clients in 10 instances.

In view thereof, it was alleged that Noticee had violated provisions of Clause 18 of Annexure 4 of SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011 and SEBI Circular dated February 04, 1991 on Contract Notes and Brokerage.

6.14. Finding No. N: Closure of Client Beneficiary Accounts:

In this regard, it was inter alia observed and alleged that Member had not closed two Demat accounts viz. IN3**868***87**2 and 12**130***67***8 within due dates (till September 30, 2019).

In view thereof, it was alleged that Noticee had violated provisions of Clause 6 (b) of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 read with Clause 1 of SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019.

7. Noticee submitted its reply to the SCN vide letter dated July 10, 2024. In the interest of principles of natural justice, vide Hearing Notice dated July 11, 2024, the Noticee was provided with an opportunity of hearing on July 19, 2024 and was inter alia advised to submit additional reply prior to the scheduled hearing. The Noticee vide email dated July 16, 2024 requested to reschedule the hearing and vide email dated July 18, 2024 the scheduled hearing was deferred. Vide email dated July 22, 2024, the Noticee informed about having filed a settlement application in the matter. In this regard, vide hearing Notice dated July 24, 2024, the Noticee was provided with another opportunity of hearing on August 08, 2024, however, owing to administrative exigencies it was deferred.
8. Thereafter, in this regard, vide Hearing Notice dated August 28, 2024, the Noticee was provided with an opportunity of hearing on September 04, 2024. On the scheduled date of hearing i.e. on September 04, 2024, the Noticee availed the hearing opportunity through its Authorized Representatives (ARs) viz., Mrs. Snehal Hiren Kathrani, Group Head (Compliance and Legal) and Mrs. Swati Sunil Matkar, AVP (Compliance). During the hearing, the ARs appeared in person and relied upon and reiterated the submissions made by the Noticee vide letter dated July 10, 2024. Further, the ARs requested time till September 16, 2024 for making additional submissions, which was allowed. The Noticee vide email and letter dated September 11, 2024 made its additional submission.
9. Noticee vide its email dated November 04, 2024 submitted a letter dated October 30, 2024, informing that they had withdrawn the settlement application in the matter and requested for another opportunity of hearing. In this regard, vide Hearing Notice dated December 17, 2024, the Noticee was provided with another opportunity of hearing on December 20, 2024. Vide email dated December 19, 2024, the Noticee requested for postponement of hearing citing non availability of legal counsels. In view thereof, vide Hearing Notice dated December 17, 2024, the Noticee was provided with another opportunity of hearing on January 07, 2025.
10. On the scheduled date of hearing i.e. on January 07, 2025, the Noticee availed the hearing opportunity through its Authorized Representatives (ARs) viz., Mrs.

Snehal Hiren Kathrani, Group Head (Compliance and Legal), Mr. P R Ramesh, Advocate and Mr. Uday Patil. The ARs appeared in person and relied upon and reiterated the submissions made by the Noticee vide its letter dated July 10, 2024 and email dated September 11, 2024. Further, the ARs requested time till January 10, 2025 for making additional submissions which was allowed. The Noticee vide letter dated January 08, 2025 made its additional submission in the matter.

11. The key submissions of the Noticee as part of its replies to the SCN vide letters dated July 10, 2024, September 11, 2024 and January 08, 2024, are as under:

Reply dated July 10, 2024:

‘ ...

We submit that we are a company registered in 1944 and have been offering broking services to our clients since almost 8 decades.

We are members of BSE, NSE, MCX and a Depository Participants of CDSL and NSDL.

Over the close to 8 decades of existence, we had the privilege of serving over 1.5 Lakh clients in a transparent and compliant manner and have a clear record with all regulators.

At the outset, we wish to emphasize that our company's business ethics and philosophy are deeply rooted in principles of good governance, unwavering ethics, strict compliance in spirit, and absolute transparency. We have always strived to uphold the highest standards of integrity and responsibility in all our operations. Our commitment to these values is reflected in our consistent efforts to ensure that all our activities align with regulatory requirements and best industry practices.

We also wish to clarify that the violations observed by the regulator are primarily procedural lapses rather than willful or negligent transgressions. These lapses were neither intentional nor malicious in nature, and they have not in any way compromised investor confidence or the smooth functioning of the securities market. We have always prioritized the interests of our clients and the integrity of the market, and we remain committed to rectifying these procedural issues promptly and effectively to prevent any recurrence. Our ongoing dedication to compliance and transparency is evidenced by our proactive measures to address and correct these lapses as soon as they were identified.

Findings and Observations by SEBI and Observed Violations thereto in respect of the Noticee are as under :

1. Finding No A: Misuse of Clients funds:

...

Reply:

- a) Explanation for G(Negative):

Enhanced Supervision requirement has been put in place to ensure that the Brokers always maintain adequate liquidity to repay all the creditors on a concurrent basis at all times. The basic principle is that the balance of funds available with a broker, whether with it or with the Exchange or the Clearing Corporation or the Clearing Member should be in excess of the credit balance of all the creditors. The observations highlighted in your letter are given hereunder:

...

Due to an error on our part only in the above 3 instances in the entire inspection period the G was negative, that too for less than 1% of "Total Credit Balance of all clients."

The requirement of enhanced supervision thus ensures that all creditors are safe and their funds are not at risk. At this juncture we humbly submit that we are a well-capitalised member of the market and are cautious of the fact that working capital is the engine oil our business. As a result, we have preferred to have huge amount of our own money in the business in the form of our liquid net worth of close to Rs. 70+ Crore.

Post Inspection Status / Current Status:

The current status is that on all dates G is positive post inspection period.

Calculation of G is annexed herewith as Annexure – 1 from 1.4.2024 to 30.6.2024 for reference and record hereby complying with the provisions.

The auditors have in their previous 2 half-yearly audits of the company's books of accounts for the H.Ys. ended on March 31, 2024, & September 30, 2023 reported this as 'Complied'.

Hence, we have been complying with provisions of circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016.

We humbly request you to drop this observation.

2. Finding B:

A. Non Settlement of non traded clients' accounts (Quarterly)

...

Reply:

NSE Circular NSE/INSP/36889 dated February 02, 2018 permitted trading members to retain a balance of Rs. 10,000/- or below for operational reasons. Based on this circular, the credit balance of up to Rs. 10,000/- was retained. As a result, some of the accounts of clients were not settled during the relevant quarter. It is observed that the accounts of 1283 clients were not settled for the reasons hereunder:

- i. In case of following 5 clients, there was a slight delay in the settlement due to error by the software the details of which is as under:

...

We humbly submit that we have carried out settlement of clients as per the requirements of SEBI and Exchanges over several years. A few instances may have remained unsettled inadvertently but the same cannot be a reason to allege non-compliance when there is substantial compliance with the requirements. These clients are settled on a later date, hence there is no violation of settlement but a mere delay in settlement.

For the balance 1278 cases:

It is appreciated that vide its Circular no. SEBI/HO/MIRSD/ DOP/P/CIR/2021/577 dated June 16 2021 it was suggested to return the money to the clients who have not traded in last 30 days with effect from August 1, 2021. However, the change was implemented with a delay in our back-office software and therefore these accounts have remained unsettled. The total amount that remained unsettled for these 1278 clients was a delay in settlement whereas we have paid hundreds of Crores while carrying our settlement of other clients. The payment to these clients has been done with some delay and it is submitted that the amount is no way material taking into account the size and nature of business. Further the delay in payment is not deliberate and is merely an inadvertent incident without any intention.

...

In light of the forgoing, we humbly submit that we have carried out settlement of clients as per the requirements of SEBI and Exchanges over several years. A few instances may have remained unsettled inadvertently but the same cannot be a reason to allege non-compliance when there is substantial compliance with the requirements. Materiality of instances has to be seen in the context of the overall size and nature of business and it is humbly submitted that the instances are in no-way material.

Further there has never been a single complaint from any client for non-receipt of funds and therefore we have complied with the issued regulations from time to time.

Post Inspection Status / Current Status:

The auditors of the Company have in their previous 2 half-yearly audits of the company's books of account for the H.Ys. ended on March 31, 2024 and September 30, 2023 reported this aspect as 'Complied'.

3. Finding No. C - Verification of PRO MTM Loss:

Reply:

As trading members, we act in the capacity of brokers and agents for our clients for which we collect the value of obligation along with brokerage and applicable charges from our clients. The money is received from clients in our client bank account and is retained in the same account.

Our proprietary trading is a small portion of our overall business and the obligations against the proprietary trades are negligible compared to the amount of brokerage and charges that we could have otherwise withdrawn from the client bank account.

We mention that there was no violation but a procedural lapse of payin.

We, the trading Member have not used the clients funds for payin of PRO MTM obligations. The Brokerage and charges which were lying in the client bank account which were not moved to the PRO account and are in excess of the Client Obligations, MTM obligations was paid from those excess amount.

...

As a result, we submit that the payment of PRO MTM obligation was made from the funds of brokerage and charges which were lying the client bank account which belongs to us.

Hence we kindly submit to consider the said explanation and to condone the violation. We are providing herewith the Brokerage account ledger for the month till date wherein the brokerage was lying in the client bank account.

Hence, we mention that there was no intentional violation but a mere procedural lapse of payin.

Post Inspection Status / Current Status:

We have rectified our systems and payment of PRO MTM Obligation is done through Prabhudas Lilladher Pvt Ltd Bank account tagged as OWN / PROPRIETARY.

The Internal Audit Reports post Inspection period have in their previous 2 half-yearly audits of the company's books of accounts for the H.Ys. ended on March 31, 2024 & September 30, 2023 reported this as 'Complied'

4. Finding No. D: Reporting and short collection of Margin:

...

Reply:
We would like to explain as under:

...

The errors that have occurred is not intentional hence we request you to take a lenient view on the same. We request you to condone this error.

Post Inspection Status / Current Status:

The auditors of the company have in their previous 2 half-yearly audits of the company's books of accounts for the H.Ys. ended on March 31, 2024 & September 30, 2023 reported this as 'Complied'.

5. Finding No E: Passing of Penalty on Short Reporting of Margin to clients:

...

Reply:

NSE Circular No. NSE/INSP/49929 dated October 12, 2021

"Trading Member cannot 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."

SEBI Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated 20th July, 2020 inter alia provides thus:

Clause 1

"With respect to equity derivatives and currency derivatives segments, Stock Exchanges/ Clearing Corporations have mandated clearing member's/ trading members to collect applicable margins from their clients/ constituents on an upfront basis. Similarly, SEBI Circulars CIR/CDMRD/DRMP/01/2015 dated October 01, 2015 and SEBI/HO/CDMRD/DRMP/CIR/P/2016/80 dated September 07, 2016 directed to National Commodity Derivatives Exchanges, inter alia, require members to collect Initial Margin and ELM upfront from their clients as applicable at the time of the trade."

Clause 3

"Subsequent to the aforesaid Circular dated November 19, 2019, representations were received from the market participants raising issues in operationalization of collection of upfront margin from clients. SEBI held detailed discussions with the market participants so as to evolve a monitoring mechanism for verification of upfront collection of margin from clients."

Clause 5

"It is reiterated that the applicable upfront margins are required to be collected from the clients in advance of the trade. The aforesaid framework prescribed in the Annexure is only for the purpose of verification of upfront collection of margin and levy of penalty."

NSE Circular NSE/INSP/45191 dated 31st July, 2020 inter alia records thus:

"In the F&O segment, it is mandatory for Trading Members to collect SPAN margin & Extreme loss margin from respective clients on an upfront basis. It must be ensured that all upfront margins are collected in advance of trade. Delivery Margin and margin on consolidated crystallized obligation shall be collected from clients by T+1 day."

NSE Circular NSE/INSP/49929 dated 12th October, 2021 inter alia records thus:

"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."

SEBI Circular SEBI/HO/MRD2/DCAP/P/CIR/2022/60 dated May 10, 2022 inter alia records thus

Clause 4:

"In view of the representations received from market participants and based on deliberations with various stakeholders, it has been decided that the margin requirements to be considered for the intra-day snapshots, in derivatives segments (including commodity derivatives), shall be calculated based on the fixed Beginning of Day (BOD) margin parameters. The BOD margin parameters would include all SPAN margin parameters as well as ELM requirements"

NSE Circular Download Ref No. : NSE/INSP/53525 dated 2nd September, 2022 reads thus:

"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

Further, Members are advised to refund the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to the clients on an immediate basis if same has been passed on to the clients after 11th October, 2021."

Accordingly, we collect the upfront margins from clients before commencement of trade, however, when the margin file is received from the Exchange at the end of the day, the figure of Upfront margin to be collected from clients is increased most of the time.

It is to be noted that, any change in margin amount subsequent to the trade cannot be treated as "upfront margin". Therefore, penalty levied by the Exchange in cases where the margin requirement increases after the trade has taken place, being not upfront margin, can be passed on to the clients.

However, at this juncture it is imperative to highlight that the Exchange is incorrect in charging penalty for shortage of margin where such a shortage has arisen after the trades have taken place as the same is not "upfront margin". However if the Exchange continues to charge penalty on such instances, we are constrained to pass on the penalty to the clients as we had ensured full collection of upfront margin at the time of the trade. Therefore, any penalty resulting from change subsequent to the trade is not a penalty for failure to collect "upfront margin" and hence is rightly passed on to the clients.

Notwithstanding the above facts, we give below instance-wise reply for the 33 instances of passing penalties to clients:

- a) In following 18 out of 33 instances, the penalty was passed on to clients for failure of client in payment of MTM of previous carry over position and not for upfront margin shortage hence the penalty is correctly passed on to clients. In fact the NSE Circular No. NSE/INSP/49929 dated October 12, 2021 specifically permits passing on penalty due to failure to pay M2M debit. The details are as follows:
- b) NSE vide its Circular no. NSE/INSP/53525 dated September 02 2022 had advised the Members to refund the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to the clients on an immediate basis if same has been passed on to the clients after 11th October, 2021. Accordingly, in 5 out of 33 instances, we have refunded the penalty to the clients. The details of the same are as follows:
...
- c) In following 9 out of 33 instances, the penalty was passed on to clients for Peak Margin shortage and not for upfront margin shortage and hence the penalty was correctly passed on to clients. The details are as follows:
- d) In following instance, the penalty was charged for increase in Span Margin of previous day's trade and not on account of upfront margin shortage of the mentioned date. The clients have not taken up any fresh exposure on these days. Hence the penalty was correctly levied. The details are as follows:
...

Finding No. F : Client Registration process:

- (i) The running account authorisation of 22 instances contains a clause of retaining balance in ledger upto Rs. 10000/- As per SEBI circular dated June 16, 2021 retention of any amount of active client is discontinued with effect from August 1, 2021.

Reply:

In case of above mentioned 22 clients though the physical KYC kit contained the running account letter which was in an old format printed in bulk and these physical forms were already distributed to clients or Authorised Persons. Later, we have implemented the content therein and complied with the guidelines issued by SEBI/Exchanges with regard to settlement of clients' accounts.

Out of these 22 instances pointed out by SEBI one client closed its account in August 2022 – the closure form of the client code **001 is attached as Annexure – 14 for reference and record. And from remaining 21 clients we have obtained revised running account authorisation letters, which does not contain the said clause. Copies of those 21 letters are enclosed as Annexure - 15.

- (ii) Broker has not uploaded documents of KRA of 15 instances in 10 days

The explanation is provided for the 15 Instances as below:

...

Without prejudice to the forgoing, we submit that there has been a delay in uploading a few KRA accounts.

Post Inspection / Current Status :

The auditors of the company have in their previous 2 half-yearly audits of the company's books of accounts for the H.Ys. ended on March 31, 2024 and September 30, 2023 reported this as 'Complied'.

Finding No. G: Net Worth Verification

..

Reply:

SEBI has permitted Exchanges to set up their own minimum Net worth Criteria for various memberships. Exchanges have formulated their own requirements of Net worth. This requirement is put in place to ensure that only the entities that have a financial wherewithal beyond the minimum stipulated requirements become stock brokers. It is imperative for all members of the Exchange to meet the net worth requirement on a continuing basis.

The Net worth requirement applicable to our Company is Rs. 3 Crore whereas our net worth is Rs. 59.82 Crore which is close to 20 times the required net worth. During the inspection a concern is raised that as per the

calculation mentioned in the letter the net worth comes to Rs. 59.51 Crore thus observing that there is an incorrect calculation of net worth to an extent of Rs. 0.31 Crore.

It is humbly submitted that adopting either of the calculation techniques, our net worth remains close to 20 times the net worth requirements of the Exchange and therefore the concern from SEBI is unwarranted. Further the observed difference of Rs. 0.31 Crore is just about 0.5% of the net worth and therefore it no way impacts the financial wherewithal of our Company.

We have reduced Rs. 4.46 Crore as value of Debtors whose debit is in excess of 90 days under MTF. The inspecting officials have mentioned that since the debit of MTF clients is under a permitted scheme of SEBI the same need not be removed from the net worth. However, we have removed the same from our net worth and if it is not deducted, the net worth comes to Rs. 64.28 Crore.

The letter of observation also suggests reducing Rs. 5.37 Crores on account of the following, which in our view is not required to be reduced for the reasons given hereunder:

1. Deposit given for Offices taken on Rent 4,54,89,002 and Deposit given Car Parking 1,50,000
 - a. Vide its Circular NSE/COMP/48895 dated July 10 2021, NSE issued clarification on Net worth (format as per Dr. L. C. Gupta Committee Report) Computation. The said circular records 7 items in clause B which are disallowed.
 - i. Fixed Assets
 - ii. Pledged Securities
 - iii. Non-allowable securities
 - iv. Doubtful Debts and advances
 - v. Prepaid Expenses, losses
 - vi. Intangible Assets
 - vii. 30% of Marketable Securities
 - b. The reduction in net worth as per the letter of observation is not on account of any of the aforesaid 7 reasons and therefore the reduction suggested in the letter is unwarranted.
 - c. In fact the proviso to fixed asset quotes "Assets under lease or taken on rent need not be deducted from the Net worth". The deposits proposed to be reduced from the net worth as per the letter are in fact predominantly deposits given to landlords for rental premises and therefore specifically required to be included as per the proviso as these are assets under taken on rent.
2. Deposit given for Arbitrage with Clients Rs. 0.32 Crore
 - a. This balance is not a debit balance of debtors.
 - b. It is a security deposit and the same does not fall under the definition of debtors and hence is not required to be deducted.
3. Receivable from Related Parties of Rs. 0.0046 Crore:
 - a. Sub-clause 6 of Clause B of Annexure A to Circular No NSE/COMP/48895 dated July 10, 2021 quotes "Loans given to Directors/Partners or any related party of the Member or its Directors or its partners or to the entities in which such director /partners or their relatives have control, irrespective of time period, shall also be deducted."
 - b. The balances are normal business debits of debtors for less than 90 days and are not in the nature of loans given to related parties and hence not deducted.
 - c. Therefore, these are not rightly reduced from the Net worth
 - d. In any case the amount is extremely negligible and has no impact on the net worth.
4. In light of the forgoing it is humbly submitted that the working of net worth submitted by us is correct and addition of MTF debtors can only result in increase in debtors. We therefore submit the observation that there is a discrepancy to an extent of Rs. 31 lakh is incorrect.

