

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/AK/GN/2025-26/31371]**

**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;**

**In respect of
Reliance Securities Limited (Stock Broker)
PAN: AADCR0206P**

In the matter of Inspection of Reliance Securities Limited (Stock Broker)

Background

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') conducted an inspection of Reliance Securities Limited (hereinafter referred to as "**Noticee**"), a SEBI-registered Stock Broker having SEBI registration number INZ000172433, from December 22, 2022 to January 24, 2023, to verify whether the Noticee complied with the Regulations and Circulars issued in respect of the Stock Broking activities. The Noticee is a trading member of BSE Ltd., National Stock Exchange of India Ltd (hereinafter referred to as '**NSE**'), Multi Commodity Exchange of India Limited (hereinafter referred to as **MCX**) and National Commodity and Derivatives Exchange Ltd. The period covered in the inspection was from April 01, 2021 to November 30, 2022 (hereinafter referred to as '**Inspection Period**').
2. Based on the findings of Inspection and the response of the Noticee dated March 10, 2023 submitted to SEBI, certain non-compliances with provisions of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as **Stock Brokers Regulation**), Securities Contract (Regulations) Rules, 1957 and circulars issued by SEBI, were observed.

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI, vide communique dated September 22, 2023, appointed Shri Amar Navlani as Adjudicating Officer (AO) to inquire into and adjudge under the provisions of Section 15F(b) and 15HB of the SEBI Act, 1992 (hereinafter referred to as “**SEBI Act**”) the following violations alleged to have been committed by the Noticee;

S. No.	Alleged Violations (summarized)	Regulatory provisions
1	Non-settlement of fund	Clause 8.1.4 of Annexure of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Clause 5.4 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/ 577 dated June 16, 2021, Clause 5.8 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021
2	Stock Mismatch	Clause 7 of annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/ P/2016/95 dated September 26, 2016
3	Reporting and short collection of Margin	Clause 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause (iii) to Annexure of SEBI/HO/ MRD2/DCAP/CIR/P/ 2020/127 dated July 20, 2020.
4	Margin Trading Funding Verification	Clause 14 of SEBI circular CIR/MRD/DP/ 54/2017 dated June 13, 2017. And; Clause 17 of SEBI circular CIR/MRD/DP/54/ 2017dated June 13, 2017
5	Client order placement / recording	SEBI Circular SEBI/HO/MIRSD/DOP1/ CIR/ P/2018/54 dated March 22, 2018

6	Complaints and arbitration	Regulations 9 (e) of Stock brokers Regulations
7	Publishing of Investor charter on stock broker website	SEBI Circular SEBI/HO/MIRSD/DOP/P/ CIR/2021/676 dated December 02, 2021.
8	Incorrect reporting of Enhanced supervision data	Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated 26th September 2016.
9	Incorrect reporting of client level cash and cash equivalent & bank account balances	SEBI circular SEBI/HO/MIRSD/DOP/CIR/ P/2020/143 dated July 29, 2020
10	Risk Based Supervision	Clause 6.1.1.e of annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016.
11	Engaging in business other than that of securities / Loan given in lieu of interest	Rule 8(3)(f) of Securities Contract (Regulations) Rules 1957

12	Passing of penalty on short reporting of margin	Regulation 9(b) and A (5) of Code of Conduct of schedule II of Stock Brokers Regulation
13	Incorrect reporting in Daily Margin statements	Clause 2.4 of SEBI Circular MRD/DoP/SE/ Cir-11/2008 dated April 17, 2008
14	Cyber security and cyber resilience	Para no. 36 of Annexure-1 SEBI circular SEBI/HO/MIRSD/CIR/PB/ 2018/147 on Cyber Security and Cyber Resilience dated 3rd December 2018. Para no. 6 of Annexure 1 of SEBI circular SEBI/HO/MIRSD/CIR/PB/ 2018/147 dated 3rd December 2018, on Cyber Security and Cyber Resilience
15	Non refund of short margin penalty collection	Regulation 9(b) and A (5) of Code of Conduct of schedule II of Stock Brokers Regulation

Upon transfer of the instant matter, Ms. Barnali Mukherjee was appointed as AO, vide communique dated March 19, 2024. Subsequently, the undersigned was appointed as AO in the matter, vide communique dated December 18, 2024.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice (**SCN**) dated April 22, 2024 was issued to Noticee in terms of Rule 4(1) of SEBI (Procedure For Holding Inquiry And Imposing Penalties) Rules, 1995 (hereinafter referred to as "**Adjudication Rules, 1995**") to show cause as to why an inquiry should not be initiated against it and why penalty, if any, be not imposed upon Noticee u/s 15F(b) of the SEBI Act for the alleged violations

mentioned at S.No. 1 of the above table and u/s 15HB of SEBI Act for the alleged violations mentioned at S.No. 2-15 of the above table.

5. Following allegations were made against the Noticee as per the SCN-

5.1 Monthly / Quarterly settlement of funds and securities

5.1.1 **For the period of April 2021 to June 2021:** It was observed that the fund of inactive clients was not settled on quarterly basis for 122 instances out of 127 UCCs (total amount: Rs. 2492437.07/-).

5.1.2 **From the month of September 2021 onwards:** It was observed that Noticee had not immediately settled the fund of all the clients who did not trade in 30 calendar days on 10102 instances for 8527 UCC (total amount of non-settlement: Rs. 28,52,17,101).

5.1.3 Therefore, it was alleged that Noticee has violated clause 8.1.4 of Annexure of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and Clause no. 5.4 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021.

5.1.4 It was observed that there was mismatch in client ledger balances in retention statement in comparison with the ledger statement of clients from back-office of the member for 7 instances within the sample clients (ranging from Rs. 47.7 Lakh to Rs. - 1 Crores).

5.1.5 Therefore, it was alleged that Noticee has violated the Clause no. 5.8 of SEBI circular SEBI/HO/MIRSD/DOP/P/ CIR/2021/577 dated June 16, 2021.

5.2 **Stock mismatch:** It was observed that in 4 instances PAN number of client account was reported in PRO account and in 2 instances, sold securities of 1 client was captured in holding report. In view of the same, it was alleged that Noticee is non-compliant with Clause 7 of annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/ 2016/95 dated September 26, 2016.

5.3 Reporting and short collection of Margin: During inspection, it was observed that in respect of UCC Code –H115144, UCC Code- V00079204 and UCC Code-K013251 there was alleged incorrect reporting of margin collection to the exchange amounting to Rs. 93,262, In view of said 3 instances of wrong reporting of EOD margin of Rs. 93,262, it was alleged that Noticee has violated Clause 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 and Clause (iii) to Annexure of SEBI/HO/MRD2/DCAP/CIR/P/ 2020/127 dated July 20, 2020.

5.4 Margin Trading Funding Verification: During inspection, it was observed that Noticee has given total exposure for margin trading facility to its client exceeding 50% of its Net worth and Borrowings, at 19 Instances. Therefore, it was alleged that Noticee violated clause 14 of SEBI circular "CIR/MRD/DP/54/2017" dated June 13, 2017. Further, it was observed during inspection that Noticee's total Client Exposure exceeded maximum allowable exposure for 4 Clients at 20 Instances. Therefore, it was alleged that Noticee violated clause 17 of SEBI circular "CIR/MRD/DP/54/ 2017" dated June 13, 2017.

5.5 Client order placement/recording: During inspection, it was observed that Noticee did not provide proper evidence of order placements. Hence, it was alleged that Noticee has violated SEBI Circular SEBI/HO/MIRSD/ DOP1/CIR/P/ 2018/54 dated March 22, 2018.

5.6 Complaints and arbitration: During inspection it was observed that Noticee has taken more than 30 days to resolve 82 complaints during the inspection period. Therefore, it was alleged that Noticee has violated Regulation 9 (e) of Stock Brokers Regulations.

5.7 Publishing of Investor charter and disclosure of investor complaints on stock broker website: During inspection, it was observed that as on December 07, 2022, Noticee's investor charter displayed on its website displayed complaints data till September 2022. Therefore, it was alleged that Noticee violated SEBI Circular SEBI/HO/MIRSD/DOP/P/ CIR/2021/676 dated December 02, 2021.

5.8 Analysis of Enhanced supervision data: During inspection, while reporting weekly enhanced supervision data to exchanges differences were observed. Therefore, it was alleged that there was incorrect reporting of enhanced supervision data to exchanges on various dates, hence Noticee allegedly violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated 26th September 2016.

5.9 Client Level Cash & Cash Equivalent Balances and Bank Account Balances- Incorrect reporting of balances: It was observed that there was incorrect reporting of client level cash and cash equivalent and bank account balances to exchanges at 5 instances ranging from Rs 1 lakh to Rs. 54 Crores. Hence, it was alleged that the Noticee violated SEBI circular SEBI/HO/MIRSD/ DOP/CIR/P/2020/143 dated July 29, 2020.

5.10 Risk Based Supervision (RBS): During inspection, it was observed that in RBS, Noticee has declared Rs. 16,13,07,532.01 to exchange for total funds available in Bank (all Client Bank Accounts, including the Settlement Account)/ with Clearing Member/ clearing corporations as on last day of the Assessment period. Whereas on verification, it was observed that Noticee did not include Funds available with CC/ CM amounting to Rs. 3,12,57,50,531.99. Therefore, it was alleged that Noticee has not complied with Clause 6.1.1.e of annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

5.11 Engaging in business other than that of securities / Loan given in lieu of interest: During inspection, it was observed that Noticee has provided the loan in return of the interest from them. It was alleged that Noticee has funded to its associates or related companies for optimum utilization of liquidity /surplus. Therefore, it was alleged that Noticee has given loan to the entity which is engage in the business activities other than securities and violated Rule 8(3)(f) of Securities Contract (Regulations) Rules 1957.

- 5.12 **Passing of penalty on short reporting of margin:** During inspection, it was observed that Noticee has passed upfront penalty to 5 Clients at 5 Instances, ranging from Rs. 13,932 to Rs. 1,25,861. It was observed that all the said 5 instances pertained to upfront margin shortfall. Therefore, it was alleged that Noticee has violated regulation 9(b) and Clause A(5) of Code of Conduct of schedule II of Stock Brokers Regulation.
- 5.13 **Verification of Daily Margin Statements:** During inspection, it was observed that Noticee has reported incorrect details in daily margin statement sent to client for 3 instances amounting to Rs.1,87,46,763. Further, it was alleged that ledger balance is wrongly reported in 1 instance of Rs. 3,11,09,170. Therefore, it was alleged that Noticee is in violation of clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.
- 5.14 **Cyber security and cyber resilience:** During inspection, it was observed that there was one adverse observation by the auditors in all the audit report. Therefore, it was alleged that Noticee has violated para no. 36 of Annexure 1 of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 on Cyber Security and Cyber Resilience dated 3rd December 2018. Further, the Noticee could not provide details regarding designated officer appointed by it. Therefore, it was alleged that Noticee has violated para no. 6 of Annexure 1 of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated 3rd December 2018, on Cyber Security and Cyber Resilience.
- 5.15 **Non refund of short margin penalty collected to clients:** During inspection, it was observed that Noticee has not refunded upfront penalty of Rs. 2,86,795/- passed on to 5 clients in 5 instances. Therefore, it was alleged that Noticee has violated regulation 9(b) and A(5) of Code of Conduct of schedule II of Stock Brokers Regulation.
6. The SCN was issued at the last known address of Noticee through SPAD and Digitally Signed E-mail dated April 23, 2024 and the Noticee was given 21 days to

file its reply from the date of receipt of the SCN. Vide email dated May 14, 2024, Noticee sought extension of 2 weeks for submission of reply. Vide email dated May 15, 2024, Noticee was given time till May 29, 2024 to file its reply to the SCN. Vide email dated May 21, 2024, Noticee sought inspection of documents. Vide email dated May 30, 2024, inspection of relevant documents was scheduled on June 07, 2024. Authorised Representatives (ARs) of the Noticee inspected the documents on June 07, 2024. Vide email dated June 18, 2024, Noticee was given time till June 25, 2024 to file its reply to the SCN. Vide email dated July 05, 2024, Noticee filed its reply dated July 05, 2024 in which it made the following submissions;

6.1 Non Settlement of funds:

6.1.1 In case of any rejection on account of non-availability of information/inadequate information a regular follow-up has been done with the respective clients through various channels. In the given cases due to invalid bank details the payout was rejected. Later, out of the 127 instances payout was done in 91 cases. Further, for remaining 36 cases settlement was not done at that time due to dormancy and not having updated/valid KYC, although as on today all these accounts are having NIL/Not eligible balances for SEBI payout. It may be noted that prior to settlement, the unsettled amount was parked in separate bank account i.e. HDFC - 5750000068922 as unidentified credit.

6.1.2 The clients were settled and covered during monthly and quarterly payouts as per the preference selected by the client. Further to confirm, from July 23 onwards we have implemented the process for settlement of client who have not traded in 30 calendar days. Accordingly, out of 8527 clients, 8211 clients were covered under the settlement process. For remaining 316 clients, payout was rejected due to invalid bank details.

6.1.3 It has been observed that the mismatch in ledger balance (from system) and ledger balance (as per retention statements) is due to incorrect numbers being considered while generating the retention statements. However, the same has been resolved now.

6.2 Stock Mismatch:

6.2.1 With regard to the pending 6 instances, Noticee submitted that for 4 instances pertaining to PRO account holding was correctly reported under valid UCC code; however, inadvertently client PAN was included instead of PRO account PAN in the holding report. All other attributes were correctly reported. The correction was done immediately on next day after reconciliation.

6.2.2 Further, the remaining 2 instances were for roll over transaction in SLBM which inadvertently got reported in the holding, resulting into excess reporting. The data was corrected from the reporting of next working day after reconciliation.

6.3 Reporting and Short Collection of Margin

6.3.1 **Client Code H115144** – The observed combined margin requirement of Rs.1,48,993.61/-(including MCX) contains margin on consolidated crystallized obligation of Rs.2,196.45/- which is collectable from client by T+1 day. After reducing the crystallized obligation from the combined margin requirement of Rs.1,46,797.55/- is well within the available combined ledger balance of Rs.1,47,372.01 /.

6.3.2 **Client Code V00079204** – The observed amount of Rs 81,727/- pertains to MTM loss of the sell transaction of 21st September 2021. Which is line with regulatory requirement. Noticee referred to the circular No: NSE/INSP/45534 dated August 31, 2020 Circular Ref. No: 52/2020.

6.3.3 **Client Code K013251** - The total EOD margin of Rs. 3,51,395.11 consisted of Span Margin – Rs.2,32,259/-, Extreme Loss Margin – Rs.66,756.11/-, Margin on consolidated crystallized obligation – Rs.52,380/-. Which is line with regulatory requirement. In this regard, Noticee referred to point number C of Annexure A of exchange circular No: NSE/INSP/45191 dated July 31, 2020 Circular Ref. No: 47/2020.

6.4 Margin Trading Funding Verification

6.4.1 *We have calculated the margin with appropriate haircut on exposure taken by the client and as per their calculation the total margin obligation Rs.3,55,66,027.75 which is covered by clear balance + value of securities.*

6.4.2 *Maximum exposure limit calculated by inspection officials does not consider RSL borrowing from NBFC for calculating the exposure report.*

6.5 Client Order placement /recording

6.5.1 *With regard to order placement of client name Susheela Chigurupati (client code S037454) Noticee submitted that the client account was managed by her deceased husband. The account was mapped with the erstwhile Authorised person Mr. Krishna Kishor Kadoli. The client's representative has received the centralized service calling and confirmed the trades in their account. The matter is presently subjudice.*

6.5.2 *In this case, it is important to note below extract from the SEBI circular no. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018. In the aforesaid case Noticee have voice recordings in place. Also it is a settled law that in such scenarios "Doctrine of Ratification" could be applied. According to the doctrine in situation where a person has done something on behalf of another person without any authority, knowledge or consent, and in case such person ratifies the same, then the same result would come as if the act was done on his own.*

6.6 Complaints and Arbitration

6.6.1 *We have dedicated customer service team who ensures every query service request or the complaint received from all channels are addressed promptly. There is also investor grievance mechanism and escalation matrix in place which is directly reviewed by the CEO.*

6.6.2 *It is pertinent to note that the dates captured in the report are from the date wherein the client has approached Noticee and until the last communication. Noticee reiterated that all the clients irrespective of their queries/complaints are being engaged on a regular*

basis wherein either their requirements are addressed or depending upon the scenario alternate solutions has been provided. Needless to mention that due to dynamic regulatory environment sometimes the system developments also takes time as the system development is dependent on outside vendor. In that scenario Noticee offer direct services to the customers for placing trades through our centralized call and trade service, reports, portfolio etc. are being shared via emails/phones so as to keep the clients informed and none of their positions shall result into any losses.

6.6.3 It is also on record that the holding company of Noticee i.e. Reliance Capital Limited was declared defaulter in October-2019 and some of the technology level support which Reliance Capital was providing across the group was withdrawn which also led to identification and changing of service providers. This transition was duly explained to the inspection officials during the inspection.

6.6.4 Irrespective of the dates captured in the report all the clients were informed either through an email or by phone during the tenor of their compliant opened with us.

6.7 Publishing of investor charter on stock broker website

6.7.1 We were highly embattled due to the structural changes at its holding company and there were lot of attritions observed as a result of it. Though Noticee had a set process of uploading the information on a monthly basis due to sudden change in people this was missed only for the month of October and November 2022. Noting the anomaly, the process has been revamped and strengthened with a maker-checker in place, inclusion in monthly regulatory compliance calendar and the issue has been resolved in toto.

6.8 Incorrect reporting of Enhanced supervision data

6.8.1 The reason for difference was mainly due to clerical in nature and not a single instances have resulted into any miss utilization of the client funds for own purpose and for other client.

6.8.2 Instance wherein difference in A (Client Bank Balances) was observed was mainly due to Inoperative Bank Balance was not consider of commodity segment.

6.8.3 Instance wherein difference in B(Cash & Cash Equivalents) was observed mainly due to SLBs deposit of Rs.1.20 cr not taken into consideration while calculating the NSE computed Balance. Further in 3 cases the short reporting was due to Fixed Deposit held with Clearing Corporation was not considered while reporting.

6.8.4 C (Client Credit Balance) - Creditors balance consider as per Sundry DR CR working file. Excess wrong as per internal working.

6.8.5 MC (Margin of clients having credit balance) - Inspecting team has considered balances

6.8.6 SEBI MTF and also not considered the pledge value of collateral after VAR decided by RSL.

6.8.7 MF (Free/unblocked collateral with CC/CM) - Associated impact due to wrong reporting of Cash and Cash equivalents.

6.9 Incorrect reporting of client level cash and cash equivalent & Bank account balance

6.9.1 For client code CPJ2256 and CTF2497 the reporting was correct, proof of balance / ledger is attached. Further in other 3 instance having UCC as CRF152, M00101493, G00030195 due to technical issue difference in reporting was done inadvertently.

6.10 Risk Based supervision

6.10.1 Due to back office issue the data for cash collateral (Rs. 328 Cr.) was not captured while reporting the RBS data. However, the same has been immediately taken up with the back office vendor and rectified. Currently, as per the set process all the periodic reporting are duly verified by maker and checker before onward submission and utmost case is being taken. Also, to submit that the excess collateral which was inadvertently not captured in the back office has anyways not impacted the clientele

positions and trading during the said period. Hence, there was no impact to the clients / investors.

6.11 Engaging in business other than that of securities / loan given in lieu of interest

6.11.1 It is not involved in any funding activities other than margin trading facility as permitted.

6.11.2 The instances as per the observation are the instances wherein the temporary lending was done to the companies in 2019/2020 out of its own funds. This temporary extension of funds is not in the ordinary course of business and there was no personal financial liability involved in the said transaction.

6.12 Passing of penalty on short reporting of margin and Non refund of short margin penalty collection

6.12.1 None of these cases are pertaining to upfront margin shortfall. In all the 5 instances the shortfall has been resulted due to change in the margin requirement post taking the position in different scenarios.

6.12.2 Since there was no shortfall towards upfront margin collection the question of passing of the penalty amount to the client does not exist.

6.13 Verification of Daily Margin Statement

6.13.1 Margin wrongly reported – As per the detailed post inspection analysis (PIA) the submission by Noticee has been accepted by the NSE inspection team. However, Noticee reply related to these observations has not been accepted. Further, for client code P179894, the Exchange has captured incorrect minimum margin requirement. This submission of the Noticee has been accepted.