From the above it can be observed that we have not violated Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26 2016 read with Rule 33 of Chapter III of the Rules of NSEIL and NSE/COMP/48895 dated July 10 2021 as observed or at all.

Post Inspection /Current Status:

The Net worth calculation post the observation made by the Inspecting Team, we have reverified our systems and formulae and that there is no discrepancy as per the LC Gupta Networth computation as provided by the exchanges from time to time.

No exchange post Inspection Period October 2022 has any non compliance w.r.t. to Net Worth Calculation.

Finding No. H: Analysis of Weekly Enhanced Supervision data

...

Reply :

The Inspection officials which calculation of the Weekly enhanced Supervision data have not considered the following :

Reports	Particulars	30.07.2022	25.03.2022	30.09.2022
RptAvailableCollMarginDetails_300721	BSE Cash - Base Capital	2,50,000.00	2,50,000.00	2,50,000.00
C_MG05_05977_30072021_01	NSE Cash - Base Capital	9,00,000.00	9,00,000.00	9,00,000.00
S_MG05_05977_30072021_01	NSE SLB Cash - Base Capital	40,00,000.00	40,00,000.00	7,40,00,000.00

F_CL01_05977_30072021_01.L IS	NSE FO - IFSD (NCL Deposit)	25,00,000.00	25,00,000.00	25,00,000.00
F_CL01_05977_30072021_01.L IS	NSE FO - Bank Guarantee (Annexure A) - (NCL Deposit)	12,50,000.00	12,50,000.00	12,50,000.00
X_CL01_05977_30072021_01.L IS	NSE CD - IFSD (NCL Deposit)	25,00,000.00	25,00,000.00	25,00,000.00
X_CL01_05977_30072021_01.L IS	NSE CD - Bank Guarantee (Annexure A) - (NCL Deposit)	12,50,000.00	12,50,000.00	12,50,000.00
	Amount Not Considered	1,26,50,000.00	1,26,50,000.00	8,26,50,000.00
Annexure		17	17	17

1. We submit that we have considered the base capital deposits maintained with the clearing corporation as a part of the funds available with the clearing corporation.
 2. We are informed that this amount has to be ignored while reporting the balance available with the clearing corporation or clearing member as the case may be, which has been noted and we now started ignoring the same while reporting the balance.
 3. However, it needs to be appreciated that the reported amount was actually deposited and it is not a case that we have reported amounts that did not exist.
 4. Further even after ignoring the amount of 1.27 Crores the G remains positive.
- The requirement of enhanced supervision thus ensures that all creditors are safe and their funds are not at risk. At this juncture we humbly submit that we are a well-capitalised member of the market and are cautious of the fact that working capital is the engine oil our business. As a result, we have preferred to have huge amount of our own money in the business in the form of our liquid net worth of close to Rs. 70 Crore which is far in excess of the observations in the letter.
- From the above submission it can be observed that we have not violated SEBI Circular - Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26 2016, SEBI Circular no. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22 2017, No. CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25 2017

Finding No. 1 : Client Level Cash & Cash Equivalent Balances and Bank Account Balances

...

With regard to this observation, we would like to submit here that out of the 3 instances pointed out by SEBI, in 2 instances, the difference was very marginal and that was due to bill difference. The said difference arose due to the fact that the bill was generated after the balance was submitted to the Exchanges. And in the remaining 1 instance, the difference was due to a carry forward error. The details are as follows:

Sr. No.	Date	Client Code	Client Name	Clear Ledger Balance (Rs.)	Clear Ledger Balance as per Cash & Cash Equivalent (Rs.)	Difference (Rs.)
1	21-05-21	E**1*30	ANKITA GOYAL	42,23,722.14	42,23,643.49	78.65
2	21-05-21	**12**1	MANOJ HARSHAD MEHTA	76,811.36	76,795.98	15.38
Explanation for 1 and 2 above: The bills generated were re-calculated for some error and the rectified bill had a nominal difference as compared to the earlier bill. The reporting was done before the rectification of bill hence there is a nominal difference.						
3	09-09-21	**6**2	GAGANBASE VINCOM PRIVATE LTD	- 47,20,523.00	-36,32,068.70	- 10,88,454.30
Explanation: For FY 2020-21 the closing balance as on 31-Mar-2021 was Rs. -10,88,454.30 which was erroneously transferred to MTF margin ledger of the same client during data migration on 1.4.2021. ...						

From the above table it can be observed that there is no wrong reporting of weekly balance as observed or at all.

Reply:

(a) Wrong reporting of Peak Client Ledger Balances:

1. As per the requirements of circular NSE/INSP/43486 dated February 10 2020 NSE/INSP/44478 dated May 27 2020 trading members are required to report "Financial Ledger Balance – A" which reflects ledger balance across all Exchanges and Segments and "Financial Ledger Balance (clear) – B" which ignores open bills and un-cleared cheques.
2. There is no concept of "Peak Client Ledger Balances" as mentioned in the observation letter in the circular referred in the letter.
3. The trading members were required to report the client wise financial and clear financial ledger balance so that the same can be tallied by the Exchanges to ensure that the reporting of total credit balance of clients being reported under the enhanced supervision circular is correct or otherwise.
4. No discrepancy has been found in the reconciliation of total credit balance and the client wise balance reported by us.
5. The purpose of reporting under the enhanced supervision circular is to ensure that a trading member always has funds in the client bank account or with clearing corporation / clearing member in excess of the total credit balance of all clients.
6. So in case someone intends to take benefit out of incorrect reporting such benefit can only be derived by reporting less creditors or more debtors and thus reducing the requirement of maintaining funds in client bank account or with clearing member / clearing corporation.
7. However, in the current case SEBI has observed that of the 53 instances of difference, the difference in 51 instances is such where we have reported higher credit balance or lower debit balance of clients and thus effectively been required to maintain higher balance in the client bank account and the clearing corporation. In spite reporting a higher credit of clients the G has never been negative. Hence there is effectively no violation of any of the underlying principles of the reporting requirement.
8. We submit that we believe in conservative principles of accounting and therefore all credit bills posted on the settlement day are factored while reporting client wise balance to the Exchange, but the debit bills are ignored as the Exchanges and SEBI have permitted clients to make payment on the next day for F&O settlements (MTM bills) and next 2 days for Capital Market settlements.
9. As a result, we only consider credit bills on the day they are posted i.e. settlement day whereas the effect of debit bills for F&O and CM segment is given 1 day after or 2 days respectively after the settlement day.
10. This is done as the clients have time to make the payment, but we have to remain good for making payment to creditors even while we have not received this money from the clients who have debit bills but have legally available time to settle them.
11. As a result we submit that we have preferred to have a more conservative approach than the Exchanges and SEBI while reporting the balances and no fault can be found with such kind of a conservative approach of reporting.
12. As regards to the remaining 2 instances we submit as under:

Sr#	Date	Client Code	Client Name	Peak Ledger Balance as per Cash & Cash Equivalent (Rs.)	Difference (Rs.) (As per SEBI)	Client Ledger Opening balance	Credit received in Client Ledger	Difference (Rs.) (As per Member)
3	21-05-2021	E**1*30	ANKITA GOYAL	43,07,778.01	-78.65	42,65,789.40	42,067.26	78.65
5	09-09-2021	**6**2	GAGANBASE VINCOM PRIVATE LTD	-32,62,744.39	- 14,57,792.80	-43,51,198.24	-	- 10,88,453.85

- a. As aforesaid the difference of Rs. 78.65 is a nominal difference on account of bill being re-generated for small rectification.
- b. As regards the difference of the GAGANBASE VINCOM PRIVATE LTD it is already explained that the difference is on account of incorrect carry forward of balance between MTF ledger and normal ledger.

From the above it can be observed that we have not violated SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26 2016.

Finding No. J : Analysis of RBS Data

Trading Member has not correctly reported the details of Brokerage Total Debit Balance Client and Total available collaterals from all debit balance clients.

Particulars	Data Reported by Trading Member	As per Exchange working	Difference
Brokerage income	63,96,07,068.03	63,89,27,686.82	6,79,381.21

Total debit balance of all clients (In Rs.)*	1,30,40,62,498.11	49,55,59,987.52	80,85,02,510.59
Total available collaterals from all debit balance clients	4,91,74,90,139.64	2,28,65,38,030.66	-2,63,09,52,108.98

*In total debit balance of all clients' trading member has considered MTF debtors also

Reply :

As per Item 20 of Annexure A to circular NSE/INSP/47935 dated April 07, 2021 we are required to report "Gross brokerage revenue from broking operations across all exchanges."

We at the time of RBS reporting have followed the exact explanation given in the above mentioned circular. Although not having violated the provisions circular NSE/INSP/47935 dated April 07, 2021, we after the Inspection Team has pointed out, we have immediately rectified our systems and have reported the net brokerage income from RBS report for the period ended March 2023.

Total debit balance of all clients—In terms of Exchange Circular on RBS, debtors are to be taken across all segments, which rightly includes MTF debtors. The circular nowhere mentions that MTF debtors are not to be included. However, we are informed by the inspecting team that MTF debtors are to be ignored, we have immediately implemented their suggestion and have reported total debit balance of clients without MTF debtors from RBS report for the period ended March 2023.

Total available collaterals – In terms of Exchange Circular on RBS, total available collaterals are to be taken across all segments which rightly includes MTF collaterals. The circular nowhere mentions that MTF collaterals are not to be included.

However, we are informed by the inspecting team that MTF collaterals are to be ignored. Post the inspection officials pointing out to us, we have immediately implemented their suggestion and have reported total available collaterals of clients without MTF collaterals from RBS report for the period ended March 2023.

Post Inspection / Current Status:

The auditors of the company have in their previous 2 half-yearly audits of the company's books of accounts for the H.Ys. ended on March 31, 2024 and September 30, 2023 reported this as 'Complied'.

Finding No. K : Trading Member has transferred securities of Credit balance client to "Client unpaid securities account"

Reply:

1. SEBI Act has been enacted by the parliament with a preamble "An Act to provide for the establishment of a Board to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market and for matters connected therewith or incidental thereto" As per the extant guidelines of SEBI and Exchanges brokers have a primary lien over the funds and securities of the client for clearing the debit balance.
2. Risk Management has been the primary focus of SEBI to promote orderly development of markets and to protect the interest of investors.
3. It is recorded in the observation letter that in 91 instances we have transferred securities of clients to CUSA account in spite of the fact that the clients did not have a debit balance in CM segment.
4. It was submitted to the inspecting team and it is reiterated now in this letter that Exchanges have time and again directed trading members to have a consolidated risk management across exchanges and segments. Even the settlement of accounts is required to be carried out taking into account the balances of all exchanges and segments. As a result, the securities are also released to clients after assessing the overall risk across Exchanges and Segments and cannot be done taking into account only one segment as suggested by the inspecting officials.
5. All the 91 instances pertain to a situation where if the securities were released to them, the margin requirement of these clients on F&O would have been breached, which would have resulted in posing a credit risk not just to us, but to markets at large if such instance is large.
6. Further all these clients have given letters to allow considering surplus balance of one exchange segment against another.
7. In light of the forgoing, we had no option, but to transfer these shares to CUSA.
8. Daily margin statements of these clients reflect that the surplus balance of clients with us was less than the value of shares in CUSA account.
9. Details of top 10 clients along with respective DMS are enclosed as Annexure - 19:
10. From the enclosed table it can be observed that if we had released the shares to the clients they would have posed a credit risk and would have gone in debit on account of their F&O positions and therefore the shares were rightly transferred to CUSA.

From the aforesaid it can be observed that we have not violated SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20 2019, as observed or at all.

Finding No. L : Margin Trading facility

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Reply:

SEBI has implemented interoperability of clearing corporations whereby one clearing corporation will clear trades of a clearing member even though the trade may have taken place on any of the Exchange.

The role of Exchange is limited to providing a trading platform whereas the collection of margin, reporting of margin and taking actions for shortages etc. has been bestowed upon the Clearing Corporations.

Our clearing corporation is ICCL, a subsidiary of BSE. BSE publishes a list of approved securities which will be settled through ICCL.

With respect to the following 2 instances, we would like to submit that the trading under MTF has been approved by BSE and since we clear out trades through ICCL, we follow the permitted list of securities of BSE.

Further these securities were in approved list of BSE in April 2022 and the trades have been done in April 2022.

These securities were included by NSE in its approved list from May 22. A copy of the Approved List of Securities for April 2022 and May 2022 is enclosed herewith and marked as **Annexure 20A and 20B**.

In view of the above we submit that there is no non-compliance as observation or at all.

- a) Maximum allowable exposure limit is breached towards MTF – 25 instances (on 25 different dates) and amount of exposure exceeded Rs. 5,97,61,03,735.14. Our explanation is as under:
 - a. As per the Q 12 of the FAQs annexed in Annexure A of the circular NSE/COMP/48531 dated June 9, 2021 the brokers can fund up to a maximum as under
“The maximum allowable exposure shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his “net worth”. The term “exposure” shall mean the aggregate outstanding margin trading amount in the books of the Member for all his clients at any given point of time.”
 - b. Our total value of securities funded has been taken to be outstanding margin trading amount as per SEBI which is incorrect.
 - c. We have collected cash collaterals from our clients as well, so our outstanding margin trading amount should reduce to that extent. The revised working is enclosed as Annexure 20C
 - d. From the enclosed table it can be observed that we have not exceeded the limits of funding as observation or at all
- b) Maximum allowable exposure to any single client limit is breached –

SEBI vide its letter no. SEBI/HO/EAD5 /P/OW/2024/20142/1 dated June 19, 2024 & SEBI letter no. SEBI/HO/EAD/EAD5 /P/OW/2024/20145/1 dated June 19, 2024 has accepted our explanation that the trading Member has funded (given exposure) to the clients within the prescribed limits as per the circular, and modified the violation to incorrect reporting of exposure to the exchange. (Page 64-65 of 78 of SCN)

Reply:

The Member has inadvertently has included the funds provided by clients as cash collaterals in reporting exposure to the exchanges.

As pointed out by the Inspection officials, the systems are immediately rectified and clients funds are now reported under the record number 40 -client cash collaterals for MTF positions.

..

Hence there is no violation of SEBI Circular CIR/MRD/DP/54/2017 dated June 13, 2017 and SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020.

Finding No M : Requirement related to Brokerage

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Reply:

SEBI has observed and noted that the nominal excess brokerage of Rs. 4322.75 in 4 clients out of a base of 1.60 lac clients has been reversed. We further would like to provide ledger of client code **3*10– Suman Kumar Singh for the period 6.4.2022 till 7.12.22 (date of reversal of excess brokerage). Amount of Rs. 3420.12 was reversed to client **3*10.

We have rectified the error and refunded the excess brokerage and the respective client ledger of **3*10 is enclosed..

From the above it can be observed that we have not violated SEBI (Stock Brokers) Regulations 1992, Clause 18 of Annexure 4 of SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22 2011 and SEBI Circular dated February 04, 1991.

bb

Finding No. N : Closure of Client Beneficiary Accounts

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A. We would like to submit for demat account IN3**868***87**2 we have submitted the request to close the account on September 17, 2020 to Stock Holding Corporation of India Ltd, copy of the letter is attached herewith for reference and record as Annexure – 23A

Further we would like to submit that the Client Master report for demat account IN3**868***87**2 attached herewith as Annexure – 23B reflects that the account closed / suspended date as 20/1/20 with status as Suspended for debit & credit.

B. We would like to submit for demat account 12**130***67***8 there were 3 scrips in the account hence the account was not closed post transfer of the scrips the account was closed. The holding report on 30/9/2019 is attached herewith as Annexure – 23C for reference and record.

Further submission:

It is submitted that the lapses pointed out in the SCN are merely technical, venial and procedural in nature. As a result of the observations, we have not made any gains or derived any unfair advantage. We are committed to complying with the law and request that the procedural lapses be seen in the context of our overall scale of operations handled and the various compliance measures adopted by us. Further, on becoming aware of the stray instances pointed out during the course of inspection, we have immediately taken steps to rectify the same and avoid their recurrence in future.

It is submitted that, in the past for the similar procedural/technical violations, regulators and exchanges had merely issued warning to the brokers. In this context we invite your attention to the following Orders passed by SEBI, wherein similar procedural/technical violations were condoned by SEBI and it had issued simple

warning to the brokers, as stated in Order passed by Hon'ble Securities Appellate Tribunal in the matter of Chona Financial Services Pvt Ltd vs. SEBI (Appeal No 95 of 2003).

In this context we also invite your attention to the following observations of Hon'ble Securities Appellate Tribunal in its Order dated 16.6.2011 in the matter of Religare Securities Ltd vs. SEBI :

"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....."

Order dated July 25, 2011 in the matter of UPSE Securities Ltd. v/s SEBI

"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..."

Final submissions:

1. We may also point out that any action for the observations would result in enormous misery not only to us but also to all our clients who are availing our services. We owe a duty to our clients and we say that we have acted as honest stock broker in the ordinary course of our dealings with all our clients. We repeat and reiterate that the lapses observed, in the Inspection Report, are at most isolated instances of human error and not forming any pattern which leads to doubt/suspicion or for personal benefit or with the intent to defraud the clients. Further on becoming aware of the stray lapses as pointed out in the Inspection Report, we have immediately taken steps to rectify the same and to avoid their recurrence in future. We reiterate that as a responsible and compliance conscious registered market intermediary, it has been our continuous effort to ensure that all the relevant rules, regulations and the guidelines issued by SEBI are properly complied with. We assure you that it will be our persistent endeavour that the stray incidents as stated in the report don't occur in future.
2. Here it may be pertinent to point out that reputation of a person is always a matter of great importance to him. Reputation is not built or acquired in a day but it takes long years and sustained good work, conduct and sound integrity, which builds up the reputation of a person. In the instant case it is submitted that we have been in the business for last 80 years and we have built a very strong reputation and if any action is proposed against us, the same would adversely affect us and would besmirch our reputation.
3. It is further submitted that while considering our submissions, we humbly request you to take into account the following factors:
 - (i) Unblemished and impeccable track record.
 - (ii) Neither we nor our clients have ever defaulted in meeting their payment/ delivery obligations.
 - (iii) The observations discrepancies are at the highest a technical, procedural and venial breach.
 - (iv) The observations technical lapses were not deliberate and intentional and in contumacious disregard of provisions of law.
 - (v) We have not indulged in any manipulative, fraudulent or unfair trade practices. Admittedly, there is no finding/observation in the Inspection Report of us indulging in any kind of fraudulent, manipulative or unfair trade practices in the market.
 - (vi) We have not made any gains or derived any unfair advantage as a result of technical and minor lapses.
 - (vii) The deficiencies as pointed out in the report have already been cured.
 - (viii) The discrepancies have not caused any loss to any of our clients. Further, it may be noted that there are no client/investor complaints in this regard.
 - (ix) That as result of discrepancies, we have not made any gain or gained any unfair advantage. The same has not been even observed in the Report.
 - (x) It is assured that we will continue to scrupulously abide by the provisions of the SEBI / Exchange Circulars and Regulations.