6.13.2 Ledger balance wrongly reported – In this observation, out of the 12 clients 12 instances Noticee submission has been accepted by the inspection officials in 11

instances. In the balance 1 instance there was a report generation issue from back office.

6.14 Cyber Security and cyber resilience

6.14.1 With regard to the observation on STQC certification, the requirement was promptly taken up with our back-office vendor. However, they have expressed difficulties in getting STQC certifications. This is an industry issue as well and the Brokers' forum i.e. ANMI among other things has taken up the issue with exchanges and SEBI.

6.14.2 Their vendors have confirmed us that they are being undertaking regression testing and source code reviews of the application before deploying.

6.14.3 With regard to the observation on appointment of designated officer it is been submitted that during the inspection we updated the status as on that date to the inspection officials which stated the reconstituted committee along with the name of BISO- Designated Officer. It is been humbly submitted that the Internal Technology Committee was formed in January-2022 meeting itself consisting of BISO, CTO and CRO in accordance with the regulatory requirement.

7. On July 08, 2024, Noticee filed settlement application in the captioned matter. In view of the same, the matter was kept in abeyance till the disposal of the settlement application. Vide letter dated October 17, 2024, Noticee withdrew the settlement application filed by it.

8. In the interest of natural justice, vide hearing notice dated October 25, 2024 opportunity of hearing was given to Noticee on November 05, 2024. Hearing Notice was issued to the Noticee through SPAD and through Digitally Signed E-mail dated October 28, 2024. Vide email dated October 29, 2024, Noticee sought adjournment of hearing, hence, vide email dated November 06, 2024, another opportunity of hearing was provided to Noticee on November 13, 2024. However, vide email dated, November 08, 2024, Noticee requested to reschedule the hearing to December 03, 2024. In view of the same, vide email dated November 13, 2024, the hearing was

rescheduled to December 03, 2024, however, vide email dated November 27, 2024 Noticee was informed that the hearing scheduled on December 03, 2024 has been postponed. Subsequently, on transfer of matter to the undersigned, another opportunity of hearing was provided to the Noticee on January 15, 2025, vide Hearing Notice dated January 02, 2025. Vide email dated January 03, 2025, Noticee sought adjournment of hearing, hence, vide email dated January 03, 2025 the hearing was rescheduled to February 06, 2025. The ARs of the Noticee attended the hearing on the scheduled day i.e. February 06, 2025 and reiterated the submissions made vide reply dated July 05, 2024 and sought time till February 20, 2025 for making additional submissions. Vide email dated February 20, 2025 Noticee sought additional time of two weeks for making additional submission. In view of the same, vide email dated February 21, 2025 Noticee was granted time till February 28, 2025 for making additional submissions. Vide reply dated February 27, 2025, Noticee made the additional submissions, which is summarized below-

8.1 Noticee submitted that the purpose of an inspection /examination is remedial and not punitive, and the objective is to identify issues and ensure rectification / compliance rather than to impose penalties. In this regard, Noticee referred to the following judgements –

8.1.1 UPSE Securities Limited vs SEBI (Appeal no. 109 of 2011 decision dated July 25, 2011)

8.1.2 IDBI Trusteeship Services Limited vs SEBI (Appeal no. 186 of 2023 decision dated February 22, 2023)

8.1.3 Religare Securities Limited vs SEBI (Appeal no. 23 of 2011 decision dated June 16, 2011)

8.1.4 M/s DSE Financial Services Ltd. Vs SEBI (Appeal no. 153 of 2012 decision dated September 11, 2012)

8.2 With regard to the above, Noticee also referred to the order of Hon'ble Supreme Court in the matter of M/s Hindustan Steel Ltd. Vs State of Orissa (reported in 1969 (2) Supreme Court case 627).

8.3 Noticee submitted that SEBI's Enforcement Manual requires that minor violations observed during inspection are to be only dealt with by issuing administrative actions such as administrative warning, deficiency / caution letters, advise letters etc, and expedited settlement proceedings. This should therefore apply even in the present case and SEBI ought not to have issued the SCN and initiated adjudication proceedings.

8.4 Noticee submitted that Enquiry and Adjudication proceedings are initiated against it for the same violations. Therefore, Notice submitted that in the interest of Natural justice, equity, good conscience and the balance of convenience that the Ld. AO should first make the Enquiry Report as required under the Intermediary regulations and await the final decision of the Ld. WTM before proceeding further with the AO's Proceedings, so as to avoid conflicting findings or mere copy-paste findings.

8.5 Noticee made the following additional submissions with respect to the alleged violations

8.5.1 Settlement of clients funds – In some instances Noticee repaid in time and in some other there were some delays. The reason was that the bank account details had not been updated by the clients. Noticee kept pursuing those clients. As of date, all dues have been paid and settled by the Noticee. Noticee submitted that it has filed the requisite reconciliation with its reply. With respect to 7 instances between the client ledger balances in retention statements as compared to the back office it was because of back office error and was rectified immediately.

8.5.2 Stock mismatch - There was a small inadvertent mistake which was rectified immediately the next day. It is submitted that it caused no harm/loss to any of the clients. Now it has modified its process to ensure that this does not repeat.

8.5.3 Reporting and short collection of margin - As per SEBI circular dated 31.8.2020, members are mandatorily required to collect minimum upfront margins from the client on upfront basis which were fully collected by Noticee. As regards the allegation that Rs. 93,262/- was incorrectly reported, Noticee submitted that the same was the MTM on the open position which was incurred at the end of the trading day by the concerned

client. However, all the upfront margins were in place and were correctly reported. In any event, the amount in issue is a mere Rs. Rs. 93,262/- and therefore is too trivial to merit any regulatory action, particularly since there was no settlement or other default also by the concerned client.

- 8.5.4 *Margin Trading Funding Verification (MTF) - RSL had NBFC borrowings which was explained to the inspection team and RSL had also submitted the requisite ledger accounts in respect thereof. Even the audited Balance Sheet of FY 2022 – 23 (which is in the public domain) shows the borrowings from **Reliance Capital Ltd.** and **Reliance Financial Ltd.** Noticee also produced letters /term sheets relating to the financial facilities given by the said NBFCs. However, even if these borrowings are considered, on 3 days, exposure exceeded the specified limit because of the time lag between repayments of some borrowings and sanction / disbursal of fresh borrowings. The Risk officer on a daily basis monitors the net worth of the company as per LC Gupta method along with the borrowings, as against the MTF exposure. Noticee submitted that when the said facility was sanctioned in favour of the said clients, the same was within the 10% limit. Later when the client utilized the facility, it went over 10% for a very short time due to other factors.*
- 8.5.5 *Client order placement / recording - In respect of these 10 instances, evidence of order placement was sent to the Inspection team vide emails dated 20.11.2022) & 1.2.2023. In one instance out of the above-mentioned 10 instances, RSL provided a transcript of a recorded conversation between the client and the concerned Authorized Person proving that the client had confirmed the trade order.*
- 8.5.6 *Complaints and Arbitration - As per Reg. 9 (e), the broker has to “take adequate steps for redressal of grievances of the investors within one month ..” and not that it must “resolve” the same within 30 days as alleged in the SCN. The period considered in the inspection report is from the date of receipt of the complaint till its final resolution which is beyond the scope of Reg. 9 (e). RSL took adequate steps to redress the clients grievances within the said time. RSL normally first offers to negotiate an amicable*

settlement, which step is done within 30 days of receipt of any compliant. Some clients were contacted over the phone and some over email. It is pertinent to note that the investigation period is from 1.4.2021 to 30.11.2022, during which the country was in the grips of the 2nd wave of the Covid 19 pandemic, during which the RSL employees were working from their homes and contacting clients by their mobile phones and not by recorded lines which are maintained in RSL offices.

- 8.5.7 Publishing of investor charter and disclosure of investor complaints on stock broker website - It is submitted that at the relevant time due to the problems faced by RSL's holding company, many employees left the organization and hence updating was missed for October & November. This is a small issue which was faced because of sudden hardship. The same is now fully rectified & hence merits no penalty.*
- 8.5.8 Analysis of Enhanced supervision data - Apparently, there was some clerical mistakes / oversight which had inadvertently occurred. There was no misutilization of client's funds or any harm or loss to any client.*
- 8.5.9 Incorrect reporting of client cash and cash equivalent & bank account balances - For client code CPJ2256 + CTF2497 :- RSL had done correct reporting and the same is also recorded in its reply to the SCN. For client code CRF152 = The client is Reliance Finance Limited, which is a group entity and under the same management, was an NBFC. It was flagged as an institutional client and therefore its balances were not included in the said reporting. However, RSL have started reporting all client balances now. M00101493 + G00030195 :- in these two instances, the difference was due to a back office system error and the same has been rectified.*
- 8.5.10 Risk based supervision - This was a human error, a pure mistake and it happened because RSL had to download data from multiple systems. Pertinently, client cash and cash equivalent is also reported under Enhance Supervision reporting on weekly basis and the same was correctly reported and included the funds lying with CC & CM. No harm / loss was caused to anyone. Excess available collateral was inadvertently not reported – however it had no impact.*

8.5.11 *Engaging in business other than that of securities / Loans given in lieu of interest - The Table in the SCN at Pg. 9 para 31 shows that loans were admittedly not given during the inspection period and that the companies to whom loans were given were not associated. Most pertinently, there is no prohibition in giving loans to earn interest on surplus funds. The following orders of SEBI /SAT inter alia held that surplus funds which are the brokers own funds can be advanced as loans to third parties and that the main purpose of Rule 8(3)(f) of the SCRR was to prohibit the brokers investing clients' money in other businesses.*

- *SAT order dated 29.11.2023 in the matter of Magnum Equity Borking Ltd vs NSE*
- *SEBI order dated 23.4.2019 by the Ld. AO in the matter of Geojit Financial Services Limited*
- *SEBI order dated 21.8.2024 by Ld. AO in the matter of IIFL Securities Ltd*
- *SEBI order dated 29.11.2024 by Ld. AO in the matter of Rikhav Securities*

8.5.12 *Passing of penalty on short reporting of margin and Non refund of short margin penalty collection - RSL's trading system does not permit order execution if there is an upfront margin shortfall. None of these instances relate to upfront margin shortfall. All of them relate to MTM or subsequent shortfall due to further trading (eg.- Hedge break etc.) - which is evidence by ledger reports*

8.5.13 *Verification of Daily Margin Statements - For 2 instances Noticee submitted that RSL charges higher than the Exchange margin (which is permitted) and the same is also disclosed in the client onboarding documents to all clients. . Therefore, the margin statements issued to clients would break up the margin into the margin required as per the stock exchange and the additional margin as charged by RSL. As mentioned in its reply to the SCN, in these 2 instances, the Stock Exchange had delayed issuing the margin file, therefore RSL showed the full margin amount in the additional margin column and the Exchange margin column was left blank, however the same was totally irrelevant as the total margin was same. For aforesaid 1 instance - Noticee submitted*

that MTM loss was posted to the F&O ledger because RSL follows a “T” day settlement process. Therefore, RSL correctly posted the MTM loss to the settlement account Since the MTM already adjusted from the ledger, the same is not shown again in the “Daily Margin Statement”. For the last aforesaid instance - Rs. 3.11 crore was correctly credited in the ledger of the said client, as shares were sold by client & early pay-in was done by the client and hence correctly shown in the “Daily Margin Statement” as a source of margin.

8.5.14 Cyber security and cyber resilience - All the products used by RSL are customised products and not off-the-shelf products. Hence in terms of the aforesaid circular, STQC certification is not required to be obtained by RSL. Thus, there was no violation. As regards testing of the custom developed /in-house software and components used by it, RSL had vide its email dated 15.12.2022 submitted a certificate from the vendor - RTVtech Systems Private Limited, which used to be a subsidiary of BSE. Noticee clarified that the “BISO” was the designated officer. Therefore it was a matter of miscommunication and not of any violation and merits no penalty .

8.5.15 Noticee submitted that even if it (albeit incorrectly) concluded that there was any violation by RSL which merits a penalty, while adjudging the quantum of penalty, the factors which have to be considered and adjudicated upon would include the criteria set out in sec. 15 J of the SEBI Act. However, in this regard it may be noted that the SCN does not even allege that :-

- a) Any harm or loss has been caused to anyone ;*
- b) Any gain has accrued to anyone;*
- c) there was any repetitive violation .*

Therefore, in any event, no case is at all made out to impose any penalty on RSL.

CONSIDERATION OF ISSUES, EVIDENCE AND FINDINGS

9. I have taken into consideration the facts and circumstances of the case and the material available on record. The issues that arise for consideration in the present matter are:

ISSUE I: Whether Noticee has violated the provisions of securities law as mentioned at para 3 above?

ISSUE II- Does the violation, if any, attract monetary penalty under Section 15F(b) and 15HB of the SEBI Act, as applicable?

ISSUE III- If so, how much penalty should be imposed taking into consideration the factors mentioned in Section 15J of the SEBI Act?

10. Before proceeding further, it will be appropriate to refer to the relevant provisions.

***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

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.

Clause 7 - Uploading clients' fund balance and securities balance by the Stock Brokers on Stock Exchange system

The Stock Exchanges shall put in place a mechanism and ensure that stock brokers upload the following data on a monthly basis for every client onto each Stock Exchange system where the broker is a member

7.1.1. Exchange-wise end of day fund balance as per the client ledger, consolidated across all segments and also net funds payable or receivable by the broker to/from the client across all Exchanges

7.1.2. End of day securities balances (as on last trading day of the month) consolidated ISIN wise (i.e., total number of ISINs and number of securities across all ISINs)

7.1.3. For every client, number of securities pledged, if any, and the funds raised from the pledging of such securities

7.1.4. The data at Para 7.1.1, 7.1.2 and 7.1.3 pertains to the last trading day of the month. The stock broker shall submit the aforesaid data within seven days of the last trading day of the month.

7.2. Each Stock Exchange shall in turn forward this information to clients via Email and/or SMS on the email IDs and mobile numbers uploaded by the stock broker to the Exchange for their clients.

7.3. The above provisions shall be applicable three months from the date of this circular.

Clause 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.

SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021

Clause 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 5.8 - Once the TM settles the running account of funds of a client, an intimation shall be sent to the client by SMS on mobile number and also by email. The intimation should also include details about the transfer of funds (in case of electronic transfer – transaction number and date; in case of physical payment instruments – instrument number and date). TM shall send the retention statement along with the statement of running accounts to the clients as per the existing provisions within 5 working days.

SEBI circular CIR/DNPD/7/2011 dated August 10, 2011

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.

Annexure of SEBI circular no. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020

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

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

AND

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

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

SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017

14. For the purpose of providing the margin trading facility, a stock broker may use own funds or borrow funds from scheduled commercial banks and/or NBFCs regulated by RBI. A stock broker shall not be permitted to borrow funds from any other source.

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

SEBI circular no. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018

<https://www.sebi.gov.in/legal/circulars/mar-2018/circular-on-prevention-of-unauthorised-trading-by-stock-brokers-38365.html>

Securities and Exchange Board of India (Stock Brokers) Regulations 1992

Conditions of registration.

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

(b) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;

(e) he shall take adequate steps for redressal of grievances, of the investors within 31 [twenty-one calendar days] of the date of receipt of the complaint and inform the Board as and when required by the Board;

Clause A(5) of Schedule II of SEBI (Stock Brokers) Regulations 1992–

“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.”

SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2021/676 dated December 02, 2021

https://www.sebi.gov.in/legal/circulars/dec-2021/publishing-investor-charter-and-disclosure-of-investor-complaints-by-stock-brokers-on-their-websites_54402.html

SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020

https://www.sebi.gov.in/legal/circulars/jul-2020/implementation-of-sebi-circular-on-margin-obligations-to-be-given-by-way-of-pledge-re-pledge-in-the-depository-system_47190.html

Rule 8(3)(f) of Securities Contract (Regulation) Rules, 1957

Rule 8 - Qualifications for membership of a recognised stock exchange.

The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:

(3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if—

(f) he engages either as principal or employee in any business other than that of securities [or commodity derivatives] except as a broker or agent not involving any personal financial liability, provided that—

SEBI circular no. MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008

2.4 - Brokers should issue a daily statement of collateral utilization to clients which shall include, inter-alia, details of collateral deposited, collateral utilised and collateral status (available balance / due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities.

SEBI circular on Cyber Security and Cyber Resilience dated December 03, 2018

Annexure 1

6. Stock Brokers / Depository Participants should designate a senior official or management personnel (henceforth, referred to as the “Designated Officer”) whose function would be to assess, identify, and reduce security and Cyber Security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the Cyber Security Policy.

36. Stock Brokers / Depository Participants should ensure that off the shelf products being used for core business functionality (such as Back office applications) should bear Indian Common criteria certification of Evaluation Assurance Level 4. The Common criteria certification in India is being provided by (STQC) Standardisation Testing and Quality Certification (Ministry of Electronics and Information Technology). Custom developed / in-house software and components need not obtain the certification, but have to undergo

intensive regression testing, configuration testing etc. The scope of tests should include business logic and security controls.

11. I have gone through the submissions made by the Noticee and the other material on record. Before going into the merits, I would first deal with the preliminary objection raised by the Noticee that minor violations observed during inspection are to be only dealt with by issuing administrative warning, deficiency/ caution letters, advice letters etc. In this regard, I note that the adjudication proceedings have been initiated against the Noticee after due approval of the competent authority after the findings of the inspection were considered serious enough to attract penalty if the allegations are established, there is no provision of issuing administrative warning, deficiency/ caution letters, advice letters etc. pursuant to the adjudication proceedings under section 15 I of the SEBI Act.
12. Further, I note that Noticee referred to the matter of UPSE Securities Limited vs SEBI, IDBI Trusteeship Services Limited vs SEBI, Religare Securities Limited vs SEBI, M/s DSE Financial Services Ltd. Vs SEBI and M/s Hindustan Steel Ltd. Vs State of Orissa contending that the purpose of an inspection /examination is remedial and not punitive, and the objective is to identify issues and ensure rectification / compliance rather than to impose penalties. In this regard, I note that in the same matter i.e. UPSE Securities Limited vs SEBI Hon'ble SAT had further opined that if any serious lapse is discovered, it would always be open to the Board to take penal action in accordance with law. In the instant matter, Noticee is alleged to have violated various provisions, as mentioned at para 3, hence, the same shall be considered on merits to arrive at a conclusion as to whether the violations are established and if yes, whether the same warrant any penalty to be imposed on the Noticee.
13. Now, I proceed to deal with the issues on merits in paras below;

ISSUE I: Whether Noticee has violated the provisions of securities law, as mentioned at para 3 above?

13.1 Monthly / Quarterly settlement of funds and securities

- 13.1.1 During inspection, it was observed that for the period of April 2021 to June 2021 the fund of inactive clients was not settled on quarterly basis in 122 instances out of 127 UCCs (total amount: Rs. 24,92,437.07/-). Further, from the month of September 2021 onwards it was observed that Noticee has not done the immediate settlement of the fund of all the clients who have not traded in 30 calendar days in 10,102 instances for 8,527 UCC (total amount of non-settlement: Rs. 28,52,17,101). Further, it was observed that there is mismatch in client ledger balances in retention statement in comparison with the ledger statement of clients from back-office of the member for 7 instances within the sample clients (ranging from Rs. 47.7 Lakh to Rs. - 1 Crores). Therefore, it was alleged that Noticee violated clause 8.1.4 of Annexure of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and Clause no. 5.4 and 5.8 of SEBI circular SEBI/HO/MIRSD/DOP/ P/CIR/2021/577 dated June 16, 2021.
- 13.1.2 In its reply to the SCN, Noticee submitted that in the given cases due to invalid bank details the payout was rejected even while the Noticee kept pursuing clients. Later, out of the 127 instances payout was done in 91 cases. Further, for remaining 36 cases settlement was not done at that time due to dormancy and not having updated/valid KYC, although as on today all these accounts are having NIL/Not eligible balances for SEBI payout. Noticee further submitted that the unsettled amount was parked in separate bank account i.e. HDFC - 5750000068922 as unidentified credit. Later on all the said inactive clients particulars have been updated and all dues have been paid and settled.
- 13.1.3 Noticee further submitted that the funds of clients were settled and covered during monthly and quarterly payouts as per the preference selected by the client. Further to confirm, from July 23 onwards it has implemented the process for settlement of client who have not traded in 30 calendar days. Accordingly,

out of 8,527 clients, 8,211 clients were covered under the settlement process. For remaining 316 clients, payout was rejected due to invalid bank details. Mismatch in 7 instances between the client ledger balances in retention statements as compared to the back office was due to back office error and was rectified immediately.