In view of the foregoing submissions, we repeat, reiterate and submit that we have conducted our business and operations bonafide and in compliance with applicable Regulations and Circulars issued by SEBI and have not acted in disregard of statutory compliances. It is respectfully submitted that, we have not committed any violations, warranting initiation of any further proceedings and therefore it is humbly prayed that no action be taken in the matter under Rule 4(1) of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules 1955 and Rule 4(1) of Securities Contracts (Regulations) (Procedure for Holding Inquiry and Imposing Penalties) Rules 2005 and under Regulation 25(1) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

...

...

- 2.1. *The Noticee reiterates its pointwise contention to the observations of the AO as follows:*
- 2.1.1. *Misuse of Client's Funds (G Negative): There were on 3 instances in the entire inspection period the 'G' was negative which accounted for less than 1% of "Total Credit Balance of all clients." The Noticee states that these instances occurred on account of procedural disruptions on account of Covid delta phase restrictions inter alia impact of pandemic on the Noticee's staff and operations. Balances due and payable by client's of the Noticee had been paid subsequently however, due to covid the monitoring receipts and payments were difficult. The Noticee further states that in normal course of business the monitoring is good and there is no issue of G negative. Additionally, the Noticee is a well-capitalised member of the stock market and have significant liquid net worth vested into its business and are capable of meeting their debts as and when they are due and payable. Lastly, in the previous couple of Half-yearly audits of the books of accounts of the Noticee, the auditors have noted this aspect to be duly complied with by the Noticee.*
- 2.1.2. *Non-settlement of Non-traded Clients: The Noticee states that in comparison to the quantum of settlement actually done by the Noticee the amounts remaining unsettled on account of technical difficulties or inadvertent lapses is insignificant and should not be construed as non-compliance when there is evidence of substantial compliance with the requirements of the relevant circulars. Additionally, it should be noted that the Noticee had not received any grievance from any of its investors on account of non-settlement of funds and dues settlement of funds for the instances remaining unsettled had been performed subsequently. Lastly, in the previous couple of Half-yearly audits of the books of accounts of the Noticee, the auditors have noted this aspect also to be duly complied with by the Noticee.*
- 2.1.3. *Verification of PRO MTM Loss: The Noticee reiterates that in this instance the supposed violation is merely a technical inconsistency on account of an operational leeway taken by the Noticee considering the difficulties faced at the time of Covid restrictions. The Noticee has presented necessary documentary evidence for the AOs consideration which sufficiently prove that the Noticee has not used client's funds for meeting its pro-trading mark-to-market margins but were paid out of the excess funds lying in the Client bank Account on account of Brokerage and charges which were not withdrawn and transferred to the PRO account and MTM obligations was paid from those excess amounts. The Noticee has subsequently rectified its systems and payment of PRO MTM Obligation is done through Prabhudas Lilladher Pvt Ltd Bank account tagged as OWN / PROPRIETARY. This aspect has not been in question in the previous couple of half yearly internal audits.*
- 2.1.4. *Reporting and short collection of Margin: The Noticee has submitted that there has been error in reporting on account of human error or software bugs and in some instances, there was no wrong reporting on account of late clearance of the cheques deposited by the Clients of the Noticee. The Noticee submits that these lapses are attributable to the operational difficulties encountered at the time of covid and has requested the AO to exercise discretionary leniency towards the same considering that similar lapses have not occurred subsequently, and the most recent half yearly audits can confirm the same.*
- 2.1.5. *Passing of Penalty on Short Reporting of Margin to clients: The Noticee has adequately demonstrated through the data produced before the AO that the Noticee has not passed penalties pertaining to short collection of upfront margin but only for non-receipt of MTM margins and that the amounts are small. The Noticee has stated during its representation before the AO that Exchange is incorrect in charging penalty for shortage of margin where such a shortage has arisen after the trades have taken place as the same is not "upfront margin". However, if the Exchange continues to charge penalty on such instances, we are constrained to pass on the penalty to the clients as we had ensured full collection of upfront margin at the time of the trade. Therefore, any penalty resulting from change after the trade is not a penalty for failure to collect "upfront margin" and hence is rightly passed on to the clients. The Noticee has provided a case-to-case explanation of the samples where adverse observations were made by the Exchange along with supporting documents therewith.*
- 2.1.6. *Client Registration process: In connection with the 22 samples where adverse observations were made concerning the running account settlement letters containing retention clause, the Noticee has informed the AO that this was on account of old account opening forms which had been circulated. Subsequently, this was rectified and revised running account settlement consent was taken from these clients, except in once instance where the client account had been closed. Furthermore, case to case explanation along with supporting documentation has been provided by the Noticee in connection with the 15 samples where KYC was not uploaded within 10 days. The Noticee has also stated that in the ongoing concurrent audits where 100% cases are being verified these issues have not been pointed out.*
- 2.1.7. *Net Worth Verification: The Noticee has submitted before the AO that the supposed overstatement of net-worth does not in any manner infringe regulatory requirement as the Noticee's net-worth during the time of the inspection was about 20 times the minimum network requirement and the supposedly overstated amount of 0.31 crores is merely 0.5% of the Noticee's network at that time.*
- 2.1.8. *Analysis of Weekly Enhanced Supervision data: The Noticee has provided detailed calculation to the AO of the weekly enhanced supervision data wherein the Noticee has considered base capital deposits maintained with the clearing corporation as a part of the funds available with the clearing corporation. While subsequently it has been brought to the Noticee's attention that the aforesaid*

method is incorrect, the Noticee has provided detailed calculation which indicate that 'G' remains positive even if the aforementioned amount is ignore and therefore it is not a scenario where client's funds have been mis-utilized.

- 2.1.9. *Client Level Cash & Cash Equivalent Balances and Bank Account Balances:* The Noticee has referred to its detailed case-by-case explanation to the observations made by the inspecting team and also pointed out that these are attributable to the fact that back-office operations of the Noticee were severely affect by the delta phase of Covid during which these errors have occurred on account of system glitches which would have been rectified in ordinary business course.
- 2.1.10. *Analysis of RBS Data:* The Noticee has in this instance accepted that on account of incorrect assumptions on the Noticee's part, erroneous reporting has occurred, however the Noticee has taken prompt steps to rectify these and in the previous couple of half-yearly audits these have been reported as duly complied by the auditor's of the Company.
- 2.1.11. *Trading Member has transferred securities of Credit balance client to "Client unpaid securities account":* The Noticee has provided documentary evidence to the AO which clearly state that instances wherein the securities of credit balance clients have been retained under 'CUSA' pertain to situations where if the securities were released to the clients, the margin requirement of these clients on F&O would have been breached, which would have resulted in posing a credit risk not just to the Noticee but to markets at large. Additionally, these clients had given letters to allow the Noticee to consider surplus balance of one exchange segment against another. In light of this the Noticee has stated that it has not breached regulatory requirements.
- 2.1.12. *Margin Trading facility:* the Noticee has stated that even though there were inadvertent errors of including the funds provided by clients as cash collaterals in reporting exposure to the exchanges, these have subsequently been rectified and streamlined.
- 2.1.13. *Requirement related to Brokerage:* The Noticee has pointed out that the excess brokerage collected was an insignificant amount compared to the total brokerage earned by the Noticee and the same has been reversed to the client.
- 2.1.14. *Closure of Client Beneficiary Accounts:* The Noticee has provided explanation along with documentary proof for non-closure of demat accounts IN3**868***87**2 and 12**130***67***8 within due dates till September 30, 2019 and explained to the AO officer the reason why these do no constitute a violation.

Further Submissions:

The Noticee has pointed out that the lapses mentioned in the SCN are merely technical, venial and procedural in nature and the Noticee has not made any gains or derived any unfair advantage on account of these alleged violations. The Noticee is committed to complying with the law and have requested that the procedural lapses be seen in the context of overall scale of operations handled and the various compliance measures adopted by the Noticee. Further, on becoming aware of the stray instances pointed out during inspection, The Noticee has immediately taken steps to rectify the same and avoid their recurrence in future.

The Noticee has further relied upon several judgements of the Securities Appellate Tribunal ('SAT') wherein SAT has taken the stance that the purpose of inspection is to point out deficiencies and suggest corrective action, rather than penalize the member wherein the operations are being conducted in a bona fide manner.

...'

Reply dated January 08, 2024:

'...

1. SEBI along with NSE and BSE conducted an inspection of our activities as stock broker during November 2, 2022 to November 8, 2022. The Inspection period was April 1, 2021 to October 31, 2022. The terms of reference of the inspection were to cover the Equity Market and commodity Derivative markets compliances.
2. It is submitted that as per the impugned SCNs, there are 14 findings of alleged breaches in our operations as stock broker. It is reiterated that there are no allegations in the impugned SCNs of any fraudulent or manipulative activities and there are no allegations that we as a stock broker benefitted /made profits or avoided losses through commission/ omission and further there are no allegations of any market wide impact of any of the alleged breaches or any losses caused to investors/clients.
3. It is submitted that as brought out in detail below, the alleged breaches, even if were correct, were trivial and occurred due to inadvertent operational issues much of which were not in the control of our company. It is submitted that the inspection period coincides with the peak of the Covid Pandemic from March 2021 to about February 2022, when there were continuous lock down for varying periods and a large part of our operational staff were working from home and were focusing on the larger issues to ensure smooth pay in and pay outs and settlements; further certain part of the alleged breaches had occurred due to the software vendor not being able to update the software on a timely basis considering the constraints in which all of us were operating. It is humbly submitted that these extenuating circumstances ought to be considered as a mitigating factor while adjudicating the impugned SCNs.
4. It is submitted that we are one of the brokers operating from 1994 with a large set up of 15 branches, across 187 cities in 27 States; 1651 authorised persons (AP) on NSE, 972 on BSE and 203 on MCX, 153433 registered clients on BSE (26341 active clients); 62404 registered clients on NSE CM (40285 active clients); 135997 registered clients on MCX (64592 active clients) – (Data taken from basic information sheet of inspection report).

5. It is submitted that the allegations made in the impugned SCN against the following findings are trivial considering the size of our operations and the breaches are covered by the extenuating circumstances. The below table is extracted from the Inspection report and our reply dated July, 10, 2024.

6. It is submitted that the inspection itself found that we were compliant in the following major areas and there are no adverse observations as per the relevant paragraphs cited in the inspection report)

- a) 4.1.2 - Segregation of clients' funds and securities
- b) 4.3 Stock reconciliation
- c) 4.4 Stock mismatch analysis
- d) 4.7 Demat account verification
- e) 4.9 Verification of daily margin statements.
- f) 4.10.1 Client Funding
- g) 4.10.2 verification of contract notes
- h) 4.11 – complaints and arbitration
- i) 4.12 – client's order recording
- j) 4.13 – PMLA – AML provisions
- k) 4.14 – Terminal verification & Certification
- l) 4.15 – Review of AP related policy & branch inspection
- m) 4.17 – Member is engaged as a principal or employee in business other than securities business.
- n) 4.25 – UCC verification
- o) 4.26 Exchange level internal Alerts verification for NSE BSE and MCS (except as stated in relevant paras)
- p) 4.1.2 Verification of trade file
- q) Cyber security and cyber resilience

7. It is submitted that mere technical and procedural breaches need not attract penalty, particularly when there are factors operating beyond the control of the Noticees. In this regard, we rely upon the following observations of the Hon Securities Appellate Tribunal in order dated 23.12.2020 in Appeal no. 304 of 2020.

Quote

6. The learned counsel for the appellants relied on the orders of this Tribunal in the matters of P.G.Electroplast Ltd. V SEBI (Appeal no. 281 of 2017 decided on August 2, 2019), Samrat Holdings Ltd. v SEBI reported in 2001 SCC Online SAT2 ad M/s prsaar v NSE (Appeal no. 53 of 2017 decided on March 5, 2020) to press the contention that a monetary penalty is not always need to be imposed for at worst a technical violation. In addition the learned counsel also emphasized that even if an enquiry was done by the AO no penalty should have been ordered as the order of the Supreme Court in Adjudicating officer, SEBI v Bhavesh Pabari (2019) 5 SCC 90 required the AO to consider the mitigating factors beyond what is stated under Section 15J of the SEBI Act, which in the instant case was not done and the penalty therefore imposed on the appellants cannot be justified.

7. Mr. Shyam Mehta, the learned senior counsel appearing on behalf of respondent SEBI, on the other hand, contended that no exemption was provided under the regulations to public sector undertakings etc.... It was also submitted by the learned senior counsel that considering the difficulties faced by the appellants as submitted by them only a nominal penalty of Rs. 10 lakh has been imposed since once violation is admitted a penalty has to be imposed following the order of the Hon. Supreme Court in the matter of Chairman SEBI v Shriram Mutual fund reported in 2006 5 SCC 361.

8. Having heard the learned counsel/learned senior counsel for the parties and having perused the documents we are of the view that the appellants were facing excruciating factors in achieving their stake dilution in UTI AMC.... Therefore, though admittedly there is a violation but in the face of excruciating factors in delaying full compliance and therefore leading to a technical violation need not always result in a penalty. The judgment of the Hon. Supreme Court in the matter of Bhavesh Pabari (Supra) is quite relevant that factors under Section 15J of the SEBI Act, is not exhaustive and the adjudicating authorities can look beyond, wherever genuine reasons/factors exist.

..

Unquote

8. It is submitted that the scope of the authority of the Adjudicating officer has been decided in the Judgment of the Hon. Supreme Court in the matter of Bhavesh Pabari (supra). In the said Judgment, the Hon. Supreme Court held;

Quote

7. This will require us to consider the first question referred. Having dealt with the submissions advanced by the rival parties (both parties have actually canvassed for a wider and more expansive interpretation of Section 15-J), we are inclined to take the view that the provisions of clauses (a), (b) and (c) of Section 15-J are illustrative in nature and have to be taken into account whenever such circumstances exist. But this is not to say that there can be no other circumstance(s) beyond those enumerated in clauses (a), (b) and (c) of Section 15-J that the adjudicating officer is precluded in law from considering while deciding on the quantum of penalty to be imposed.

8. A narrow view would be in direct conflict with the provisions of Section-I (2) of the SEBI Act, which vests jurisdiction in the adjudicating officer, who is empowered on completion of the inquiry to impose" such penalty as he thinks fit in accordance with the provisions of any of those sections".

Unquote

9. *It is humbly submitted that the Judgment of the Hon. Supreme Court in Shriram Mutual fund (Supra) is super ceded by the Judgment in Bhavesh Pabari (Supra).*
10. *It is humbly submitted that in the facts and circumstances of the case, particularly as this the first time that proceedings of this nature have been initiated against the Noticee; that there are no allegations of market misconduct, fraud, manipulation and other charges of grave nature, that there are no allegations of any profits made or losses avoided by the Noticee, that there are no adverse observations in the crucial areas of the functioning of a stock broker vis. Segregation of client funds, dealing with client securities etc. as brought out in paragraph 6 above and that considering the size of the operations, the alleged breaches are insignificant and trivial, and considering excruciating factors such as the COVID pandemic and lock down affecting the smooth operations of the Noticee, and in view of the Judgment in Baves Pabari, and other Orders of the Hon. SAT referred in the replies, this is a fit case for not imposing any monetary penalty under the SEBI Act and the SCRA and also for not making any adverse recommendation under the SEBI (Intermediaries) Regulations, 2008.*
11. *It is humbly submitted that in view of the above, the impugned SCNs may pleas be dropped as against the Noticee.*

...

D. CONSIDERATION OF ISSUES AND FINDINGS:

12. The following issue arises for consideration in the instant matter:

Issue No. I: Whether the Noticee had violated the provisions of Securities Contracts (Regulation) Act, 1956, SEBI (Stock Brokers) Regulations, 1992, SEBI Circulars and NSE Circulars, as alleged?

Issue No. II: If yes, whether the violations on the part of the Noticee would attract monetary penalty under section 15F(c) and 15HB of the SEBI Act, 1992, and under Section 23D of SC(R) Act, 1956 ?

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

13. I now proceed to deal with the matter on merits as regards alleged violations in respect of the Noticee, as per the SCN.

Issue No. I: Whether the Noticee had violated the provisions of Securities Contracts (Regulation) Act, 1956, SEBI (Stock Brokers) Regulations, 1992, SEBI Circulars and NSE Circulars, as alleged?

13.1. Misuse of clients funds: In this regard, it was inter alia observed and alleged that in 3 out of 44 dates (12/07/2021, 13/07/2021 and 15/07/2021), the value of G was negative (total amount of Rs.2,70,27,914/-) thereby indicating that the broker had misused clients' funds (value of G was negative) in the range from Rs.39.18 lakh on 15/07/2021 to Rs.1.89 Crore on 12/07/2021.

In view thereof, it was inter alia alleged that 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.

13.1.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Clause 1 of the SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993:

- ...
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.
 - A) Member Broker to keep Accounts: Every member broker shall keep such books of accounts, as will be necessary, to show and distinguish in connection with his business as a member -
 - i. Moneys received from or on account of each of his clients and,
 - ii. the moneys received and the moneys paid on Member's own account.
 - B) Obligation to pay money into "clients accounts". Every member broker who holds or receives money on account of a client shall forthwith pay such money to current or deposit account at bank to be kept in the name of the member in the title of which the word "clients" shall appear (hereinafter referred to as "clients account"). Member broker may keep one consolidated clients account for all the clients or accounts in the name of each client, as he thinks fit: Provided that when a Member broker receives a cheque or draft representing in part money belonging to the client and in part money due to the Member, he shall pay the whole of such cheque or draft into the clients account and effect subsequent transfer as laid down below in para D (ii).
 - C) What moneys to be paid into "clients account". No money shall be paid into clients account other than -
 - i. money held or received on account of clients;
 - ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;

- iii. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para D given below;
- iv. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.
- D] What moneys to be withdrawn from "clients account". No money shall be drawn from clients account other than -
- i. money properly required for payment to or on behalf of clients or for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;
- ii. such money belonging to the Member as may have been paid into the client account under para 1 C [ii] or 1 C [iv] given above;
- iii. money which may by mistake or accident have been paid into such account in contravention of para C above.
- E] Right to lien, set-off etc., not affected. Nothing in this para 1 shall deprive a Member broker of any recourse or right, whether by way of lien, set-off, counter-claim charge or otherwise against moneys standing to the credit of clients account.