13.1.4 I note that as per clause 8.1.4 of Annexure of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, 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 no. 5.4 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/ 2021/577 dated June 16, 2021 provides that 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 5.8 of circular dated June 16, 2021 provides that once the TM settles the running account of funds of a client, an intimation shall be sent to the client by SMS on mobile number and also by email. The intimation should also include details about the transfer of funds (in case of electronic transfer – transaction number and date; in case of physical payment instruments – instrument number and date). TM shall send the retention statement along with the statement of running accounts to the clients as per the existing provisions within 5 working days.

13.1.5 I note that for the period of April 2021 to June 2021 the funds of inactive clients were not settled on quarterly basis for 122 instances out of 127 UCCs (total amount: Rs. 24,92,437.07/-). Further, I note that from the month of September 2021 onwards Noticee has not done the immediate settlement of the fund of all the clients who have not traded in 30 calendar days in 10,102 instances for 8,527 UCC (total amount of non-settlement: Rs. 28,52,17,101). The same is provided in the below tabular form:

Particulars	Quarterly not-settlement (For April '21 -June '21)	Monthly non-settlement (From month of September 2021 onwards)
No. of instances	122 (UCC -122)	10102 Instances (UCC-8527)
Total amount of instances	0.25 crore	28.52 crore

13.1.6 Noticee submitted that for few inactive clients the bank account details had not been updated by the clients and Noticee kept pursuing the clients. From the documentary evidences submitted by the Noticee, I note that the Noticee sent an email to one client code (J061996) to update its bank account details. In this regard, I note that the funds of inactive clients were not settled on quarterly basis for the 122 instances however, client code (J061996) is not the one for which allegation was made against the Noticee and no other supporting documents have been submitted by the Noticee that it was pursuing the clients to update their bank account details. Therefore, the contentions of the Noticee is not tenable.

13.1.7 Further, I note from the reconciliation along with client wise break up of HDFC Bank account no. 575*****221 submitted by the Noticee that the Noticee has opened a separate bank account for keeping unsettled amount of the clients (HDFC Bank-a/c no. 57500000689221). Noticee submitted that all the said inactive clients particulars have been updated and all the dues have been paid and settled. However, I note that the funds of inactive clients were not settled on quarterly basis for 122 instances (For April 2021 to June 2021) and from month of September 2021 onwards Noticee has not done the immediate settlement of the funds of all the clients who have not traded in 30 calendar days in 10,102 instances for 8,527 UCC and the same was done only after it was pointed out in the inspection. Had the Noticee been careful in conduct of its

operations, all the steps taken pursuant to findings of inspection could have been taken on ongoing basis and the said non-compliance would not have occurred.

13.1.8 In view of the above, violation of clause 8.1.4 of Annexure of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and Clause no. 5.4 of SEBI circular SEBI/HO/MIRSD/ DOP/P/CIR/2021/577 dated June 16, 2021 stands established.

13.1.9 Further, I note that there is mismatch in client ledger balances in retention statement in comparison with the ledger statement of clients from back-office of the member for 7 instances within the sample clients (ranging from Rs. 47.7 Lakh to Rs. - 1 Crores).

UCC	Ledger Balance as per Retention statement	Ledger balance- as per TM back-office	Difference
M358561	-3239433	-1041392	-2198041
D00066241	-6501196	-6501688	492.36
H363186	13929564	13929515	48.64
K00037238	553756	10553756	-10000000
L264700	3164391	2255310	909081.6
R0025085	3139712	3139996	-284.94
R0025085	3396238	3396190	47.7

13.1.10 I note that Noticee admitted that due to incorrect numbers being considered while generating the retention statements, there was mismatch in ledger balance (from system) and ledge balance (as per retention statements).

13.1.11 In view of the above, violation of Clause no. 5.8 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 stands established.

13.2 **Stock mismatch:**

13.2.1 During inspection, it was observed that in 4 instances PAN number of client account was reported in PRO account and in 2 instances, sold securities of 1 client had been captured in holding report. Therefore, it was alleged that Noticee has violated Clause 7 of annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/ 2016/95 dated September 26, 2016.

13.2.2 In its reply to the SCN, Noticee submitted that for 4 instances pertaining to PRO account holding was correctly reported under valid UCC code; however, inadvertently client PAN was included instead of PRO account in the holding report. Further, the remaining 2 instances were for roll over transaction in SLBM which inadvertently got reported in the holding, resulting into excess reporting. The data was corrected for all 6 instances from the reporting of next working day after reconciliation.

13.2.3 As per Clause 7 of annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 the Stock Exchanges shall put in place a mechanism and ensure that stock brokers upload the Exchange-wise end of day fund balance as per the client ledger, consolidated across all segments and also net funds payable or receivable by the broker to/from the client across all Exchanges, End of day securities balances (as on last trading day of the month) consolidated ISIN wise and for every client, number of securities pledged, if any, and the funds raised from the pledging of such securities on a monthly basis for every client onto each Stock Exchange system where the broker is a member.

13.2.4 I note that in 4 instances PAN number of client account was reported in PRO account and in 2 instances, sold securities of 1 client had been captured in holding report and the same has been admitted by the Noticee.

13.2.5 In view of the above, violation of Clause 7 of annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/ 2016/95 dated September 26, 2016 stands established.

13.3 Reporting and short collection of Margin:

13.3.1 During inspection, it was observed that in respect of UCC Code –H115144, UCC Code- V00079204 and UCC Code- K013251 there was alleged incorrect reporting of margin collection to the exchange amounting to Rs. 93,262. In view of above it was alleged that Noticee has violated Clause 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 and Clause (iii) to Annexure of SEBI/HO/MRD2/DCAP/CIR/P/ 2020/127 dated July 20, 2020.

13.3.2 In its reply to the SCN, Noticee submitted the following-

Client Code H115144 – The observed combined margin requirement of Rs.1,48,993.61/-(including MCX) contains margin on consolidated crystallized obligation of Rs.2,196.45/- which is collectable from client by T+1 day. After reducing the crystallized obligation from the combined margin requirement of Rs.1,46,797.55/- is well within the available combined ledger balance of Rs.1,47,372.01 /.

Client Code V00079204 – The observed amount of Rs 81,727/- pertains to MTM loss of the sell transaction of 21st September 2021. Which is line with regulatory requirement. Noticee referred to the circular No: NSE/INSP/45534 dated August 31, 2020 Circular Ref. No: 52/2020.

Client Code K013251 - The total EOD margin of Rs. 3,51,395.11 consisted of Span Margin – Rs.2,32,259/-, Extreme Loss Margin – Rs.66,756.11/-, Margin

on consolidated crystallized obligation – Rs.52,380/-. Which is line with regulatory requirement. In this regard, Noticee referred to point number C of Annexure A of exchange circular No: NSE/INSP/45191 dated July 31, 2020 Circular Ref. No: 47/2020.

13.3.3 As per Clause 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 *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.* Further, as per Clause (iii) to Annexure of SEBI/HO/MRD2/DCAP/CIR/P/ 2020/127 dated July 20, 2020 *the member shall have to report the margin collected from each client, as at EOD and peak margin collected during the day.*

13.3.4 I note that in respect of UCC Code –H115144, UCC Code- V00079204 and UCC Code- K013251 there was incorrect reporting of margin collection to the exchange amounting to Rs. 93,262. I note that in reply to the SCN Noticee submitted that for the client code H115144 margin on consolidated crystallized obligation was also included. However, during inspection, Noticee submitted that at the time of margin calculation, inadvertently the inspecting officer has considered both ledger balances Equity and Commodity for working of Equity margin and hence, the shortfall has been found. Therefore, the submissions made by the Noticee during inspection and in reply to the SCN are contradictory to each other and reply made to the SCN is just an afterthought of the Noticee. Further, I note that the contents of reply to the SCN by Noticee cannot be verified at this stage. Therefore, the aforesaid contention of the Noticee is not tenable.

13.3.5 With respect to Client Code V00079204, Noticee submitted that Rs 81,727/- pertains to MTM loss of the sell transaction of 21st September 2021. With respect to client code K013251 Noticee submitted that total EOD margin of Rs. 3,51,395.11 consisted of Span Margin – Rs.2,32,259/-, Extreme Loss Margin – Rs.66,756.11/-, Margin on consolidated crystallized obligation – Rs.52,380/-. In

this regard, I note that the content of the Noticee's submission should have been submitted by the Noticee either during inspection or during post inspection so that the same could have been verified by the inspection team, at this stage there are no means to verify whether the submissions of Noticee are true or not, hence the contention of Noticee is not accepted.

13.3.6 In view of above 3 instances of wrong reporting of EOD margin of Rs. 93,262, violation of Clause 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 and Clause (iii) to Annexure of SEBI/HO/MRD2/DCAP/CIR/P/ 2020/127 dated July 20, 2020 stands established.

13.4 Margin Trading Funding Verification

13.4.1 During inspection, it was observed that Noticee has given total exposure for margin trading facility to its client exceeding 50% of its Net worth and Borrowings at 19 Instances. Further, it was observed during inspection that Noticees' total Client Exposure exceeded maximum allowable exposure for 4 Clients at 20 Instances. Therefore, it was alleged that Noticee violated clause 14 and 17 of SEBI circular "CIR/MRD/DP/54/ 2017" dated June 13, 2017.

13.4.2 In its reply to the SCN, Noticee submitted that it calculated the margin with appropriate haircut on exposure taken by the client and as per its calculation the total margin obligation Rs.3,55,66,027.75 which is covered by clear balance + value of securities. Further, Noticee submitted that maximum exposure limit calculated by inspection officials does not consider RSL borrowing from NBFC for calculating the exposure report.