‘ ...

13.1.2. As regards allegation that on 3 out of 44 dates (12/07/2021, 13/07/2021 and 15/07/2021), the value of G was negative (total amount of Rs.2,70,27,914/-), following details are noted from material available on record:

Sr . N o.	Date	Total of end of the day balance in all Client Bank Account s including the settlement account)	Collateral deposited with clearing corporation/ clearing member in form of Cash and Cash Equivalents	Total Credit Balance of all clients (after adjusting for open bills and uncleared cheques	A+B-C	P-(G+E+F)	If G is negative : B-(MC+MF), If G is positive : (C-A)-(MC+MF)
		A	B	C	G	I	J
1	12/07/2021	38,03,67,283	2,95,27,52,580	3,35,20,48,666	-1,89,28,803	-61,26,66,045	-2,80,03,93,362
2	13/07/2021	47,47,61,919	2,94,19,12,193	3,42,08,55,128	-41,81,015	-59,44,60,730	-2,65,26,81,146
3	15/07/2021	54,70,54,440	3,02,99,43,107	3,58,09,15,644	-39,18,096	-58,24,25,391	-3,32,69,87,393

13.1.3. In this regard, I note that the submissions of the Noticee vide its letter dated July 10, 2024, September 11, 2024 and January 08, 2024 ('replies to SCN') as part of its reply to the SCN, are in the nature of admission in so far as the Noticee has submitted that '*...Due to an error on our part only in the above 3 instances in the entire inspection period the G was negative, that too for less than 1% of "Total Credit Balance of all clients."*...'.

13.1.4. In this regard, Noticee in its reply to SCN had inter alia submitted that '*...The Noticee states that these instances occurred on account of*

procedural disruptions on account of Covid delta phase restrictions inter alia impact of pandemic on the Noticee's staff and operations... due to covid the monitoring receipts and payments were difficult...'

In this regard, I note that the Noticee has neither denied nor disputed the instances where G was observed to be negative and instead the submissions of the Noticee are in the nature of admission, as already brought out in the foregoing. In my opinion, disruptions on account of covid may not absolve the liability of the Noticee with respect to the violations committed and at best may be considered as mitigating factor. In view thereof, the contention of the Noticee in this regard are devoid of merit and hence not acceptable.

- 13.1.5. In view thereof, I find that the allegation that in 3 out of 44 dates (12/07/2021, 13/07/2021 and 15/07/2021), the value of G was negative to the total amount of Rs.2,70,27,914/- thereby indicating that the broker had misused clients' funds (value of G is negative) in the ranges from Rs.39.18 lakh on 15/07/2021 to Rs.1.89 Crore on 12/07/2021, 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.

- 13.2. **Non-settlement of non-traded clients' accounts (Quarterly), Non-settlement of non-traded clients' accounts (Monthly) and Non-settlement of traded clients' (Quarterly):** In this regard, it was inter alia observed and alleged that-

- 13.2.1. Non-settlement of non-traded clients' accounts (Quarterly): funds of 1283 clients were not settled for the total amount of Rs.36,09,213.20.

The amount of non-settlement ranged between Rs.500 to Rs.4,39,017.94.

13.2.2. Non-settlement of non-traded clients' accounts (Monthly): funds in 677 instances were not settled within the stipulated time for the total amount of Rs.2,85,33,272.12. The amount of non-settlement ranged between Rs.500 to Rs.16,82,179.7.

13.2.3. Non-settlement of traded clients' accounts (Quarterly): funds in 3 instances were not settled for the total amount of Rs.39,00,618.17. The amount of non-settlement ranged between Rs.34,905 to Rs.21,70,761.48.

In view thereof, it was inter alia alleged that Noticee had violated the provisions of Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021; Clause 8.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 12 (e) and 12 (g) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 5.1 of SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022.

13.2.4. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021:

'

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

...'

Clause 8.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016:

‘

8. Running Account Settlement

8.1. In partial modification of circular on running account settlement, the stock broker shall ensure that;

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

8.1.2. For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.

8.1.3. The required bank details for initiating electronic fund transfers shall be obtained from new clients and shall be updated for existing clients. Only in cases where electronic payment instructions have failed or have been rejected by the bank, then the stock broker may issue a physical payment instrument.

8.1.4. Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled

...’

Clause 12 (e) and 12 (g) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009:

‘

Running Account Authorization

12. Unless otherwise specifically agreed to by a Client, the settlement of funds/securities shall be done within 24 hours of the payout. However, a client may specifically authorize the stock broker to maintain a running account subject to the following conditions:

...

e. The actual settlement of funds and securities shall be done by the broker, at least once in a calendar quarter or month, depending on the preference of the client. While settling the account, the broker shall send to the client a ‘statement of accounts’ containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

....

g. Such periodic settlement of running account may not be necessary:

i. for clients availing margin trading facility as per SEBI circular

ii. for funds received from the clients towards collaterals/margin in the form of bank guarantee (BG)/Fixed Deposit receipts (FDR).

...’

Clause 5.1 of SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021:

‘

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

...’

Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022:

‘

4. Pursuant to extensive consultation with Stock Exchanges, in partial modification to the aforementioned circular dated June 16, 2021 and to ensure uniformity in settlement of running account, following has been decided:

4.1. The settlement of running account of funds of the client shall be done by the TM after considering the End of the day (EOD) obligation of funds as on the date of settlement across all

the Exchanges on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan-Mar) for all the clients i.e., the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on for all the clients. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

...'

- 13.2.5. As regards allegation in respect of non-settlement of non-traded clients' accounts (Quarterly), Noticee in its replies to SCN had inter alia submitted that '*...In case of following 5 clients, there was a slight delay in the settlement due to error by the software...*' and that '*...vide its Circular no. SEBI/HO/MIRSD/ DOP/P/CIR/2021/577 dated June 16 2021 it was suggested to return the money to the clients who have not traded in last 30 days with effect from August 1, 2021. However, the change was implemented with a delay in our back-office software and therefore these accounts have remained unsettled. The total amount that remained unsettled for these 1278 clients was a delay in settlement whereas we have paid hundreds of Crores while carrying our settlement of other clients. The payment to these clients has been done with some delay and it is submitted that the amount is no way material taking into account the size and nature of business. Further the delay in payment is not deliberate and is merely an inadvertent incident without any intention...*'.

In this regard, I note that the submissions of the Noticee are in the nature of admission in so far as the Noticee has submitted that '*...there was a slight delay in the settlement due to error by the software...*' and that '*...the change was implemented with a delay in our back-office software and therefore these accounts have remained unsettled. The total amount that remained unsettled for these 1278 clients was a delay in settlement...*'.

Further, as regards Noticee's contention that '*...These clients are settled on a later date, hence there is no violation of settlement but a mere delay in settlement...*'.

I note that in terms of Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 (SEBI

Circular dated June 16, 2021), for the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days irrespective of the date when the running account was previously settled. In this regard, I note that the Noticee has not demonstrated with sufficient details and documents that the accounts were settled within the stipulated time during the inspection period, in terms of Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021. Therefore, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

- 13.2.6. As regards allegation in respect of non-settlement of non-traded clients' accounts (Monthly) and non-settlement of traded clients' accounts (Quarterly), I note that in terms of Clause 5.4 of SEBI Circular dated June 16, 2021, the TM had to return the credit balance to the clients who have not done any transaction in the 30 calendar days since the last transaction within next three working days irrespective of the date when the running account was previously settled. Further, in terms of Clause 8.1 of SEBI Circular dated September 26, 2016 and clause 12 (e) Annexure-A of SEBI Circular dated December 03, 2009 and Clause 5.1 of SEBI Circular dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022, I note that inter alia TM shall settle the running account of funds of the client at least once within a gap of 30 / 90 days between two settlements of running account as per the preference of the client and that pursuant to SEBI Circular dated July 7, 2022, the settlement shall be done on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan-Mar) for all the clients i.e., the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on for all the clients. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

In this regard, I note that the Noticee has not made any specific submissions. I note that Noticee has neither denied nor disputed that (i) there was non-settlement of non-traded clients' accounts (Monthly) i.e. funds in 677 instances were not settled within the stipulated time for the total amount of Rs.2,85,33,272.12 wherein the amount of non-settlement ranged between Rs.500 to Rs.16,82,179.7, and that (ii) there was non-settlement of traded clients' accounts (Quarterly) i.e. funds in 3 instances were not settled for the total amount of Rs.39,00,618.17 wherein the amount of non-settlement ranged between Rs.34,905 to Rs.21,70,761.48.

13.2.7. In view thereof, I find that the allegation regarding Non-settlement of non-traded clients' accounts (Quarterly), Non-settlement of non-traded clients' accounts (Monthly) and Non-settlement of traded clients' (Quarterly), stands established. Therefore, I hold that Noticee had violated Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021; Clause 8.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 12 (e) and 12 (g) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 5.1 of SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022.

13.3. **Verification of Pro-MTM Loss:** In this regard, it was inter alia observed and alleged that Trading member had transferred PRO MTM funds payin obligation from client bank account to settlement bank account instead of transferring funds from own bank account to settlement bank account. Trading member had kept excess funds in the client bank account and through excess funds trading member has met PRO MTM obligation.

In view thereof, it was inter alia alleged that Noticee had violated the provisions of Section 23D of SC(R) Act, 1956 read with Clause 1 of the SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 2.4.2 and 2.5.3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

13.3.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Clause 1 of the SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993:

‘ ...
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.
A] Member Broker to keep Accounts: Every member broker shall keep such books of accounts, as will be necessary, to show and distinguish in connection with his business as a member -
i. Moneys received from or on account of each of his clients and,
ii. the moneys received and the moneys paid on Member's own account.
B] Obligation to pay money into "clients accounts". Every member broker who holds or receives money on account of a client shall forthwith pay such money to current or deposit account at bank to be kept in the name of the member in the title of which the word "clients" shall appear (hereinafter referred to as "clients account"). Member broker may keep one consolidated clients account for all the clients or accounts in the name of each client, as he thinks fit: Provided that when a Member broker receives a cheque or draft representing in part money belonging to the client and in part money due to the Member, he shall pay the whole of such cheque or draft into the clients account and effect subsequent transfer as laid down below in para D (ii).
C] What moneys to be paid into "clients account". No money shall be paid into clients account other than -
i. money held or received on account of clients;
ii. such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account;
iii. money for replacement of any sum which may by mistake or accident have been drawn from the account in contravention of para D given below;
iv. a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member.
D] What moneys to be withdrawn from "clients account". No money shall be drawn from clients account other than -
i. money properly required for payment to or on behalf of clients or for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client;
ii. such money belonging to the Member as may have been paid into the client account under para 1 C [ii] or 1 C [iv] given above;
iii. money which may by mistake or accident have been paid into such account in contravention of para C above.
E] Right to lien, set-off etc., not affected. Nothing in this para 1 shall deprive a Member broker of any recourse or right, whether by way of lien, set-off, counter-claim charge or otherwise against moneys standing to the credit of clients account.
‘ ...

Clause 2.4.2 and 2.5.3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016:

‘ ...

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

...

2.5. As per existing norms, a stock broker is entitled to have a lien on client's securities to the extent of the client's indebtedness to the stock broker and the stock broker may pledge those securities. This pledge can occur only with the explicit authorization of the client and the stock broker needs to maintain records of such authorisation. Pledge of such securities is permitted, only if, the same is done through Depository system in compliance with Regulation 58 of the SEBI (Depositories and Participants) Regulations, 1996. To strengthen the existing mechanism, the stock brokers shall ensure the following:

....

2.5.3. Funds raised against such pledged securities shall be credited only to the bank account named as "Name of the Stock Broker -Client Account".

...’

13.3.2. In this regard, as regards alleged violation of provisions of Clause 2.4.2 and 2.5.3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, on plain reading of the text of the alleged provisions, as stated, I note that the material available on record has not evidently as to how the said stated provisions are violated in this regard. Accordingly, I am inclined to allow benefit of doubt to the Noticee.

13.3.3. In this regard, Noticee as part of its replies to the SCN has submitted that ‘...We, the trading Member have not used the clients funds for payin of PRO MTM obligations. The Brokerage and charges which were lying in the client bank account which were not moved to the PRO account and are in excess of the Client Obligations, MTM obligations was paid from those excess amount.... we submit that the payment of PRO MTM obligation was made from the funds of brokerage and charges which were lying the client bank account which belongs to us....’. and that ‘...merely a technical inconsistency on account of an operational leeway taken by the Noticee considering the difficulties faced at the time of Covid restrictions..’

In this regard, I note from material available on record that the Noticee had transferred PRO MTM funds payin obligation from client bank account to settlement bank account in the following instances:

Sr. No.	Segment	Date	PRO MTM Obligation (Rs.)	G Value (Rs.)
1	FO	12-04-21	(1,51,92,841.55)	21,14,69,659.21
2	FO	09-06-21	(1,42,23,124.75)	9,23,95,794.24
3	FO	14-06-21	(2,39,93,117.75)	2,73,84,540.79
4	FO	11-02-22	(1,87,67,402.45)	7,70,79,778.97
5	FO	16-09-22	(2,66,64,950.65)	3,44,37,144.48

I note that Noticee has contended that MTM obligations were paid from those excess amount lying in the client account, in this regard, I note that even for SEBI, it is not the case that SEBI had alleged that Noticee used or misused client's funds but that Trading member had transferred PRO MTM funds payin obligation from client bank account to settlement bank account instead of transferring funds from own bank account to settlement bank account. I note from material available on record in this regard that SEBI itself has observed that Trading member had kept excess funds in the client bank account and through excess funds trading member has met PRO MTM obligation. In view thereof, I am inclined to take lenient view in this regard.

13.4. Incorrect reporting of margin: In this regard, it was inter alia observed and alleged that:

13.4.1. Incorrect reporting of total EOD Margin of Rs. 1,14,13,585.97 with respect to 4 clients in 4 instances.

13.4.2. Incorrect reporting of total Peak Margin of Rs. 1,54,97,492.36 with respect to 5 clients in 5 instances.

- 13.4.3. Short collection of peak margin of Rs.55,46,864/- with respect to one client in one instance.

In view thereof, it was inter alia alleged that Noticee had violated provisions of Clause 5 & 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2 of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020.

- 13.4.4. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Clause 5 & 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011:

‘...
5. All instances of non-reporting shall amount to 100% short collection and the penalty as applicable shall be charged on these instances in respect of short collection.
6. If during inspection it is found that a member has reported falsely the margin collected from clients, the member shall be penalized 100% of the falsely reported amount along with suspension of trading for 1 day in that segment.
...’

Clause 4.1.2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019:

‘...
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.)
...’

Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020:

‘...
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.
...’

13.4.5. As regards allegation with respect to incorrect reporting of total EOD Margin of Rs. 1,14,13,585.97 with respect to 4 clients in 4 instances, and incorrect reporting of total Peak Margin of Rs. 1,54,97,492.36 with respect to 5 clients in 5 instances, following details are noted from material available on record:

S r. N o.	Seg ment	Date	Client Code	EOD Margin all seg ment (Rs.)	Collected EOD Margin (Rs.)	Peak Margin all segment (Rs.)	Collected Peak Margin (Rs.)	Short Collection (Rs.)	Ledger Balance (Rs.)	Peak Ledger Balance (Rs.)	Free Balance (Funds + Collatera ls) (Rs.)	Peak Free Balance (Funds + Collatera ls) (Rs.)	Wrong Reportin g EOD Margin (Rs.)	Wrong Reportin g Peak Margin (Rs.)
1	FO	23/0 9/20 21	**02**33	1,18, 01,8 63.0 3	1,18,01,86 3.03	5,25,73,5 13.28	4,70,26,6 49.45	55,46,86 4	2,52,546.0 3	2,52,546.0 3	4,69,73,9 45.87	4,69,73,9 45.87	-	52,703.58
2	FO	24/0 8/20 21	**3E*02	8,37, 59,6 67.5 7	8,37,59,66 7.57	9,65,25,4 26.20	9,87,59,6 67.57	-	8,37,59,66 7.57	8,37,59,66 7.57	8,37,59,6 67.57	8,37,59,6 67.57	-	1,27,65,7 58.63
3	FO	11/0 6/20 21	**4*08	1,23, 65,2 03.1 4	1,23,65,20 3.14	1,54,23,7 10.58	2,05,64,9 47.44	-	5,49,001.1 2	1,39,48,68 9.45	86,63,213 .08	2,20,62,9 01.41	37,01,990 .06	-
4	CM	05/0 5/20 21	**11**05	65,6 8,62 3.53	65,68,623. 53	23,06,03 9.18	23,06,039 .18	-	2,27,42,76 5.44	2,12,38,17 7.96	6,92,245. 56	21,96,833 .04	58,76,377 .97	1,09,206. 14
5	CD	01/1 2/20 21	*5**78	2,76, 05,2 82.4 1	2,76,05,28 2.41	2,83,47,3 75.48	2,83,47,3 75.48	-	2,63,23,87 6.97	2,63,23,87 6.97	2,63,23,8 76.97	2,63,23,8 76.97	12,81,405 .44	20,23,498 .51
6	CD	27/0 7/20 22	**7E**6	5,53, 812. 50	5,53,812.5 0	5,46,325. 50	5,46,325. 50	-	-	-	-	-	5,53,812. 50	5,46,325. 50
	Total							55,46,86 4					1,14,13,5 85.97	1,54,97,4 92.36

13.4.6. As regards total EOD margin, Noticee as part of its replies to the SCN has submitted the following:

13.4.6.1. In respect of client code **4*08, Noticee submitted that ‘...*This was a manual error from our end, we accept this error..*’.

13.4.6.2. In respect of client code **11**05, Noticee submitted that ‘...*The wrong reporting was on account of clerical error...*’.