13.4.3 As per clause 14 of SEBI circular "CIR/MRD/DP/54/2017" dated June 13, 2017, *"a stock broker may use own funds or borrow funds from scheduled commercial banks and/or NBFCs regulated by RBI. A stock broker shall not be permitted to borrow funds from any other source."* Further clause 17 provides that *"the maximum allowable exposure of the broker towards the margin trading facility shall be within*

the self- imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his "net worth".

- 13.4.4 During inspection, it was observed that Noticee has given total exposure for margin trading facility to its client exceeding 50% of its Net worth and Borrowings, at 19 Instances. Noticee, in its reply to the inspection report, submitted that maximum exposure limit calculated during inspection, did not considered Noticee's borrowing from NBFC for calculating the exposure. However, I note from the financial statement of the Noticee for the year ended March 31, 2023 that it has some amount of unsecured loan payable, however, there's nothing to indicate that the borrowing from NBFC was for providing MTF facility to the client. Therefore, I am inclined to accept the allegation that Noticee has violated clause 14 of SEBI circular "CIR/MRD/DP/54/2017" dated June 13, 2017.
- 13.4.5 Further, it was observed during inspection that Noticee's total Client Exposure exceeded maximum allowable exposure for 4 Clients at 20 Instances and the same has been admitted by the Noticee. Therefore, I am inclined to accept the allegation that Noticee has violated clause 17 of SEBI circular "CIR/MRD/DP/54/2017" dated June 13, 2017.

13.5 Client order placement/recording:

- 13.5.1 During inspection, it was observed that Noticee has not provided proper evidence of order placements. Therefore, it was alleged that Noticee has violated SEBI Circular SEBI/HO/MIRSD/DOP1/CIR/P/ 2018/54 dated March 22, 2018.
- 13.5.2 In its reply to the SCN, with regard to order placement of client name Susheela Chigurupati (client code S037454) Noticee submitted that the client account was managed by her deceased husband. The account was mapped with the erstwhile Authorised person Mr. Krishna Kishor Kadoli. The client's

representative received the centralized service calling and confirmed the trades in their account. Noticee further submitted that it has voice recordings in place. Further, Noticee submitted the evidence of order placement.

13.5.3 As per SEBI Circular SEBI/HO/MIRSD/DOP1/CIR/P/ 2018/54 dated March 22, 2018, all brokers shall execute trades of clients only after keeping evidence of the client placing such order. However, for exceptional cases such as technical failure etc. where broker fails to produce order placing evidences, the broker shall justify with reasons for the same and depending upon merit of the same, other appropriate evidences like post trade confirmation by client, receipt/payment of funds/securities by client in respect of disputed trade, etc. shall also be considered.

13.5.4 I note that during the inspection, Noticee did not provide proper evidence of client order placement for the following Trade IDs/ Activity type/ trade No./MemID:-

517871862	518065565	30143	25666	78169732
691112044	18719	260842	232514	959

13.5.5 I note that Noticee submitted the documents as an evidence of order placement and for one client transcript of a recorded conversation. However, the documents submitted by the Noticee are not time stamped therefore veracity of the same cannot be ascertained. Further, for one instance Noticee submitted the transcript of recorded conversation and not the recorded audio conversation. Therefore, the submission made by the Noticee is not tenable.

13.5.6 In view of the above, since Noticee has not maintained evidence of order placements, violation of SEBI Circular SEBI/HO/MIRSD/DOP1/CIR/P/ 2018/54 dated March 22, 2018 stands established.

13.6 Complaints and arbitration:

- 13.6.1 During inspection it was observed that Noticee has taken more than 30 days to resolve 82 complaints during the inspection period. Therefore, it was alleged that Noticee has violated Regulation 9 (e) of Stock Brokers Regulations.
- 13.6.2 In its reply to the SCN, Noticee submitted that it has dedicated customer service team who ensures every query service request or the complaint received from all channels are addressed promptly. Further, the dates captured in the report are from the date wherein the client has approached Noticee and until the last communication. Noticee also submitted that the holding company of Noticee i.e. Reliance Capital Limited was declared defaulter in October-2019 and some of the technology level support which Reliance Capital was providing across the group was withdrawn which also led to identification and changing of service providers. Further, the dates captured in the report all the clients were informed either through an email or by phone during the tenor of their complaint opened with them.
- 13.6.3 As per Regulation 9 (e) of Stock Brokers Regulations member shall take adequate steps for redressal of grievances, of the investors within twenty-one calendar days of the date of receipt of the complaint and inform the Board as and when required by the Board.
- 13.6.4 I note that during inspection it was observed that Noticee has taken more than 30 days to resolve the 82 complaints during the inspection period. The complaint IDs of the same are as follows-

CAS-8981164-D8X9B0	CAS-9008872-D3H4N7	CAS-8173659-C4Y7D3	CAS-8339924-W1D8Q0	CAS-8606511-S4M1Z0	CAS-8865420-D9F2G5	CAS-8955022-T7C9N6	CAS-8975705-D6Y4V8	CAS-9011984-J2R2F6
CAS-8991746-F3V8Z5	CAS-9009503-P2G3Q4	CAS-8209500-K3R4G7	CAS-8333830-Z9T5S6	CAS-8619325-S3D4J6	CAS-8885094-S1L5H9	CAS-8935691-Y2C8B6	CAS-8973680-V3Z6T6	CAS-9009996-P6Q9D0

CAS- 8993075- Z6W2R0	CAS- 9032116- S9Q6C0	CAS- 8201670- J2F7W7	CAS- 8459865- W0Q7H6	CAS- 8624469- V4X8X4	CAS- 8887564- S3X9V7	CAS- 8969584- H6N8V7	CAS- 8995128- X6R6F8
CAS- 9010259- F9V6K7	CAS- 8111568- P2C4Y4	CAS- 8210545- S7X5V8	CAS- 8477827- F2F9C3	CAS- 8716821- C4K3P2	CAS- 8905148- G3L1B1	CAS- 8980623- M8S4G1	CAS- 8995852- F7K3R5
CAS- 9011715- J3W5V2	CAS- 8123999- F9H2Y6	CAS- 8210626- Q8X6R1	CAS- 8479227- X1V9D9	CAS- 8747251- M0Y6J7	CAS- 8905233- J0V0Q0	CAS- 8981497- S8Y4R3	CAS- 8988242- R0P0P9
CAS- 9011726- J3X6Z1	CAS- 8147588- G1N1F8	CAS- 8213208- T2Q4K5	CAS- 8489146- F1X0H0	CAS- 8812173- R7B1W9	CAS- 8906934- W5N4L3	CAS- 8988818- T5Z8J3	CAS- 8981654- T8G7X6
CAS- 9006950- P8P1W1	CAS- 8147133- Q8P2L2	CAS- 8183983- Z8R6Q6	CAS- 8552560- G8D1G1	CAS- 8839043- M7F5F7	CAS- 8920096- X1V5S5	CAS- 8990905- C3G1F7	CAS- 8979915- G6Y8R6
CAS- 9004425- D8S1J2	CAS- 8126249- L6C8L0	CAS- 8257472- B4V5F3	CAS- 8563751- X0K1Z9	CAS- 8848342- K5F6K9	CAS- 8941158- Q0K2P0	CAS- 8996425- S0F3Q8	CAS- 8981073- R2H8L8
CAS- 9023630- L8S0R6	CAS- 8126629- D4D7S2	CAS- 8327812- Y8F5C3	CAS- 8585635- B9D2C9	CAS- 8855794- M1Q3Y9	CAS- 8941668- Y1P8M8	CAS- 8989055- D2N1V8	CAS- 9011349- X0C9K7
CAS- 8985258- H5N3Z1	CAS- 8141532- V5Y7L2	CAS- 8328411- G5L7R4	CAS- 8598848- D3M5P9	CAS- 8855929- R7D6Y0	CAS- 8945413- K1N8C4	CAS- 8982344- W3Z9W4	CAS- 9009477- Q7S4X8

13.6.5 I note that Noticee submitted that the dates captured in the report are those where all the clients were informed either through an email or by phone during the tenor of their complaint opened with them. Further, I note that Noticee submitted that as per regulation 9(e) of the Stock Brokers Regulation it is required to take adequate steps for redressal of grievances of the investors within one month and not that it must resolve it within 30 days. In this regard, I note that for two complaints, Noticee submitted the copy of the emails showing that it has taken steps for resolving the complaints and for all the other

complaints Noticee submitted the copy of the sheet detailing when the first call or email was made to resolve the complaint. The aforesaid sheet shows that the Noticee has taken efforts to resolve the complaint within 30 days. Therefore, the contention of the Noticee is accepted.

13.6.6 In view of the above, I am inclined to accept that the Noticee has not violated Regulation 9 (e) of Stock Brokers Regulations.

13.7 Publishing of Investor charter and disclosure of investor complaints on stock broker website

13.7.1 During inspection, it was observed that as on December 07, 2022, Noticee's investor charter displayed on its website displayed complaints data till September 2022. Therefore, it was alleged that Noticee violated SEBI Circular SEBI/HO/MIRSD/DOP/P/ CIR/2021/676 dated December 02, 2021.

13.7.2 In its reply to the SCN, Noticee submitted that it had a set process of uploading the information on a monthly basis due to sudden change in people this was missed only for the month of October and November 2022.

13.7.3 As per SEBI circular, complaints data shall be disclosed latest by 7th of succeeding month. I note that as on December 07, 2022, Noticee's investor charter displayed on its website displayed complaints data only till September 2022 and it was missed for the month of October and November 2022 and the same is admitted by the Noticee.

13.7.4 In view of the above, violation of SEBI Circular SEBI/HO/MIRSD/DOP/P/ CIR/2021/676 dated December 02, 2021 stands established.

13.8 Analysis of Enhanced supervision data

13.8.1 During inspection, while reporting weekly enhanced supervision data to exchanges, differences were observed. Therefore, it was alleged that there was incorrect reporting of enhanced supervision data to exchanges on various

dates, hence Noticee allegedly violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated 26th September 2016.