13.4.6.3. In respect of client code *5**78, Noticee submitted that ‘...*A Cheques of Rs.21 Lakh was received from client on 01-Dec-21. As per our internal process, the credit is recorded in the client ledger only when*

the cheques are cleared, however, the date of receipt of cheques is mentioned in the narration in the client ledger. This cheque was cleared on 03-Dec-21. Hence there is no wrong reporting on our part...'

13.4.6.4. In respect of client code **7E**6, Noticee submitted that '*...A Cheques of Rs.6 Lakh was received from client on 27-Jul-22. As per our internal process, the credit is recorded in the client ledger only when the cheques are cleared, however, the date of receipt of cheques is mentioned in the narration in the client ledger. This cheque was cleared on 30-Jul-22. Hence there is no wrong reporting on our part....'*

13.4.7. As regards total Peak Margin, Noticee as part of its replies to the SCN has submitted the following:

13.4.7.1. In respect of client code **02**33, Noticee submitted that '*...This was a manual error from our end, we accept this error...'*

13.4.7.2. In respect of client code **3E*02, Noticee submitted that '*...This was a manual error from our end, we accept this error...'*

13.4.7.3. In respect of client code **11**05, Noticee submitted that '*...The wrong reporting was on account of clerical error....'*

13.4.7.4. In respect of client code *5**78, Noticee submitted that '*...A Cheques of Rs.21 Lakh was received from client on 01-Dec-21. As per our internal process, the credit is recorded in the client ledger only when the cheques are cleared, however, the date of receipt of cheques is mentioned in the narration in the client ledger. This cheque was cleared on 03-Dec-21. Hence there is no wrong reporting on our part....'*

13.4.7.5. In respect of client code **7E**6, Noticee submitted that '*...A Cheques of Rs.6 Lakh was received from client on 27-Jul-22. As per our internal*

process, the credit is recorded in the client ledger only when the cheques are cleared, however, the date of receipt of cheques is mentioned in the narration in the client ledger. This cheque was cleared on 30-Jul-22. Hence there is no wrong reporting on our part...'

13.4.8. In view thereof, as regards EOD margin, I note that the submissions of the Noticee are in the nature of admissions in respect of client codes **4*08 and **I1**05 in so far as the Noticee has submitted that '*...manual error from our end..*' and that '*...wrong reporting was on account of clerical error...*'. Further, as regards peak margin, the submissions of the Noticee are in the nature of admissions in respect of client codes **02**33, **3E*02 and **I1**05 in so far as the Noticee has submitted that '*...manual error from our end..*' and that '*...wrong reporting was on account of clerical error...*'.

13.4.9. Further, as regards EOD margin and peak margin, I note that with respect to client codes *5**78 and **7E**6 the Noticee has submitted that it received a Cheque of Rs.21 Lakh from client on 01-Dec-21 and Rs.6 Lakh from client on 27-Jul-22. In this regard, I note that the Noticee has only produced cheques dated December 01, 2021 and July 27, 2022, however, generally speaking, the date mentioned on cheque may not always be the date of issuance of cheque and can be pre or post-dated. I note that Noticee has not demonstrated with relevant details and documents that the cheque was received on or before December 01, 2021 and July 27, 2022, being the date of margin reporting.

In my opinion, the contentions of the Noticee regarding its internal process that the amount is entered in the ledger post cheque clearance sans logic as at one hand Noticee has reported the margin on December 01, 2021 on receipt of cheque itself whereas on the other hand it has not recorded the same in its ledger as credit until the same got cleared.

Further, as regards its contention that the date of receipt of cheques is mentioned in the narration in the client ledger, I note from the client ledger submitted by the Noticee that no such narration could be found therein which states that the cheque was received on the said date. A screenshot of the same is produced hereunder:

03/12/2021	REHRC120001453	380	Bec : Chq-0000000380-03/12/2021 Na-Nt M56-1516859-1516859 20211203		21,00,000.00		30548263.44
30/07/2022	REICC070001688	15148	Nsef : Chq-0000015148-27/07/2022 Na- R77-1782769-1782769 20220730		6,00,000.00		1293059.96

In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

- 13.4.10. As regards short collection of peak margin in respect of **02**33, I note that Noticee has not made any specific submissions as part of its replies to SCN. In this regard, I note from material available on record that Noticee was required to collect peak margin of Rs. 5,25,73,513.28 but Noticee had collected Rs. 4,70,26,649.45 resulting in a short collection of margin of Rs. 55,46,864. I note that this has neither been denied nor been disputed by the Noticee.
- 13.4.11. In view thereof, I find that the allegation that there was incorrect reporting of total EOD Margin of Rs. 1,14,13,585.97 with respect to 4 clients in 4 instances, that there was incorrect reporting of total Peak Margin of Rs. 1,54,97,492.36 with respect to 5 clients in 5 instances and that there was short collection of peak margin of Rs.55,46,865/-, stands established. Therefore, I hold that Noticee had violated the provisions of Clause 5 & 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2 of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated, November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020.

13.5. **Passing of penalty on short reporting of margin to clients:** In this regard, it was inter alia observed and alleged that-

13.5.1. Member had passed on penalty to clients for short-collection of upfront margin during inspection period:

CM- 18 clients (Amount of penalty passed on to clients- Rs.2.93 lakhs)

FO- 20 clients (Amount of penalty passed on to clients-Rs.12.28 lakhs)

CD- 4 clients (Amount of penalty passed on to clients-Rs.0.43 lakhs)

13.5.2. Member was required to refund the penalty passed on to clients for short collection of upfront margin as per NSE circular no. NSE/INSP/53525 dated September 02, 2022 with effect from October 11, 2021. In the following instances the same had not been refunded.

CM- 9 clients (Amount of penalty passed on to clients- Rs.0.10 lakhs)

FO- 20 clients (Amount of penalty passed on to clients-Rs.12.28 lakhs)

CD- 4 clients (Amount of penalty passed on to clients-Rs.0.43 lakhs)

In view thereof, it was inter alia alleged that Noticee had violated the provisions of Clause A(5) of Regulation 9 of Schedule II for Code of Conduct of SEBI (Stock Brokers) Regulations, 1992 read with NSE circular NSE/INSP/45191 dated July 31, 2020 , NSE/INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.

13.5.3. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Clause A(5) of Regulation 9 of Schedule II for Code of Conduct of SEBI (Stock Brokers) Regulations, 1992:

‘...

SCHEDULE II
Securities and Exchange Board of India (Stock Brokers 105[**]) Regulations, 1992
CODE OF CONDUCT FOR STOCK BROKERS
[Regulation 9]

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
- ...

NSE circular NSE/INSP/45191 dated July 31, 2020:

- ...
1. 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/INSP/49929 dated October 12, 2021:

- ...
- This has reference to Exchange Circular NSE/INSP/45191 dated July 31, 2020 with respect to "Guidelines/clarifications on Margin collection & reporting" wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margin to client. 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 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. Further, clarification to Question no. 15 in Annexure A of the Exchange Circular NSE/INSP/45191 dated July 31, 2020, has been partially modified as below:
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/INSP/53525 dated September 02, 2022:

- ...
- 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 Further, Members are advised to refund the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to the clients on an immediate basis if same has been passed on to the clients after 11th October, 2021.
- ...

13.5.4. As regards allegation that Member had passed on penalty to clients for short-collection of upfront margin during inspection period, following is noted from material available on record:

Sr. No.	Segment	Margin Date	Client Code	Upfront as well as other margins penalty passed to clients (Rs.)	Penalty passed on to client with respect to Short collection of Upfront Margin (Rs.)	Remarks by TM
1	CM	11/05/2021	**1**04	2,51,265.31	2,51,265.31	Passed on to clients
2	CM	12/05/2021	**0*67	11,126.56	7,773.32	Passed on to clients
3	CM	28/05/2021	**1*11	9,125.89	5,813.04	Passed on to clients
4	CM	12/05/2021	**7**67	7,994.79	6,269.86	Passed on to clients
5	CM	28/05/2021	**1E*63	5,162.20	4,644.90	Passed on to clients
6	CM	28/05/2021	**1*161	5,033.68	4,035.71	Passed on to clients
7	CM	11/05/2021	**9E007	1,286.85	1,286.85	Passed on to clients
8	CM	11/05/2021	**8E062	831.51	831.51	Passed on to clients
9	CM	11/05/2021	**3E*02	807.09	768.29	Passed on to clients
10	CM	16/05/2022	**9E138	4,555.03	4,285.79	Passed on to clients
11	CM	13/05/2022	**1*045	1,189.57	1,102.74	Passed on to clients
12	CM	13/05/2022	**7E001	1,165.45	1,165.45	Passed on to clients
13	CM	13/05/2022	**1*1164	1,076.67	1,035.88	Passed on to clients
14	CM	13/05/2022	**0E005	1,028.43	1,028.43	Passed on to clients
15	CM	16/05/2022	**8E011	840.77	794.88	Passed on to clients
16	CM	16/05/2022	**9E132	603.91	556.60	Passed on to clients
17	CM	16/05/2022	**0M007	171.34	158.03	Passed on to clients
18	CM	16/05/2022	**1*127	303.85	282.65	Passed on to clients
19	FO	25/01/2022	**7*359	96,712.79	96,712.79	Passed on to clients
20	FO	25/01/2022	**0*110	69,983.04	69,983.04	Passed on to clients
21	FO	25/01/2022	**6*112	48,376.54	48,376.54	Passed on to clients
22	FO	25/01/2022	**1*359	46,673.80	46,673.80	Passed on to clients
23	FO	25/01/2022	B*7**1	35,089.40	35,089.40	Passed on to clients
24	FO	11/05/2022	**0*959	8,34,851.78	8,34,851.78	Passed on to clients
25	FO	11/05/2022	**2*2370	31,861.88	31,545.38	Passed on to clients
26	FO	11/05/2022	**6**2	30,347.26	30,347.26	Passed on to clients
27	FO	11/05/2022	**4E*50	4,686.31	4,686.31	Passed on to clients
28	FO	11/05/2022	**4E*72	3,958.02	3,958.02	Passed on to clients
29	FO	12/05/2022	**5*101	3,502.65	3,502.65	Passed on to clients
30	FO	12/05/2022	I*0**51	3,227.91	3,227.91	Passed on to clients
31	FO	12/05/2022	**3*1*1	3,213.36	3,213.36	Passed on to clients
32	FO	12/05/2022	**7E*04	3,011.13	3,011.13	Passed on to clients
33	FO	12/05/2022	L*4**04	2,974.31	1,876.99	Passed on to clients
34	FO	13/05/2022	B**23*0	4,136.24	4,136.24	Passed on to clients
35	FO	13/05/2022	**6*02	2,434.65	2,434.65	Passed on to clients
36	FO	13/05/2022	B**E**8	1,839.47	1,839.47	Passed on to clients
37	FO	13/05/2022	**1**41	1,551.30	1,551.30	Passed on to clients
38	FO	13/05/2022	M**E*22	1,344.66	1,344.66	Passed on to clients
39	CD	27/10/2021	**11**7	12,065.30	12,065.30	Passed on to clients
40	CD	27/12/2021	**6*14	25,675.21	19,175.21	Passed on to clients
41	CD	11/05/2022	*5**78	8,560.42	8,560.42	Passed on to clients
42	CD	31/12/2021	**6**5	4,819.35	4,069.35	Passed on to clients

13.5.5. As regards passing on of penalty to the clients and not refunding the penalty passed on to the clients, Noticee as part of its replies to the SCN has made similar submissions as was made before SEBI pursuant to the findings of inspection, that '*...it is imperative to highlight that the Exchange is incorrect in charging penalty for shortage of margin where such a shortage has arisen after the trades have taken place as the*

same is not “upfront margin”. However if the Exchange continues to charge penalty on such instances, we are constrained to pass on the penalty to the clients as we had ensured full collection of upfront margin at the time of the trade. Therefore, any penalty resulting from change subsequent to the trade is not a penalty for failure to collect “upfront margin” and hence is rightly passed on to the clients...’ and that ‘... NSE vide its Circular no. NSE/INSP/53525 dated September 02 2022 had advised the Members to refund the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to the clients on an immediate basis if same has been passed on to the clients after 11th October, 2021 in 5 out of 33 instances, we have refunded the penalty to the clients....’

In this regard, I note that the submissions of the Noticee are in the nature of admission with respect to 5 instances in so far as in terms of NSE/INSP/53525 dated September 02, 2022, members were 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. Further, Members were advised to refund the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to the clients on an immediate basis if same has been passed on to the clients after 11th October, 2021 and in this regard, Noticee has submitted that ‘...in 5 out of 33 instances, we have refunded the penalty to the clients...’.

Further in this regard, as regards passing on penalty for short-collection of upfront margin to the client, I note that though the Noticee has contended that the same was not upfront margin, however, I note that the Noticee has not sufficiently demonstrated with relevant details and documents that the penalty charged was not for upfront margin.

Further in this regard, as regards the contention of Noticee that any penalty other than for upfront margin can be passed on to clients, I note that in terms of NSE/INSP/49929 dated October 12, 2021, 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. Therefore, in the absence of sufficient evidence which the Noticee was required to produce in this regard, the contention of the Noticee that the margin was correctly passed on to the clients cannot be accepted. Therefore, in terms of NSE/INSP/53525 dated September 02, 2022, Noticee was required to refund the penalty levied to the clients in the following instances:

CM- 9 clients (Amount of penalty passed on to clients- Rs.0.10 lakhs)
FO- 20 clients (Amount of penalty passed on to clients-Rs.12.28 lakhs)
CD- 4 clients (Amount of penalty passed on to clients-Rs.0.43 lakhs)

In this regard, I note that Noticee has not demonstrated with relevant details and documents penalty passed on to the clients were refunded to the clients in the aforesaid instances.

- 13.5.6. In view thereof, I find that the allegation that Member had passed on penalty to clients for short-collection of upfront margin during inspection period and that Member was required to refund the penalty passed on to clients for short collection of upfront margin as per NSE circular no. NSE/INSP/53525 dated September 02, 2022 with effect from October 11, 2021 and the same had not been refunded, as brought out above, stands established. Therefore, I hold that the Noticee had violated the provisions of Clause A(5) of Regulation 9 of Schedule II for Code of Conduct of SEBI (Stock Brokers) Regulations, 1992 read with NSE circular NSE/INSP/45191 dated July 31, 2020 , NSE/INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.

- 13.6. **Client registration process:** In this regard, it was inter alia observed and alleged that the running a/c authorization of 22 instances contained a clause of retaining balance in ledger upto Rs. 10,000. As per SEBI circular dated June 16, 2021, retention of any amount of an active client was to be discontinued with effect from August 01, 2021. It was also observed and alleged that Broker had not uploaded documents to KRA in 15 instances within 10 days.

In view thereof, it was inter alia alleged that Noticee had violated the provisions of Clause 13 of Annexure-6 to SEBI Circular no. CIR/MIRSD/16/2011 dated August 22, 2011 and point 5.6 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, SEBI Circular no. MIRSD/SE/Cir-21/2011 dated October 05, 2011, CIR/MIRSD/22/2011 dated October 25, 2011, CIR/MIRSD/66/2016 dated July 21, 2016, CIR/MIRSD/120/2016 dated November 10, 2016, and SEBI/HO/MIRSD/DOP/CIR/P/2020/73 dated April 24, 2020; Clause 1(i) of SEBI Circular no. MIRSD/Cir-26/2011 dated December 23, 2011.

- 13.6.1. As regards allegation regarding the running a/c authorization of 22 instances containing a clause of retaining balance in ledger upto Rs. 10,000, the details of the same as noted from material available on record, are as follows:

Sr. No.	Client code	PL remark	ac activation date	Category	Form Category	Running A/c Authorization contains clause to settle clients
1	**0*2	Without retention limit running ac ltr tot signed from client	21/12/2021	Individual	Offline	It is observed that the Running A/c authorization contains a clause of retaining amount balance in ledger of Rs. 10,000 less - This clause is continuing after August, 2021
2	6**041		01/10/2021	Individual	Offline	
3	**3*42		26/10/2021	Individual	Offline	
4	6**0*3		27/10/2021	Individual	Offline	
5	**30*4		24/11/2021	Individual	Offline	
6	**3*46		14/12/2021	Individual	Offline	
7	**30*7		17/12/2021	Individual	Offline	
8	**001		closed ac on 04/08/22	Bco	Offline	
9	**2**82		13/09/2021	Bco	Offline	
10	**32*13		06/06/2022	PF	Offline	
11	*2**40		15/11/2021	LLP	Offline	
12	**8*42		15/11/2021	LLP	Offline	
13	**02**32		04/10/2022	LLP	Offline	
14	A**1*95		15/11/2021	HUF	Offline	
15	**2**96		18/11/2021	HUF	Offline	
16	**2**97		18/11/2021	HUF	Offline	

17	**2**03		08/12/2021	HUF	Offline	
18	**2**04		08/12/2021	HUF	Offline	
19	A**1*05		17/02/2022	HUF	Offline	
20	**2**14		01/06/2022	HUF	Offline	
21	**3**94		03/06/2022	HUF	Offline	
22	***1*25		01/12/2021	HUF	Offline	

13.6.1.1. In this regard, Noticee in its reply to the findings and observations of Inspection, submitted earlier before SEBI that *‘...in case of following 22 clients though the KYC kit contained the running account letter which was in an old format we have implemented the content therein and complied with the guidelines issued by SEBI/Exchanges with regard to settlement of clients’ accounts. Out of these 22 instances pointed out by SEBI one client closed its account in August 2022 and from remaining 21 clients we have obtained revised running account authorisation letters, which does not contain the said clause...’*

13.6.1.2. In this regard, Noticee as part of its replies to the SCN has made similar submissions as was made before SEBI pursuant to the findings of inspection, that *‘...we have implemented the content therein and complied with the guidelines issued by SEBI/Exchanges with regard to settlement of clients’ accounts. Out of these 22 instances pointed out by SEBI one client closed its account in August 2022 – the closure form of the client code **001 is attached... And from remaining 21 clients we have obtained revised running account authorisation letters, which does not contain the said clause...’*

In this regard, I note from the letters submitted by Noticee that the revised running account authorisation letters of the 21 clients were signed post inspection period i.e. after October 31, 2022. However, I note from the material available on record that it is not the case of SEBI wherein it is alleged that Noticee had retained the funds of clients in violation of the stated circulars apart from mentioning the retention clause in the authorization form. In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard. The allegation is therefore dropped in favour of the Noticee.