- 13.8.2 In its reply to the SCN, Noticee submitted that the reason for difference was mainly due to clerical in nature and not a single instance has resulted into any miss utilization of the client funds for own purpose and for other client.
- 13.8.3 As per Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated 26th September 2016, a Stock brokers shall submit the data (as prescribed) as on last trading day of every week to the Stock Exchanges on or before the next trading day.
- 13.8.4 I note that while reporting weekly enhanced supervision data to exchanges following differences were observed in the following areas on respective date:

Enhanced Supervision as on 08.04.2022

Particulars	NSE computed	TM reported	Difference
A (Client Bank Balances)	666,946,544.01	666,955,544.04	-9,000.03
B(Cash & Cash Equivalents)	5,284,261,689.04	5,296,183,213.36	-11,921,524.32
MC(Margin of clients having credit balance)	967,691,900.75	961,503,195.03	6,188,705.72
MF (Free/unblocked collateral with CC/CM)	6,201,326,056.10	6,195,752,063.60	5,573,992.50

Enhanced Supervision as on 10.12.2021

Particulars	NSE computed	TM reported	Difference
A (Client Bank Balances)	506,350,412.29	506,359,412.00	-8,999.71
B(Cash & Cash Equivalents)	5,328,470,423.76	5,340,391,947.00	-11,921,523.24

C (Client Credit Balance)	3,493,276,431.74	3,722,411,657.00	- 229,135,225.26
MC(Margin of clients having credit balance)	1,598,773,158.86	1,686,444,911.00	-87,671,752.14
MF (Free/unblocked collateral with CC/CM)	6,268,705,940.68	6,263,558,352.00	5,147,588.68

Enhanced Supervision as on 21.10.2022

Particulars	NSE computed	TM reported	Difference
A (Client Bank Balances)	346,408,389.71	346,417,389.71	-9,000.00
B(Cash & Cash Equivalents)	3,829,521,720.82	3,466,815,844.82	362,705,876.00
MC(Margin of clients having credit balance)	741,272,889.56	842,838,128.80	- 101,565,239.24
MF (Free/unblocked collateral with CC/CM)	5,844,741,624.61	5,741,943,061.04	102,798,563.57

Enhanced Supervision as on 25.11.2022

Particulars	NSE computed	TM reported	Difference
A (Client Bank Balances)	188,526,164.10	188,535,164.10	-9,000.00
B(Cash & Cash Equivalents)	3,682,092,000.64	3,352,187,971.96	329,904,028.68
MC(Margin of clients having credit balance)	715,666,083.56	743,183,962.68	-27,517,879.12
MF (Free/unblocked collateral with CC/CM)	6,616,927,878.83	6,591,497,907.14	25,429,971.69

Enhanced Supervision as on 28.10.2022

Particulars	NSE computed	TM reported	Difference
A (Client Bank Balances)	261,996,082.12	262,005,082.12	-9,000.00
B(Cash & Cash Equivalents)	3,777,582,170.79	3,414,190,131.11	363,392,039.68

MC(Margin of clients having credit balance)	629,957,655.64	731,039,454.50	-
MF (Free/unblocked collateral with CC/CM)	6,189,718,835.54	6,056,533,478.00	133,185,357.54

13.8.5 From the above, I note that there was a difference in NSE computation and Noticee reported enhanced supervision data for the dates of April 08, 2022, December 10, 2021, October 21, 2022, November 25, 2022 and October 28, 2022.

13.8.6 Further, I note that Noticee has admitted that wrong balance has been reported to exchanges while reporting weekly enhanced supervision data.

13.8.7 In view of the above, violation of Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated 26th September 2016 stands established.

13.9 Client Level Cash & Cash Equivalent Balances and Bank Account Balances- Incorrect reporting of balances

13.9.1 It was observed that there was incorrect reporting of client level cash and cash equivalent and bank account balances to exchanges in 5 instances ranging from Rs 1 lakh to Rs. 54 Crores. Hence, it was alleged that the Noticee violated SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020.

13.9.2 In its reply to the SCN, Noticee submitted that for client code CPJ2256 and CTF2497 the reporting was correct. Further in other 3 instances having UCC as CRF152, M00101493, G00030195 due to technical issue difference in reporting was done inadvertently.

13.9.3 I note that there was incorrect reporting of client level cash and cash equivalent and bank account balances to exchanges at the following 5 instances ranging from Rs 1 lakh to Rs. 54 Crores.

Margin Date	Client Code
06-12-2021	CPJ2256
21/10/2021	CRF152
22/07/2022	CTF2497
21/05/2021	M00101493
21/05/2021	G00030195

13.9.4 I note that out of the aforesaid 5 instances, for 2 instances i.e CPJ2256 and CTF2497 the reporting was correct and the Noticee has submitted the proof of balance / ledger. Further, with respect to the remaining 3 clients Noticee admitted that there was a difference in reporting.

13.9.5 In view of the above, violation of SEBI circular SEBI/HO/MIRSD/DOP/ CIR/P/2020/143 dated July 29, 2020 stands established.

13.10 Risk Based Supervision (RBS):

13.10.1 During inspection, it was observed that in RBS, Noticee had declared Rs. 16,13,07,532.01 to exchange for total funds available in Bank (all Client Bank Accounts, including the Settlement Account)/ with Clearing Member/ clearing corporations as on last day of the Assessment period. Whereas on verification, it is observed that Noticee has not included Funds available with CC / CM amounting to Rs. 3,12,57,50,531.99. Therefore, it was alleged that Noticee has not complied with Clause 6.1.1.e of annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

13.10.2 In its reply to the SCN, Noticee submitted that due to back office issue the data for cash collateral (Rs. 328 Cr.) was not captured while reporting the RBS data.

However, the same has been immediately taken up with the back office vendor and rectified.

13.10.3 As per Clause 6.1.1.e of annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 failure to submit data for the half yearly Risk Based Supervision within the time specified by Stock Exchange shall be a monitoring criteria for stock brokers.

13.10.4 I note that in RBS, Noticee declared Rs. 16,13,07,532.01 to exchange for total funds available in Bank (all Client Bank Accounts, including the Settlement Account)/ with Clearing Member/ clearing corporations as on last day of the Assessment period. Whereas on verification, it was observed that Noticee has not included Funds available with CC / CM which amounts to Rs. 3,12,57,50,531.99.

As submitted by the member to Exchange	Actual amount should have been declared	Difference not reported
16,13,07,532	3,28,70,58,064	3,12,57,50,531

13.10.5 I further note that Noticee admitted that the data for cash collateral was not captured while reporting the RBS data.

13.10.6 Therefore, violation of Clause 6.1.1.e of annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 stands established.

13.11 Engaging in business other than that of securities / Loan given in lieu of interest

13.11.1 During inspection, it was observed that Noticee has provided loan with interest. Therefore, it was alleged that Noticee has engaged in the business activities

other than securities and violated Rule 8(3)(f) of Securities Contract (Regulations) Rules 1957.

13.11.2 In its reply to the SCN, Noticee submitted that it is not involved in any funding activities other than margin trading facility as permitted. The instances as per the observation are the instances wherein the temporary lending was done to the companies in 2019/2020 out of its own funds. This temporary extension of funds is not in the ordinary course of business and there was no personal financial liability involved in the said transaction.

13.11.3 As per Rule 8(3)(f) of Securities Contract (Regulations) Rules 1957 no member shall continue if he engages either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability.

13.11.4 I note that Noticee has provided the loan as per the below table in return of the interest from them.

Sr No.	Name of the party	Loan given during the inspection period	As on 31.3.2022	As on 30.11.2022	Purpose of taking the loan	Associate – Yes/ No
1	Reliance Unicorn Enterprises Pvt Ltd	No	3,00,00,000	-	General Business purpose	No
2	Reliance Digitech Limited	No	5,00,00,000	-	General Business purpose	No
3	Reliance Alpha Services Pvt Ltd	No	5,00,00,000	-	General Business purpose	No
4	Reliance Value Services Pvt Ltd	No	1,00,00,000	1,00,00,000	General Business purpose	No
			14,00,00,000	1,00,00,000		

- 13.11.5 I note that Noticee referred to the Hon'ble SAT order in the matter of Magnum Equity Broking Limited vs National Stock Exchange of India Limited (dated November 29, 2023). In this regard, I note that in the aforesaid order Hon'ble SAT observed that the investment of surplus fund was an investment of funds as inter-corporate deposits and not a loan, hence, Hon'ble SAT struck down the penalty. However, in the instant matter it is admitted by the Noticee that it was a temporary lending done by the Noticee in 2019/20. Therefore, the aforesaid contention of the Noticee is not tenable.
- 13.11.6 I further note that the Noticee submitted that loans were not given during the inspection period. In this regard, I note that although the loans were not given during inspection period, however, they were still continuing during the inspection period and were repaid during the inspection period. Therefore, the aforesaid contention of the Noticee is not tenable.
- 13.11.7 In view of the above, I observe that the Noticee has funded to its associates or related companies for optimum utilization of liquidity /surplus which is in violation of rule 8(3)(f) of Securities Contract (Regulations) Rules 1957, which prohibits member from engage either as principal or employee in any business other than that of securities.
- 13.11.8 Therefore, violation of Rule 8(3)(f) of Securities Contract (Regulations) Rules 1957 stands established.

13.12 Passing of penalty on short reporting of margin and Non refund of short margin penalty collected to clients.

- 13.12.1 During inspection, it was observed that Noticee has passed upfront penalty to 5 Clients at 5 Instances, ranging from Rs. 13,932 to Rs. 1,25,861. It was observed that all 5 instances are pertaining to upfront margin shortfall. Further, it was observed that Noticee has not refunded upfront penalty of Rs. 2,86,795/- passed on to 5 clients in 5 instances. Therefore, it was alleged that Noticee

has violated regulation 9(b) and Clause A(5) of Code of Conduct of schedule II of Stock Brokers Regulation.

- 13.12.2 In its reply to the SCN, Noticee submitted that none of these cases are pertaining to upfront margin shortfall. In all the 5 instances the shortfall has been resulted due to change in the margin requirement post taking the position in different scenarios. Since there was no shortfall towards upfront margin collection the question of passing of the penalty amount to the client does not exist.
- 13.12.3 As per Regulation 9(b) and Clause A(5) of Code of Conduct of schedule II of Stock Brokers Regulation 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.
- 13.12.4 I note that as per NSE circular no. NSE/INSP/149929 dated October 12, 2021, 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.
- 13.12.5 I note that Noticee submitted that in all the 5 instances the shortfall was due to change in the margin requirement post taking the position in different scenarios. In support of its contention, Noticee has submitted the documents in various formats, however, the contents of the same cannot be verified with the back office system of the Noticee at this stage and hence cannot be accepted.