13.6.2. As regards allegation that Broker had not uploaded documents to KRA in 15 instances within 10 days, following is noted from material available on record:

Sr. No.	Client code	Category	Account Opening Date	KRA done date	Observation KRA Updated within 10 days
1	**3**6	Individual	25/06/2021	20/08/2022	After 10 Days Updated
2	**3*38	Individual	30/07/2021	27/04/2022	After 10 Days Updated
3	**30*5	Individual	11/07/2021	22/06/2018	Not Updated
4	**7**17	Individual	16/10/2021	26/05/2022	After 10 Days Updated
5	**17	Bco	21/11/2020	09/08/2022	After 10 Days Updated
6	**18	Bco	03/06/2021	09/08/2022	After 10 Days Updated
7	**0*7	Bco	30/06/2022	12/09/2022	After 10 Days Updated
8	**2**25	Bco	13/08/2022	06/09/2022	After 10 Days Updated
9	**32*13	PF	23/05/2022	Not Available	Not Available
10	*2**40	LLP	07/10/2021	10/01/2022	After 10 Day Updated
11	**02**99	LLP	05/04/2021	01/06/2022	After 10 Day Updated
12	**2**03	HUF	27/11/2021	01/06/2022	After 10 Days Updated
13	A**1*05	HUF	17/02/2022	17/08/2022	After 10 Days Updated
14	**2**14	HUF	30/04/2022	02/09/2022	After 10 Days Updated
15	**3**94	HUF	10/05/2022	02/09/2022	After 10 Days Updated

13.6.3. In this regard, I note that the submissions of the Noticee are in the nature of admission in so far as in respect of ten instances viz., client codes *2**40, **02**99, **7**17, **2**25, **2**03, A**1*05, **2**14, **3**94, **0*7, **32*13, the Noticee has submitted that '*...Due to some software bug certain files didn't get generated the KRA could not be uploaded...*'.

13.6.4. Further, as regards client codes **3**6 and **3*38, Noticee has submitted that '*...the KRA was done by CKYC by some other intermediary, hence we could not update....*'. As regards client codes **17 and **18, Noticee has submitted that '*...This account was registered as ..in the PMS category on 21/11/2020. The KRA of Prabhudas Lilladher Pvt Ltd was registered on 30/1/2007. There were no change in the said KYC details hence not required to update. Hence it was not updated as soon as the account is opened....*', and as regards client code **30*5, Noticee submitted that '*...the delay was due to the fact that the KRA status was showing 'under modification' for a very long time. Such modification was done by another intermediary.*

When the status changed, and verified the information on KRA portal with our KYC information, there was no change, and hence there was no need to carry out the KRA from our side...'

In this regard, I note that in terms of Clause 1(i) of SEBI Circular dated December 23, 2011, it is obligatory upon each intermediary that after doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA and send the KYC documents i.e. KYC application form and supporting documents of the clients to the KRA within 10 working days from the date of execution of documents by the client and maintain the proof of dispatch. I note that the Noticee has not demonstrated with relevant details and documents that any exemption was provided to the Noticee in this regard. Therefore, in my opinion, the contention of the Noticee in this regard are devoid of merit and hence not acceptable.

- 13.6.5. In view thereof, I find that the allegation that Broker had not uploaded documents to KRA of 15 instances within 10 days, stands established. Therefore, I hold that the Noticee had violated the provisions of Clause 1(i) of SEBI Circular no. MIRSD/Cir-26/2011 dated December 23, 2011.

- 13.7. **Net Worth Verification:** In this regard, it was inter alia observed and alleged that there was discrepancy in the computation of Networth submitted to the National Stock Exchange (NSE). Networth Reported as on 30th September, 2022 was Rs.59,82,17,278/-. Networth as per calculation was Rs.59,51,07,517.57. Although the networth amount was above the prescribed value, however, total value of Networth had been overstated by Rs.31,09,760.

In view thereof, it was inter alia alleged that Noticee had violated the provisions of Clause 6.1.1(j) of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

- 13.7.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016:

‘...
6.1.1. Monitoring criteria for Stock Brokers
...
J. In case stock broker shares incomplete/wrong data or fails to submit data on time.
...’

- 13.7.2. In this regard following calculations are noted from material available on record:

Particulars	Audited (Rs.)	As per exchange working (Rs.)	Difference (Rs.)
Share Capital	17,44,00,000.00	17,44,00,000.00	-
Free Reserve	57,00,10,696.00	57,00,10,696.00	-
Total	74,44,10,696.00	74,44,10,696.00	0.00
Less: Non Allowable Assets			
Fixed Assets	1,69,40,320.00	1,69,40,320.00	0.00
Pledge Securities	-	-	0.00
Member's Card	-	-	-
Non-allowable Securities	48,85,000.00	48,85,000	0.00
Bad deliveries	-	-	-
Doubtful Debts and Adv.	5,06,30,298.00	5,37,40,058	31,09,760.13
Prepaid Expenses, Loss	4,66,59,957.00	4,66,59,957.00	0.00
Intangible Assets	2,08,06,049.00	2,08,06,049.00	0.00
30% Marketable Secu. (30% of)	-	-	0.00
(considered at book Value)	62,71,794.00	62,71,794.30	
	14,61,93,418.00	14,93,03,178.43	31,09,760
	59,82,17,278.00	59,51,07,517.57	(31,09,760)

- 13.7.3. In this regard, I note that Noticee has made similar submissions both in its reply to the findings of Inspection before SEBI and also during the instant proceedings as its replies to the SCN wherein the Noticee has submitted that ‘...SEBI has permitted Exchanges to set up their own minimum Net worth Criteria for various memberships. Exchanges have formulated their own requirements of Net worth ...During the inspection a concern is raised that as per the calculation mentioned in the letter the net worth comes to Rs. 59.51 Crore thus observing that there is an incorrect calculation of net worth to an extent of Rs. 0.31 Crore. It is humbly submitted that adopting either of the calculation techniques, our net worth remains close to 20 times the net worth requirements of the Exchange and therefore the concern from SEBI is unwarranted. Further

the alleged difference of Rs. 0.31 Crore is just about 0.5% of the net worth and therefore it no way impacts the financial wherewithal of our Company...'. In this regard, SEBI observed that Dr. L. C. Gupta's Net worth computation specified liquid net worth of the trading member. Considering above, deposits (Rental deposits, etc.) other than deposit with exchanges/ clearing corporation are deducted from Networth. Although the networth amount was above the prescribed value, however, total value of Networth was overstated by Rs.31,09,760.

In view thereof, having regard to the submissions of the Noticee and material available on record, I am inclined to allow benefit of doubt to the Noticee. The allegation is therefore dropped in favour of the Noticee in this regard.

- 13.8. **Analysis of weekly enhanced supervision data:** In this regard, it was inter alia observed and alleged that Member had not correctly uploaded details of all clients' funds lying with them on stock exchange system for three dates i.e. 30/07/2021, 25/03/2022 and 30/09/2022.

In view thereof, it was inter alia alleged that Noticee had violated the provisions of SEBI Circular - Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017.

- 13.8.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia read as under:

Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

- ‘...
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

...

13.8.2. As regards the allegation that Member had not correctly uploaded details of all clients' funds lying with them on stock exchange system for three dates i.e. 30/07/2021, 25/03/2022 and 30/09/2022, following is noted from material available on record:

As of 25.03.2022:

Sr. No	Principal	Particulars	As of 25.03.2022		
			Values as per calculation	Actual Submission by Member	
1	A	Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across stock exchanges.	62,88,00,133.00	62,88,00,133.00	-
2	B	Aggregate value of collateral deposited with Exchange (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 while submitting this amount	97,13,99,969.00	98,40,49,969.00	1,26,50,000.00
3	B	Aggregate value of collateral deposited with 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 while submitting this amount	1,64,30,63,626.00	1,64,30,63,626.00	-
4	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)	2,86,78,21,991.00	2,86,78,21,991.00	-
	G	Difference	37,54,41,737.00	38,80,91,737.00	1,26,50,000.00

5	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)	1,03,47,48,791.00	1,03,47,48,791.00	-
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As of 30.07.2021:

Sr. No.	Principal	Particulars	As of 30.07.2021		
			Values as per calculation	Actual Submission by Member	
1	A	Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across stock exchanges.	58,62,80,739.00	58,62,80,739.00	-
2	B	Aggregate value of collateral deposited with Exchange (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 while submitting this amount	69,60,38,354.00	70,86,88,354.00	1,26,50,000.00
3	B	Aggregate value of collateral deposited with 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 while submitting this amount	2,21,67,70,000.00	2,21,67,70,000.00	-
4	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)	3,46,06,27,413.00	3,46,06,27,413.00	-
	G	Difference	3,84,61,680.00	5,11,11,680.00	1,26,50,000.00
5	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)	89,47,49,558.00	89,47,49,558.00	-

As of 30.09.2022:

Sr. No.	Principal	Particulars	As of 30.09.2022		
			Values as per calculation	Actual Submission by Member	
1	A	Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across stock exchanges.	50,91,97,166.00	50,91,97,166.00	-
2	B	Aggregate value of collateral deposited with Exchange (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 while submitting this amount	60,05,99,988.00	61,32,49,988.00	1,26,50,000.00
3	B	Aggregate value of collateral deposited with 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 while submitting this amount	1,81,82,08,047.00	1,81,82,08,047.00	-
4	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)	2,87,27,21,948.00	2,87,27,21,948.00	-
	G	Difference	5,52,83,253.00	6,79,33,253.00	1,26,50,000.00
5	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)	1,34,66,66,270.00	1,34,66,66,270.00	-

13.8.3. In this regard, Noticee in its reply to the findings and observations of Inspection, submitted earlier before SEBI that ‘...We submit that we have considered the base capital deposits maintained with the clearing corporation as a part of the funds available with the clearing corporation...We are informed that this amount has to be ignored while

reporting the balance available with the clearing corporation or clearing member as the case may be, which has been noted and we now started ignoring the same while reporting the balance...However, it needs to be appreciated that the reported amount was actually deposited and it is not a case that we have reported amounts that did not exist. Further even after ignoring the amount of 1.27 Crores the G remains positive.

- 13.8.4. In this regard, I note that Noticee has made similar submissions as part of its replies to the SCN as well i.e. *'...we have considered the base capital deposits maintained with the clearing corporation as a part of the funds available with the clearing corporation. We are informed that this amount has to be ignored while reporting the balance available with the clearing corporation or clearing member as the case may be, which has been noted and we now started ignoring the same while reporting the balance. However, it needs to be appreciated that the reported amount was actually deposited and it is not a case that we have reported amounts that did not exist. Further even after ignoring the amount of 1.27 Crores the G remains positive...'*

In this regard, I note that Noticee has neither denied nor disputed that the calculation arrived by SEBI with regard to all clients' funds lying with Noticee on stock exchange system for three dates i.e. 30/07/2021, 25/03/2022 and 30/09/2022, instead the submissions of the Noticee are in the nature of admission in so far as the Noticee has submitted that *'...We are informed that this amount has to be ignored while reporting the balance available with the clearing corporation or clearing member as the case may be, which has been noted and we now started ignoring the same while reporting the balance....'*

As regards Noticee's contention that G remains positive, I note that same is out of context as the instant allegation is with respect to incorrect reporting of clients' funds and not about value of G.

- 13.8.5. In view thereof, I find that the allegation that Member had not correctly uploaded details of all clients' funds lying with them on stock exchange

system for three dates i.e. 30/07/2021, 25/03/2022 and 30/09/2022, stands established. Therefore, Noticee had violated the provisions of SEBI Circular - Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017.

13.9. Client Level Cash & Cash Equivalent Balances and Bank Account

Balances: In this regard, it was inter alia observed and alleged that:

- 13.9.1. Incorrect reporting of Clear Ledger Balance of 3 clients in 3 instances in cash & cash equivalent.
- 13.9.2. Incorrect reporting of Peak Ledger Balance of 53 clients in 53 instances in cash & cash equivalent

In view thereof, it was inter alia alleged that Noticee had violated the provisions of Clause 6.1.1 (j) SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

- 13.9.3. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

‘...
6.1.1. Monitoring criteria for Stock Brokers
...
J. In case stock broker shares incomplete/wrong data or fails to submit data on time.
...’

- 13.9.4. As regards allegation in respect of incorrect reporting of Clear Ledger Balance of 3 clients in 3 instances in cash & cash equivalent, following is noted from material available on record:

Sr. No.	Date	Client Code	Clear Ledger Balance (Rs.)	Clear Ledger Balance as per Cash & Cash Equivalent (Rs.)	Difference (Rs.)
1	21/05/2021	E**1*30	42,23,722.14	42,23,643.49	78.65
2	21/05/2021	**12**1	76,811.36	76,795.98	15.38
3	09/09/2021	**6**2	-47,20,523.00	-36,32,068.70	-10,88,454.30

13.9.4.1. In this regard, Noticee in its reply to the findings and observations of Inspection, submitted earlier before SEBI in respect of client code E**1*30 and **12**1 that '*...The bills generated were re-calculated for some error and the rectified bill had a nominal difference as compared to the earlier bill. The reporting was done before the rectification of bill hence there is a nominal difference...*' and in respect of client code **6**2 that '*...For FY 2020-21 the closing balance as on 31-Mar-2021 was Rs. -10,88,454.30 which was erroneously transferred to MTF margin ledger of the same client during data migration...*'.

13.9.4.2. In this regard, I note that the submissions of the Noticee are in the nature of admission in so far as the Noticee has submitted the following viz., as regards client codes E**1*30 and **12**1, Noticee as part of its replies to the SCN has submitted that '*... The bills generated were re-calculated for some error and the rectified bill had a nominal difference as compared to the earlier bill. The reporting was done before the rectification of bill hence there is a nominal difference....*', and as regards client code **6**2, the Noticee has submitted that '*...For FY 2020-21 the closing balance as on 31-Mar-2021 was Rs. -10,88,454.30 which was erroneously transferred to MTF margin ledger of the same client during data migration on 1.4.2021....*'

13.9.5. As regards allegation in respect of incorrect reporting of Peak Ledger with respect to balance of 53 clients in 53 instances in cash & cash equivalent, following is noted from material available on record:

Date	Client Code	Ledger Balance as on T Day (Rs.)	Payments / Bill (Rs.)	Debit JV (Rs.)	Peak Free Balance (Rs.)	Peak Ledger Balance as per Cash & Cash Equivalent (Rs.)	Difference (Rs.)
21/10/2021	**3*93	-5,44,86,092.88	38,46,15,628.76	-	33,01,29,535.88	41,25,93,803.30	8,24,64,267.42
18/06/2021	**0*71	-	-	-	-	-1,56,76,706.21	23,52,306.91
		1,81,35,743.37		1,06,730.25	1,80,29,013.12		
13/10/2021	**2*57	-1,66,259.75	-	-	-1,66,259.75	55,94,997.75	57,61,257.50
27/09/2021	**4**02	5,04,42,427.28	-	-	5,04,42,427.28	5,12,16,588.63	7,74,161.35
18/01/2022	**0**9	-1,06,249.21	9,85,910.92	-	8,79,661.71	12,59,647.56	3,79,985.85
13/07/2022	**6*01	-	1,29,79,968.27	-	1,29,79,968.27	1,37,03,795.37	7,23,827.10
15/09/2022	**4**0	4,65,27,272.53	160.00	-	4,65,27,432.53	4,65,28,363.28	930.75
09/09/2021	**6**2	-47,20,537.19	-	-	-47,20,537.19	-32,62,744.39	-14,57,792.80
11/11/2021	**3E**3	4,59,39,118.34	-	-	4,59,39,118.34	5,14,14,393.34	54,75,275.00
05/05/2022	**2**33	-53,429.59	-	-	-53,429.59	1,515.06	54,944.65
01/06/2021	**6**07	26,05,335.00	-	-	26,05,335.00	27,05,425.63	1,00,090.63
21/05/2021	**6*1	6,915.28	-	-	6,915.28	8,682.90	1,767.62
21/05/2021	**1*54	-6,29,711.46	-	-	-6,29,711.46	84,215.99	7,13,927.45
25/06/2021	**2*90	33,65,487.05	-	-	33,65,487.05	36,43,822.05	2,78,335.00
21/05/2021	**3*86	-14,409.30	16,626.37	-	2,217.07	3,06,948.00	3,04,730.93
21/05/2021	**1**00	-13,36,347.89	8,03,889.01	-	-5,32,458.88	-5,32,438.84	20.04
21/05/2021	6**4*5	-1,86,022.36	-	-	-1,86,022.36	-31,643.71	1,54,378.65
24/08/2021	**3E*02	6,87,59,667.57	-	-	6,87,59,667.57	6,95,90,753.66	8,31,086.09
22/04/2021	**5E*24	10,03,942.86	-	-	10,03,942.86	10,97,572.16	93,629.30
21/05/2021	E**1*30	42,23,722.14	42,067.26	42,067.26	43,07,856.66	43,07,778.01	-78.65
21/05/2021	**7**11	-3,70,649.10	97,040.29	-	-2,73,608.81	-90,340.06	1,83,268.75
21/05/2021	**7**12	-2,13,423.50	97,040.29	-	-1,16,383.21	66,885.54	1,83,268.75
21/05/2021	**4**13	-	2,67,33,299.13	-	2,67,33,299.13	2,75,33,694.87	8,00,395.74
22/04/2021	**5*3*9	23,35,692.49	-	-	23,35,692.49	24,25,163.12	89,470.63
21/05/2021	**3**11	55,29,025.40	10,00,000.00	-	65,29,025.40	65,33,435.40	4,410.00
21/05/2021	**6**17	3,73,664.09	-	-	3,73,664.09	5,52,964.09	1,79,300.00
21/05/2021	**2**12	-49,68,069.01	15.00	-	-49,68,054.01	-45,01,216.28	4,66,837.73
28/09/2021	**2*5*5	1,20,77,249.97	-	15.00	1,20,77,264.97	1,21,05,651.22	28,386.25
11/06/2021	**3*4D*1*3	2,00,00,000.00			2,00,00,000.00	4,00,00,000.00	2,00,00,000.00
20/10/2021	**2*8*0	-1,07,791.90	30,80,323.04	20.00	29,72,551.14	32,58,993.87	2,86,442.73
23/08/2022	**0**1*3*7	-20.90			-20.90	-	20.90
16/09/2022	**N*0*1	-			-	17.69	17.69
17/02/2022	**5*3*5	16,98,484.48	-	-	16,98,484.48	17,23,232.24	24,747.76
17/02/2022	**5*6*2	24,01,317.41	-	-	24,01,317.41	24,48,821.40	47,503.99
21/10/2022	**8*3*3	77,474.35	-	-	77,474.35	77,880.27	405.92
07/04/2021	**9*6*2*	-39,094.98	40,274.56	-	1,179.58	7,909.99	6,730.41
22/09/2022	**9*6*2*	62,945.10	-	-	62,945.10	83,345.10	20,400.00
07/04/2021	**9*0*4	2,94,592.90	-	-	2,94,592.90	3,05,172.90	10,580.00
25/01/2022	**1*1*0*	83,103.14	-	-	83,103.14	83,425.38	322.24
22/06/2021	**1*0*6	36,30,610.39	-	-	36,30,610.39	36,33,089.35	2,478.96
25/10/2022	**1*1*5	1,24,43,944.22	-	-	1,24,43,944.22	1,25,96,935.77	1,52,991.55
11/10/2021	**8*3*	1,03,49,747.42	-	-	1,03,49,747.42	1,04,06,849.37	57,101.95
22/04/2021	**6*2*	3,23,11,654.36	-	-	3,23,11,654.36	3,31,33,500.03	8,21,845.67
21/05/2021	**1*2*4	-1,94,779.28	-	-	-1,94,779.28	-1,43,779.28	51,000.00
21/05/2021	**3*5*	3,08,970.80	-	-	3,08,970.80	3,65,445.66	56,474.86
28/06/2022	**6*1*4	40,00,588.58	-	-	40,00,588.58	41,18,371.27	1,17,782.69
25/03/2022	**2*3*1	9,20,228.67	15,000.00	-	9,35,228.67	10,58,307.50	1,23,078.83
26/05/2022	**1*0*8	10,17,032.97	-	-	10,17,032.97	10,17,207.40	174.43
18/02/2022	**5*0*3	9,75,867.99	-	-	9,75,867.99	9,89,617.99	13,750.00
20/07/2021	**0**11	14,37,572.00	-	-	14,37,572.00	17,59,419.77	3,21,847.77
21/05/2021	**6*0*3	-2,83,860.26	1,69,457.15	-	-1,14,403.11	-1,08,028.11	6,375.00
20/10/2021	**2*4*1	4,68,694.61	-	-	4,68,694.61	4,75,278.09	6,583.48
07/04/2021	**4*0*4	13,15,846.22	-	-	13,15,846.22	13,30,262.38	14,416.16

13.9.6. In this regard, I note that Noticee has made similar submissions in its reply to the findings of Inspection before SEBI and also during the instant proceedings, as a part of its replies to the SCN wherein the Noticee has inter alia submitted that '*...As per the requirements of circular NSE/INSP/43486 dated February 10 2020 NSE/INSP/44478*

dated May 27 2020 trading members are required to report “Financial Ledger Balance – A” which reflects ledger balance across all Exchanges and Segments and “Financial Ledger Balance (clear) – B” which ignores open bills and un-cleared cheques. There is no concept of “Peak Client Ledger Balances” as mentioned in the observation letter in the circular referred in the letter...’

As regards Noticee’s contention that there is no concept of “Peak Client Ledger Balances”, I note that the circulars NSE/INSP/43486 and NSE/INSP/44478 focus on the reporting of client-wise financial ledger balances and clear ledger balances across all exchanges and segments. However, subsequent clarifications and guidelines from NSE and SEBI have introduced and operationalized the concept of “Peak Ledger Balance” for compliance, especially in the context of margin and collateral reporting. In this regard, I note from NSE Clearing Limited’s circular bearing ref. no. NCL/CMPL/64088 dated Sep 23, 2024 that it explicitly instructs members on how to report “Peak Ledger Balance” for clients, including examples and methodology. In view thereof, the contention of the Noticee in this regard are devoid of merit and hence not acceptable.

Further in this regard, I note that the submissions of the Noticee are in the nature of admission with respect to client codes **1**30 and **6*12 in so far as the Noticee has submitted that ‘...the difference of Rs. 78.65 is a nominal difference on account of bill being re-generated for small rectification...’ and that ‘...the difference is on account of incorrect carry forward of balance between MTF ledger and normal ledger...’.

- 13.9.7. In view thereof, I find that the allegation that there was incorrect reporting of Clear Ledger Balance of 3 clients in 3 instances in cash & cash equivalent and that there was incorrect reporting of Peak Ledger Balance of 53 clients in 53 instances in cash & cash equivalent, stands established. Therefore, I hold that the Noticee has violated the

provisions of Clause 6.1.1 (j) SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

13.10. **Analysis of Risk-Based Supervision (RBS) data:** In this regard, it was inter alia observed and alleged that Trading Member had not correctly reported the details of Brokerage, Total Debit Balance Client and Total available collaterals from all debit balance clients..

In view thereof, it was inter alia alleged that Noticee had violated the provisions of Clause 6.1.1.e of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

13.10.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia 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.
...’

13.10.2. In this regard, details of alleged incorrect reporting of Brokerage, Total Debit Balance Client and Total available collaterals from all debit balance clients, as noted from material available on record are as under:

Particulars	Data Reported by Trading Member	As per Exchange working	Difference
Brokerage income	63,96,07,068.03	63,89,27,686.82	6,79,381.21
Total debit balance of all clients (In Rs.)*	130,40,62,498.11	49,55,59,987.52	80,85,02,510.59
Total available collaterals from all debit balance clients	491,74,90,139.64	228,65,38,030.66	-263,09,52,108.98

13.10.3. In this regard, as regards reporting brokerage, I note that Noticee has made similar submissions both in its reply to the findings of Inspection submitted before SEBI and also during the instant proceedings in its

replies to the SCN that ‘...As per Item 20 of Annexure A to circular NSE/INSP/47935 dated April 07, 2021 we are required to report “Gross brokerage revenue from broking operations across all exchanges.”In line with the requirement of the circular we have reported gross brokerage.In very few cases, the clients request for a modification of brokerage after the bills are generated and in such case the brokerage is reduced by way of brokerage reversal...we were informed that gross brokerage means total brokerage earned and net brokerage means brokerage after reducing passback on account of sub-brokerage or AP commission...After having this understanding, we will henceforth reduce the reversed brokerage to arrive at gross brokerage....’

In this regard, as contended by the Noticee, I note from the Annexure A of the NSE circular no. NSE/INSP/47935 dated April 07, 2021 that Trading Member was required to inter alia report ‘...Gross brokerage revenue from broking operations across all exchanges...’. Having regard to the submission of the Noticee that it reported gross brokerage owing to the circular in this regard, I am of the view that the term ‘gross’ was not explicitly defined in the context of brokerage reversals or waivers, leading to a reasonable interpretational difference. In view thereof, I am inclined to allow benefit of doubt to the Noticee and drop the allegations in this regard.

- 13.10.4. As regards the reporting of total debit balance clients and total available collaterals from all such clients, I note that the Noticee has made similar submissions in both its reply to the inspection findings submitted before SEBI and in its responses to the SCN during the current proceedings. With respect to reporting total debit balance clients, the Noticee has submitted that “...debtors are to be taken across all segments, which rightly includes MTF debtors. The circular nowhere mentions that MTF debtors are not to be included...”. It has reiterated this by stating that “...In terms of Exchange Circular on RBS, debtors are to be taken across all segments, which rightly includes MTF debtors. The circular nowhere mentions that MTF debtors are not to be included...”.

Similarly, regarding the reporting of total available collaterals from all debit balance clients, the Noticee has submitted that *“In terms of Exchange Circular on RBS, total available collaterals are to be taken across all segments which rightly includes MTF collaterals. The circular nowhere mentions that MTF collaterals are not to be included...”*, and that *“...In terms of Exchange Circular on RBS, total available collaterals are to be taken across all segments which rightly includes MTF collaterals..’*.

In this regard, I note that the Noticee has argued that both MTF (Margin Trading Facility) debtors and MTF collaterals should be included when reporting total debit balances and total available collaterals, respectively and that the relevant circulars do not specifically state that MTF-related amounts must be excluded. In this regard, I note that in terms of Annexure A of NSE circular no. NSE/INSP/47935 dated April 07, 2021 requires trading members to report:

“Total debit balance of all clients across all segments and exchanges as on March 31, 2021,” and Total available collaterals (Free & un-encumbered) from debit balance clients as on March 31, 2021. POA (power of attorney) stocks to be excluded.

I note that there is no explicit clarification with respect to exclusion of MTF debtors and collaterals. In this regard, to understand the requirement of whether MTF debtors and collaterals can be included, reference is drawn to latest circular in this regard i.e. NSE circular no. NSE/INSP/67537 dated April 11, 2025 wherein it inter alia mandates reporting “Aggregate value of clear Debit Balances of all clients across MTF/Non-MTF balances,” and “Total value of collateral to be considered should be, collateral available in the demat account of the Trading Member which is Pool Account and Pledged to the Trading Member...”

Accordingly, in view of the absence of specific exclusion of MTF clients and collateral in the circulars, the language requiring aggregate

reporting across all segments, the Noticee's interpretation of the circular, I am inclined to allow the benefit of doubt to the Noticee and drop the allegations in this regard.

13.10.5. In view thereof, I find that the allegation that Trading Member had not correctly reported the details of Brokerage, Total Debit Balance Client and Total available collaterals from all debit balance clients, does not stand established.

13.11. Trading Member has transferred securities of Credit balance client to Client unpaid securities account: In this regard, it was inter alia observed and alleged that Trading Member had transferred securities value of Rs.1.30 Crores of 91 credit balance clients to "Client unpaid securities account".

In view thereof, it was inter alia alleged that Noticee had violated the provisions of Clause 4.1 of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.

13.11.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

...
 4. In order to provide clarity with respect to a TM/CM maintaining a running account for client securities and pledging the client securities with Banks/NBFCs, after discussions with the Exchanges, Depositories and Clearing Corporations, the following advice is issued:-
 4.1 The securities received in pay-out against which payment has been made by clients, shall be transferred to the demat account of the respective clients within one working day of the pay-out. Such securities shall be transferred directly from the pool account of the TM/CM to the demat account of the respective client.
 ...

13.11.2. In this regard, the details of transfer of securities of credit balance clients to Client unpaid securities account, as observed from the material available on record, were as follows:

Sr. No.	Date	Unique Client Code	Financial Clear Ledger Balance (Rs.)	Value of Securities in CUSA as on 31st October 2022 (Rs.)
1	31/10/2022	**1*127	19,933.07	20,700.45
2	31/10/2022	**6*194	142.20	0.00
3	31/10/2022	**2*105	20,62,812.45	9,94,457.50
4	31/10/2022	**8E*04	33,110.25	84,961.80
5	31/10/2022	**8E*59	4,398.00	0.00
6	31/10/2022	**7*154	3,128.95	8,113.00

Sr. No.	Date	Unique Client Code	Financial Clear Ledger Balance (Rs.)	Value of Securities in CUSA as on 31st October 2022 (Rs.)
7	31/10/2022	**8*196	14,433.74	9,060.00
8	31/10/2022	**1*164	28,614.72	4,034.40
9	31/10/2022	**2*105	62,173.64	2,17,030.00
10	31/10/2022	**3E*13	23,828.74	3,022.25
11	31/10/2022	**6E*35	18,929.25	1,496.70
12	31/10/2022	**3E*14	6,261.07	12,199.00
13	31/10/2022	**0*119	4,837.54	10,850.70
14	31/10/2022	**4910	796.65	1,626.90
15	31/10/2022	**6*101	1,17,97,319.19	15,80,800.00
16	31/10/2022	**5E*23	8,123.45	6,917.65
17	31/10/2022	**9E*16	5,691.32	3,23,700.00
18	31/10/2022	**4E*84	29,313.24	12,687.75
19	31/10/2022	**1E*56	1,214.12	480.00
20	31/10/2022	**3E*07	9,71,794.24	42,600.60
21	31/10/2022	**0*107	5,56,020.92	1,39,792.80
22	31/10/2022	**7*187	2,00,631.58	5,48,341.40
23	31/10/2022	**8*745	2,24,864.77	61,499.75
24	31/10/2022	**5E*05	42,49,930.59	5,85,550.00
25	31/10/2022	**8E*14	20,752.40	6,739.50
26	31/10/2022	**4E*39	41,465.83	1,691.70
27	31/10/2022	**2*666	8,205.83	4,337.34
28	31/10/2022	**0*102	1,445.96	8,706.75
29	31/10/2022	**0E*36	10,424.25	45,600.95
30	31/10/2022	**7E*01	37,233.48	1,334.25
31	31/10/2022	**3*2517	30,793.49	866.70
32	31/10/2022	**8*002	4,241.39	208.00
33	31/10/2022	**1*236	2,39,431.08	1,83,841.55
34	31/10/2022	**4E*23	4,952.71	18,013.60
35	31/10/2022	**8E*06	389.54	0.00
36	31/10/2022	**3*195	133.32	3,749.00
37	31/10/2022	**3E*07	1,10,500.95	2,549.60
38	31/10/2022	**9*666	1,767.21	1,405.30
39	31/10/2022	**3*2051	15,273.41	37,681.95
40	31/10/2022	**5*311	1,34,179.73	1,62,158.05
41	31/10/2022	**7E*25	2,81,701.78	36,445.85
42	31/10/2022	**3*1321	28.36	49.10
43	31/10/2022	**0E*103	49,327.35	40,261.50
44	31/10/2022	**9E*06	15,378.51	5,099.20
45	31/10/2022	**0E*001	633.78	17,549.30
46	31/10/2022	**4E*163	1,15,983.80	4,550.00
47	31/10/2022	**3E*006	79,512.24	1,77,432.80
48	31/10/2022	**6*132	19,986.91	5,38,948.85
49	31/10/2022	**8E*391	63,367.25	40,491.90
50	31/10/2022	**3E*632	12,923.95	43,305.25
51	31/10/2022	**5A298	16,808.31	1,08,773.40
52	31/10/2022	**6*156	18.80	210.75
53	31/10/2022	**3E*126	6,542.07	303.50
54	31/10/2022	**1*138	182.42	189.30
55	31/10/2022	**1*889	41,14,429.60	22,31,680.00
56	31/10/2022	**9*926	38,767.94	15,072.75
57	31/10/2022	**5E*219	159.37	12,935.00
58	31/10/2022	**4E*010	1,839.11	10,141.25
59	31/10/2022	**3*1462	7,40,533.36	2,33,585.00
60	31/10/2022	**3E*321	4,99,531.55	15,172.70
61	31/10/2022	**8E*027	89,300.28	72,878.30
62	31/10/2022	**3E*033	455.30	322.50
63	31/10/2022	**3E*323	18,182.30	39,172.45
64	31/10/2022	**2*191	27,120.01	5,778.50
65	31/10/2022	**5*147	1,99,218.54	39,341.55
66	31/10/2022	**7E*033	1,66,284.54	53,370.00
67	31/10/2022	**9E*005	15,448.75	7,698.45
68	31/10/2022	**9E*006	438.08	62,359.85
69	31/10/2022	**0*250	1,192.46	1,558.20
70	31/10/2022	**4E*018	37,187.00	6,766.80
71	31/10/2022	**1*282	31,20,330.82	9,56,374.20
72	31/10/2022	**0E*306	24,511.89	18,562.50
73	31/10/2022	**8*103	3,243.27	449.40

Sr. No.	Date	Unique Client Code	Financial Clear Ledger Balance (Rs.)	Value of Securities in CUSA as on 31st October 2022 (Rs.)
74	31/10/2022	**3*121	690.63	21,850.95
75	31/10/2022	**8*107	37,87,093.87	11,48,994.55
76	31/10/2022	**5E*002	1,124.94	1,893.80
77	31/10/2022	**2E*001	56,598.11	11,98,750.00
78	31/10/2022	**3E*007	6,243.20	52,863.05
79	31/10/2022	**7*2087	100.53	1,219.90
80	31/10/2022	**1*160	29,258.93	3,193.15
81	31/10/2022	**2E*003	1,258.60	1,015.10
82	31/10/2022	**8*378	11,054.31	18,553.50
83	31/10/2022	**2*251	43,882.40	1,238.25
84	31/10/2022	**2E*1025	2,17,549.03	15,120.00
85	31/10/2022	**2*770	34,213.72	71,441.00
86	31/10/2022	**3*507	72,183.48	19,550.00
87	31/10/2022	**1E*002	1,669.89	4,860.00
88	31/10/2022	**1E*442	42,334.60	48,796.00
89	31/10/2022	**8AE392	510.08	1,325.10
90	31/10/2022	**8E*031	71,491.70	59,010.00
91	31/10/2022	**8*104	5,758.98	3,89,396.75
				1,30,04,708.09

13.11.3. In this regard, Noticee in its reply to the findings of Inspection, submitted earlier before SEBI that '*...All the 91 instances pertain to a situation where if the securities were released to them, the margin requirement of these clients on F&O would have been breached, which would have resulted in posing a credit risk not just to us, but to markets at large if such instance is large...Further all these clients have given letters to allow considering surplus balance of one exchange segment against another....*'.

13.11.4. In this regard, Noticee as part of its replies to the SCN has made similar submissions as was made before SEBI pursuant to the findings of inspection, that '*... the securities are also released to clients after assessing the overall risk across Exchanges and Segments and cannot be done taking into account only one segment as suggested by the inspecting officials...All the 91 instances pertain to a situation where if the securities were released to them, the margin requirement of these clients on F&O would have been breached, which would have resulted in posing a credit risk not just to us, but to markets at large if such instance is large...Further all these clients have given letters to allow considering surplus balance of one exchange segment against another...*'.

In this regard, I note that the contentions of the Noticee are hypothetical in nature in so far as the Noticee has submitted that '*..which would have resulted in posing a credit risk not just to us, but to markets at large if such instance is large..*'.

Further in this regard, I note that in terms of clause 4.1 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 "*Securities received in pay-out against which payment has been made by clients shall be transferred to the demat account of the respective clients within one working day of the pay-out.*"

I note that this provision makes it clear that where the client has fulfilled the payment obligation, the Trading Member is duty-bound to transfer the securities to the demat account of the respective clients within one working day of the pay-out. In my opinion, the purpose of this clause is to prevent any misuse or unjustified retention of client securities, regardless of the broker's internal view of overall client risk. I note that in the instant case, the Noticee has not denied that the 91 clients in question had fully paid for the securities in the CM segment. Therefore, in terms of Clause 4.1 of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, the same should have been transferred to the demat account of respective clients.

In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

- 13.11.5. In view thereof, I find that the allegation that Trading Member had transferred securities value of Rs.1.30 Crores of 91 credit balance clients to "Client unpaid securities account", stands established. Therefore, I hold that the Noticee has violated the provisions of Clause 4.1 of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.

13.12. Margin Trading Facility (MTF): In this regard, it was inter alia observed and alleged that:

13.12.1. Exposure for an amount of Rs.13.68 lakhs was given on non-eligible securities for MTF to 1 client in 2 scrips.

13.12.2. Incorrect reporting of exposure given to the clients on 27 instances.

In view thereof, it was inter alia alleged that Noticee had violated the provisions of Clause 3 and 19 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020.

13.12.3. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Clause 3 and 19 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020:

‘...

Securities Eligible for Margin Trading

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

...

Disclosure Requirement

19. *The stock broker shall disclose to the stock exchanges details on gross exposure towards margin trading facility including name of the client, Category of holding (Promoter/promoter group or Non-promoter), clients' Permanent Account Number ("PAN"), name of the scrips (Collateral stocks and Funded stocks) and if the stock broker has borrowed funds for the purpose of providing margin trading facility, name of the lender and amount borrowed, on or before 12 noon on the following trading day. The format for this disclosure by the stock broker to the stock exchange is enclosed at Annexure 1.*

...’

13.12.4. As regards exposure given on non-eligible securities for MTF, following is noted from material available on record:

Sr. No.	Date	ISIN	Series	Qty financed (No of shares) at the end of day	Amount financed (Rs.) at the end of day	Category of Holding	Stock Exchange	Category
1	05/04/2022	INE666D01022	EQ	1000	6,46,482.75	N	NSE	2
2	05/04/2022	INE260D01016	EQ	1000	7,21,939.30	N	NSE	2
					13,68,422.05			

13.12.5. In this regard, Noticee in its reply to the findings of Inspection and also as its replies to SCN has made similar submissions i.e. , ‘...With respect to the following 2 instances, we would like to submit that the trading under MTF has been approved by BSE and since we clear out trades through ICCL, we follow the permitted list of securities of BSE...these securities were in approved list of BSE in April 2022 and the trades have been done in April 2022...’.

In this regard, having regard to the submission of the Noticee, I am inclined to allow benefit of doubt to the Noticee.

13.12.6. As regards incorrect reporting of exposure given to the clients on 27 instances, following is noted from material available on record:

Sr. No.	Date	Exposure Reported by TM to Exchange (Rs.)	Cash Collateral (Rs.)	Exposure required to be reported post considering cash collateral by clients (Rs.)
1	07/07/2022	1,01,95,10,650.10	58,33,74,369.60	43,61,36,280.50
2	08/07/2022	1,04,13,43,564.06	58,57,60,583.34	45,55,82,980.72
3	11/07/2022	1,02,28,99,501.05	58,45,80,976.89	43,83,18,524.16
4	12/07/2022	1,08,22,35,040.92	60,85,40,937.00	47,36,94,103.92
5	01/09/2022	1,07,09,78,373.86	73,86,35,397.73	33,23,42,976.13
6	02/09/2022	1,09,23,55,026.60	40,69,00,929.91	68,54,54,096.69
7	05/09/2022	1,10,36,87,303.95	39,76,49,837.26	70,60,37,466.69
8	06/09/2022	1,12,79,74,142.51	37,95,39,888.35	74,84,34,254.16
9	07/09/2022	1,14,03,61,335.76	38,89,30,284.37	75,14,31,051.39
10	08/09/2022	1,13,11,60,639.55	39,08,89,948.67	74,02,70,690.88
11	09/09/2022	1,10,84,04,769.05	38,50,27,650.35	72,33,77,118.70
12	12/09/2022	1,12,76,28,852.36	38,53,20,740.82	74,23,08,111.54
13	13/09/2022	1,13,24,57,748.23	39,53,88,088.10	73,70,69,660.13
14	14/09/2022	1,14,49,34,271.85	39,54,48,158.47	74,94,86,113.38
15	15/09/2022	1,17,00,81,963.50	40,12,54,951.81	76,88,27,011.69
16	16/09/2022	1,15,52,89,220.40	38,49,12,060.28	77,03,77,160.12
17	03/10/2022	1,16,10,63,152.27	42,90,30,696.26	73,20,32,456.01
18	04/10/2022	1,18,14,06,703.78	44,69,07,669.22	73,44,99,034.56
19	06/10/2022	1,20,01,82,004.63	47,57,62,073.44	72,44,19,931.19
20	07/10/2022	1,22,49,10,846.29	46,99,12,431.39	75,49,98,414.90
21	10/10/2022	1,19,79,20,790.87	47,10,88,056.91	72,68,32,733.96
22	11/10/2022	1,19,41,98,744.51	47,18,63,658.06	72,23,35,086.45
23	12/10/2022	1,17,00,78,160.80	46,79,09,713.34	70,21,68,447.46
24	13/10/2022	1,16,96,70,249.53	47,13,63,595.34	69,83,06,654.19
25	14/10/2022	1,13,92,70,133.71	46,90,66,295.23	67,02,03,838.48

Sr. No.	Date of Exposure	UCC	Exposure Reported by TM to Exchange (Rs.)	Cash Collateral (Rs.)	Exposure required to be reported post considering cash collateral by clients (Rs.)
1	12/10/2022	**1E**5	13,06,25,816.45	7,65,30,078.63	5,40,95,737.82
2	12/07/2022	**6*01	9,76,51,773.33	6,31,57,089.05	3,44,94,684.28

13.12.7. In this regard, Noticee has made similar submissions both in its reply to the findings of Inspection before SEBI and also during the instant proceedings as its replies to the SCN wherein the Noticee has inter alia submitted that *‘...while reporting exposure to the exchange, trading member has incorrectly included funds provided by clients as cash collateral...’*. I note that the submissions are in the nature of admission in so far as the Noticee has submitted that *‘...The Member has inadvertently has included the funds provided by clients as cash collaterals in reporting exposure to the exchanges...’*.

13.12.8. In view thereof, I find that the allegation that there was incorrect reporting of exposure given to the clients on 27 instances, stands established. Therefore, I find that the Noticee has violated the provisions of Clause 19 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020.

13.13. **Requirement related to Brokerage:** In this regard, it was inter alia observed and alleged that Member had collected total excess brokerage of Rs.4,322.75 from 4 clients in 10 instances.

In view thereof, it was inter alia alleged that Noticee had violated the provisions of Clause 18 of Annexure 4 of SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011 and SEBI Circular dated February 04, 1991 on Contract Notes and Brokerage.

13.13.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Clause 18 of Annexure 4 of SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011:

‘...
BROKERAGE
 18. The Client shall pay to the stock broker brokerage and statutory levies as are prevailing from time to time and as they apply to the Client’s account, transactions and to the services that stock broker renders to the Client. The stock broker shall not charge brokerage more than the maximum brokerage permissible as per the rules, regulations and bye-laws of the relevant stock exchanges and/or rules and regulations of SEBI.
 ...’

13.13.2. In this regard, it is noted from material available on record that Member had collected excess brokerage in the following instances:

Date	Client Code	Scrip code	Value Brokerage	Amount	Excess Brokearge Charged
07.04.2022	**3E*06	14165	740.50	-20,837.67	(370.25)
07.04.2022	**3*10	32411	500.00	-650.00	(250.00)
07.04.2022	**3*10	33275	140.00	-1,120.00	(70.00)
07.04.2022	**3*10	19307	100.00	-640.00	(50.00)
07.04.2022	**3*10	33275	10.00	-80.00	(5.00)
07.04.2022	**3E*06	14165	9.50	-267.33	(4.75)
07.04.2022	**5**97	30961	15.00	295.00	(2.50)
07.04.2022	**3*10	12048	5.00	-31.20	(2.50)
07.04.2022	**5**97	32667	12.00	470.00	(2.00)
11.03.2022	**0**09	32666	7,131.50	-51,204.17	(3565.75)

13.13.3. In this regard, I note that the submissions of the Noticee both during its reply to the findings of Inspection to SEBI and during the instant proceedings as its replies to SCN, are in the nature of admission in so far as the Noticee has submitted that ‘...there was a clerical error of our staff where the brokerage slab was wrongly entered manually as 50 paise instead of 25 paise per share as the minimum brokerage...’. and that ‘...We have rectified the error...’. As regards, refund of brokerage, I note from the submissions of the Noticee that the same was made post inspection period.

13.13.4. In view thereof, I find that the allegation that Member had collected total excess brokerage of Rs.4,322.75 from 4 clients in 10 instances, stands established. Therefore, I hold that Noticee had violated provisions of Clause 18 of Annexure 4 of SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011 and SEBI Circular dated February 04, 1991 on Contract Notes and Brokerage.

13.14. **Closure of Client Beneficiary Accounts:** In this regard, it was inter alia observed and alleged that Member had not closed two Demat accounts viz. IN3**868***87**2 and 12**130***67***8 within due dates (till September 30, 2019).

In view thereof, it was alleged that that Noticee had violated the provisions of Clause 6 (b) of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 read with Clause 1 of SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019.

13.14.1. Here it would be relevant to refer to the text of the provisions alleged to have been violated, which inter alia reads as under:

Clause 6 (b) of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated Jun 20, 2019:

‘...
6. Monitoring with respect to handling of clients securities:
Stock Exchanges, Clearing Corporations and Depositories shall put in place a mechanism for monitoring of the following:
...
b) All the DP accounts tagged as “Stock Broker –Client Account” are wound up before August 31, 2019.
...’

Clause 1 of SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019:

‘...
Please refer to SEBI Circular No. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 regarding the captioned subject. Following representations from Stock Exchanges as well as market participants, it has been decided that effective deadline for implementation of guidelines prescribed in clause 5 and clause 8 of the aforesaid SEBI circular shall be extended by one month.
...’

From the plain reading of the text above, it is observed that all the DP accounts tagged as ‘Stock Broker –Client Account’ were required to be wound up initially by August 31, 2019 which was later extended by one month.

13.14.2. In this regard, it is noted from material available on record that member had not closed following client beneficiary account till 30th September, 2019:

S. No.	Account No.	Value of Securities Holding as on 31 st October, 2022 (Rs.)	Status as per DP Statement
1	1**8**12	0	Suspended for all as on 31 st October, 2022
2	0**7**08	0	Closed on 20 th December, 2022

13.14.3. In this regard, Noticee in its reply to the findings of Inspection, submitted earlier before SEBI in respect of Account no. 1**8**12 that ‘...*Due to oversight this account remained to be closed. We have started the procedure to close this account...*’ and in respect of account no. 0**7**08 that ‘...*Due oversight the account remained to be closed within timeline.*’

13.14.4. In this regard, Noticee as part of its replies to the SCN submitted that ‘...*for demat account IN3**868***87**2 we have submitted the request to close the account on September 17, 2020 to Stock Holding Corporation of India Ltd...the Client Master report for demat account IN3**868***87**2..reflects that the account closed / suspended date as 20/1/20 with status as Suspended for debit & credit...*’ and that ‘...*for demat account 12**130***67***8 there were 3 scrips in the account hence the account was not closed post transfer of the scrips the account was closed...*’.

In this regard, I note that the Noticee has neither denied nor disputed that the said two accounts were not closed as on September 30, 2019, being the due date by which the accounts were required to be closed, instead, I note that the submissions of the Noticee are in the nature of admission in so far as the Noticee has submitted that the request for closure of Demat account IN3**868***87**2 was made vide letter dated September 17, 2020, while the due date for closure of such account was September 30, 2019.

In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

13.14.5. In view thereof, I find that the allegation that Member had not closed two Demat accounts viz. IN3**868***87**2 and 12**130***67***8 within due dates (till September 30, 2019), stands established. Therefore, I hold that Noticee had violated provisions of Clause 6 (b) of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 read with Clause 1 of SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019.

Issue No. II: If yes, whether the violations on the part of the Noticee would attract monetary penalty under section 15F(c) and 15HB of the SEBI Act, 1992, and under Section 23D of SC(R) Act, 1956 ?

14. It has been established in the foregoing paragraphs that Noticee had violated the following provisions:

14.1. 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.

14.2. Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021; Clause 8.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 12 (e) and 12 (g) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 5.1 of SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022.

14.3. Clause 5 & 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2 of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020.

14.4. Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 read with Question no. 15 in Annexure A to NSE circular

NSE/INSP/45191 dated July 31, 2020 , NSE/INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022.

- 14.5. Clause 1(i) of SEBI Circular no. MIRSD/Cir-26/2011 dated December 23, 2011.
- 14.6. Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017.
- 14.7. Clause 6.1.1(j) of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2 /CIR/P/2016/95 dated September 26, 2016.
- 14.8. Clause 4.1 of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.
- 14.9. Clause ~~3~~ and 19 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020.
- 14.10. Clause 18 of Annexure 4 of SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011 and SEBI Circular dated February 04, 1991 on Contract Notes and Brokerage.
- 14.11. Clause 6 (b) of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 read with Clause 1 of SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019.
15. In this regard, Noticee as part of its replies to SCN, inter alia contended that *‘...It is submitted that the lapses pointed out in the SCN are merely technical, venial and procedural in nature...Further, on becoming aware of the stray instances pointed out during the course of inspection, we have immediately taken steps to rectify the same and avoid their recurrence in future. It is submitted that, in the past for the similar procedural/technical violations, regulators and exchanges had merely issued warning to the brokers. In this context we invite your attention to the following Orders passed by SEBI, wherein similar procedural/technical violations were condoned by SEBI and it had*

issued simple warning to the brokers, as stated in Order passed by Hon'ble Securities Appellate Tribunal in the matter of Chona Financial Services Pvt Ltd vs. SEBI (Appeal No 95 of 2003)....' In this regard, Noticee has also placed reliance on Hon'ble Securities Appellate Tribunal Order dated 16.6.2011 in the matter of Religare Securities Ltd vs. SEBI and Order dated July 25, 2011 in the matter of UPSE Securities Ltd. v/s SEBI.

In this regard, in my opinion each case is peculiar in its facts and circumstances based on which the violations are ascertained. 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 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 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 only.

As regards reliance placed by the Noticee on Hon'ble SAT order in Chona Financial Services Pvt Ltd vs. SEBI ('Chona') and in the matter of UPSE Securities Ltd. v/s SEBI (UPSE), I note that Chona case inter alia dealt with the violations relating to following i.e. delay in making payments and deliveries to the clients; Contract notes did not bear pre-printed serial numbers; Client Registration and Client data base was not maintained; and dealing with un-registered sub-brokers. Further, in UPSE case inter alia dealt with the violations relating to allotting of more than one terminal to the same user at different addresses and Not allotting unique client code to clients.

In this regard, I note that Noticee has merely drawn generic parallel to these cases and has not brought out as to how these cases are applicable in the instant proceedings. I note that the nature of violations in the instant case are

distinguishable from the nature of violations dealt in the aforesaid cases in so far as in the instant matter the violations, as dealt with and brought out in the foregoing, pertain to fourteen allegations viz., Misuse of clients funds, Non settlement of traded and non-traded clients' accounts, Verification of Pro-MTM Loss, Incorrect reporting of margin, Passing of penalty on short reporting of margin to clients, Client registration process, Net Worth Verification, Analysis of weekly enhanced supervision data, Client Level Cash & Cash Equivalent Balances and Bank Account Balances, Analysis of RBS data, transferred securities of Credit balance client to "Client unpaid securities account, Exposure given on non-eligible securities for MTF, Member has collected total excess brokerage, Member had not closed Demat accounts within due dates.

Further in this regard, I also note from the text of Hon'ble SAT in the matter of Religare Securities Limited Vs. SEBI (Appeal No. 23 of 2011), as also 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..."*.

In view thereof, the contention of the Noticee in this regard are devoid of merit and hence cannot be accepted.

As regards Noticee's contention with respect to post inspection compliance, I am of the opinion that post inspection compliance does not absolve of any violations during the inspection period, and at best the same may be considered as a mitigating factor.

16. 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....."
17. Therefore, for the established violation, as brought out in the foregoing paragraphs, I find that the Noticee is liable for monetary penalty under section

15 F(c) and 15HB of the SEBI Act, and Section 23D of the SCRA, 1956, which reads as under:

‘ ...

Penalty for default in case of stock brokers.

15F. If any person, who is registered as a stock broker under this Act,—

...

(c) charges an amount of brokerage which is in excess of the brokerage specified in the regulations, he shall be liable to 96[a penalty 97[which shall not be less than one lakh rupees but which may extend to five times the amount of brokerage]] charged in excess of the specified brokerage, whichever is higher.

...

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.

... ”

SCRA, 1956:

‘ ...

121[Penalty for failure to segregate securities or moneys of client or clients.

23D. 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 should be the monetary penalty that can be imposed upon the Noticee?

18. While determining the quantum of penalty under Section 15 F(c) and 15HB of the SEBI Act, and Section 23D of the SCRA, 1956, it is important to consider the factors as stipulated in Section 15J of the SEBI Act, and 23J of SCRA, 1956, 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:—

- 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 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.

...."

SCRA, 1956

'....

137[138[Factors to be taken into account while adjudging quantum of penalty.]

23J. While adjudging the quantum of penalty under ¹³⁹[section 12A or section 23-I], the ¹⁴⁰[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.]¹⁴¹

[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.]

...'

19. In the instant case, I note that the material available on record does not quantify any disproportionate gain or unfair advantage or consequent loss caused to investor or group of investors as a result of the violations committed by the Noticee. Further, there is nothing on record to show that the violations committed by the Noticee are repetitive in nature. However, I cannot ignore that requirement of various provisions of Securities Contracts (Regulation) Act, 1956, SEBI (Stock Brokers) Regulations, 1992, SEBI and NSE Circulars as in the instant matter were obligatory on the Noticee which the Noticee failed to comply with, as dealt with and established in the foregoing and which SEBI is duty-bound to inter alia enforce compliance of. In view thereof, I am of the view that such violation on part of the Noticee needs to be dealt with imposition of suitable penalty.

E. ORDER

20. After taking into consideration the facts and circumstances of the case, material available on record, submissions made by the Noticee and also the factors mentioned in the preceding paragraphs, in exercise of the powers conferred upon me under Section 23-I of the SC(R) Act, 1956 and under Section 15-I of

the SEBI Act, 1992 r/w Rule 5 of the Securities Contracts (Regulations) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, I hereby impose following penalty, 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 Amount (Rs.)
Prabhudas Lilladher Private Limited	23D of SC(R) Act, 1956	Rs. 1,00,000/- (Rupees Two Lakhs Only)
	15F(c) of SEBI Act, 1992	Rs. 1,00,000/- (Rupees One Lakh Only)
	15HB of SEBI Act, 1992	Rs. 9,00,000/- (Rupees Nine Lakhs Only)
	Total	11,00,000/- (Rupees Eleven Lakhs Only)

21. The Noticee 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

22. 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 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.
23. In terms of the provisions of Rule 6 of the SEBI Adjudication Rules and Rule 6 of the SCRA Adjudication 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: JULY 16, 2025

AMAR NAVLANI
ADJUDICATING OFFICER