- 13.12.6 Therefore, I am inclined to accept the allegations that all 5 instances pertain to upfront margin shortfall. As per, NSE circular no. NSE/INSP/45191 dated July 31, 2020 and NSE/INSP/149929 dated October 12, 2021 states that member shall not pass penalty for short collection of upfront margin to clients under any circumstances. However, Noticee has passed upfront penalty to clients
- 13.12.7 In view of the above, I am inclined to accept the allegation that Noticee has violated regulation 9(b) and A(5) of Code of Conduct of schedule II of Stock Brokers Regulation.

13.13 Verification of Daily Margin Statements

- 13.13.1 During inspection, it was observed that Noticee has reported cash margin under the head additional margin in 2 instance and in 1 instance MTM loss has been posted to FO Settlement ledger hence not included in daily margin settlement. Therefore, it was alleged that Noticee has reported incorrect details in daily margin statement sent to client for 3 instances amounting to Rs.1,87,46,763. Further, it was alleged that ledger balance is wrongly reported in 1 instance of Rs. 3,11,09,170. Therefore, it was alleged that Noticee is in violation of clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.
- 13.13.2 In respect of wrongly reported Margin, Noticee submitted that as per the detailed post inspection analysis (PIA) the submission by Noticee has been accepted by the NSE inspection team. However, Noticee reply related to these observations has not been accepted by SEBI. Further, for client code P179894, the Exchange has captured incorrect minimum margin requirement. This submission of the Noticee has been accepted. In respect of Ledger balance wrongly reported Noticee submitted that out of the 12 clients 12 instances Noticee submission has been accepted by the inspection officials in 11 instances. In the balance 1 instance there was a report generation issue from back office.

- 13.13.3 Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 provides that Brokers should issue a daily statement of collateral utilization to clients which shall include, inter-alia, details of collateral deposited, collateral utilised and collateral status (available balance / due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities.
- 13.13.4 Noticee has contended that the submissions of Noticee were accepted by the NSE inspection team. In this regard, I note from the material available on record that in respect of margin wrongly reported it was observed that the Noticee has reported cash margin under the head additional margin in 2 instance and in 1 instance MTM loss has been posted to FO Settlement ledger, hence not included in daily margin settlement. Therefore, for 3 instances there was wrong reporting of margin amount to Rs. 1,87,46,763 by the Noticee. Therefore, the aforesaid contention of the Noticee is not tenable.
- 13.13.5 Further, I note that Noticee submitted that for 2 instances it charges higher than the Exchange margin, therefore, the margin statement issued to client would break up the margin into the margin required as per the stock exchange and the additional margin as charged by the Noticee. For 1 instance Noticee submitted that MTM loss was posted to the F&O ledger because Noticee follows T day settlement process. However, no documentary evidence was submitted by the Noticee in support of its contention and hence it is not tenable.
- 13.13.6 Further, I note that for ledger balance wrongly reported, in its reply dated July 05, 2024 Noticee submitted that 1 instance there was a report generation issue from back office, however, in its reply dated February 27, 2025 Noticee submitted that the Rs. 3.11 crore was correctly credited in the ledger of the said clients. Therefore, the later submission made by the Noticee is just an afterthought and also no supporting documents have been submitted by the

Noticee. In view of the same, the aforesaid contention of the Noticee is not tenable.

13.13.7 In view of the above, I observe that Noticee has reported incorrect details in daily margin statement sent to client for 3 instances amounting to Rs.1,87,46,763. Further, I observe that ledger balance is wrongly reported in 1 instance of Rs. 3,11,09,170.

13.13.8 Therefore, violation of clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 stands established.

13.14 Cyber security and cyber resilience

13.14.1 During inspection, on perusal of the Cyber Security & Cyber Resilience audit report submitted by Noticee for the period April 2021 to September 2021, October 01, 2021 to March 31, 2022 and April 2022 to September 2022, it was observed that there was one adverse observation by the auditors in all the audit report. Vide email dated February 14, 2023, the Noticee was asked to confirm that before using product from vendor, whether any testing was carried out of the products by broker in terms of para no. 36 of Annexure 1 of SEBI circular on Cyber Security and Cyber Resilience dated 3rd December 2018. The Noticee failed to provide any response. Therefore, it was alleged that Noticee has violated para no. 36 of Annexure 1 of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 on Cyber Security and Cyber Resilience dated 3rd December 2018.

13.14.2 Further, the Noticee could not provide details regarding designated officer appointed by them. Therefore, it was alleged that Noticee has violated para no. 6 of Annexure 1 of SEBI circular *SEBI/HO/MIRSD/CIR/PB/2018/147* dated 3rd December 2018, on Cyber Security and Cyber Resilience.

13.14.3 In its reply to the SCN, Noticee submitted that with regard to the observation on STQC certification, the requirement was promptly taken up with our back-

office vendor. However, they have expressed difficulties in getting STQC certifications. With regard to the observation on appointment of designated officer Noticee submitted that during the inspection they updated the status as on that date to the inspection officials which stated the reconstituted committee along with the name of BISO-Designated Officer. Noticee submitted that all the products used by it are customised products and not off the shelf products, therefore, the aforesaid circular will not apply on the Noticee

13.14.4 As per para no. 36 of Annexure 1 of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 on Cyber Security and Cyber Resilience dated 3rd December 2018 Stock Brokers / Depository Participants should ensure that off the shelf products being used for core business functionality (such as Back office applications) should bear Indian Common criteria certification of Evaluation Assurance Level 4. The Common criteria certification in India is being provided by (STQC) Standardisation Testing and Quality Certification (Ministry of Electronics and Information Technology). Custom developed / in-house software and components need not obtain the certification, but have to undergo intensive regression testing, configuration testing etc. The scope of tests should include business logic and security controls. Further as per para no. 6 of annexure 1 of the aforesaid circular Stock Brokers / Depository Participants should designate a senior official or management personnel (henceforth, referred to as the “Designated Officer”) whose function would be to assess, identify, and reduce security and Cyber Security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the Cyber Security Policy.

13.14.5 I note that during inspection, on perusal of the Cyber Security & Cyber Resilience audit report submitted by Noticee for the period April 2021 to September 2021, October 01, 2021 to March 31, 2022 and April 2022 to September 2022, it is observed that there was one adverse observation by the

auditors in all the audit report. The observation was pertaining to STQC, is as under”

“Stock Brokers / Depository Participants should ensure that off the shelf products being used for core business functionality (such as Back office applications) should bear Indian Common criteria certification of Evaluation Assurance Level 4. The Common criteria certification in India is being provided by (STQC) Standardisation Testing and Quality Certification (Ministry of Electronics and Information Technology).”

13.14.6 I note that Noticee was asked to provide the corrective action taken by them for above observation. The Noticee vide email dated February 14, 2023 has provided the response from back office vendor, wherein the clarification regarding non-availability of STQC certificate was provided. Subsequently, vide email dated February 14, 2023, the Noticee was asked to confirm that before using such product from vendor, whether any testing was carried out of the products by broker in terms of para no. 36 of Annexure 1 of SEBI circular on Cyber Security and Cyber Resilience dated 3rd December 2018. The Noticee failed to provide any response.

13.14.7 I note that in its reply dated July 05, 2024 Noticee submitted that there back office vendor has expressed difficulties in getting STQC certifications, however, vide reply dated February 07, 2025 Noticee submitted that all the products used by it are customised products and not off the shelf products, therefore, the aforesaid circular will not apply on the Noticee. I note that the Noticee made the contradictory statements in its own replies. Further no documentary evidence has been submitted by the Noticee in support of its further submission that it was customized product. Therefore, the contention of the Noticee is not tenable.

13.14.8 In view of the above, violation of para no. 36 of Annexure 1 of SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 on Cyber Security and Cyber Resilience dated 3rd December 2018 stands established.

- 13.14.9 Further, I note that in terms of para no. 6 of Annexure 1 of SEBI circular on Cyber Security and Cyber Resilience dated 3rd December 2018, Stock Broker is required to designate a senior official or management personnel “Designated Officer”, whose function would be to assess, identify, and reduce security and Cyber Security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the Cyber Security Policy. Vide email dated February 09, 2023, the Noticee was asked to provide the name of designated officer appointed. However, the Noticee could not provide details regarding designated officer appointed by them.
- 13.14.10 I note that Noticee submitted that Internal Technology Committee was formed in January-2022 meeting itself consisting of BISO, CTO and CRO in accordance with the regulatory requirement. In view of the same, I observe that the Noticee appointed the Business Information Security Officer (BISO) as its Designated officer. Therefore, I am inclined to accept the contention of the Noticee.
- 13.14.11 Therefore, I hold that Noticee has not violated para no. 6 of Annexure 1 of SEBI circular *SEBI/HO/MIRSD/CIR/PB/2018/147* dated 3rd December 2018, on Cyber Security and Cyber Resilience.

ISSUE II: Does the violation, if any, on part of the Noticee attract penalty under Section 15HB of SEBI Act?

14. As has been established above, Noticee has violated the following provisions-

- (a) Clause 8.1.4 of Annexure of SEBI circular *SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95* dated September 26, 2016 Clause no. 5.4 of SEBI circular *SEBI/HO/MIRSD/DOP/P/CIR/2021/577* dated June 16, 2021 Clause no. 5.8 of SEBI circular *SEBI/HO/MIRSD/DOP/P/ CIR/2021/577* dated June 16, 2021

- (b) Clause 7 of annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016
 - (c) Clause 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 and Clause (iii) to Annexure of SEBI/HO/MRD2/DCAP/CIR/P/ 2020/127 dated July 20, 2020.
 - (d) Clause 14 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017 And Clause 17 of SEBI circular CIR/MRD/DP/54/2017dated June 13, 2017.
 - (e) SEBI Circular SEBI/HO/MIRSD/DOP1/CIR/P/ 2018/54 dated March 22, 2018.
 - (f) SEBI Circular SEBI/HO/MIRSD/DOP/P/ CIR/2021/676 dated December 02, 2021.
 - (g) Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated 26th September 2016.
 - (h) SEBI circular SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020
 - (i) Clause 6.1.1.e of annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
 - (j) Rule 8(3)(f) of Securities Contract (Regulations) Rules 1957
 - (k) Regulation 9(b) and A (5) of Code of Conduct of schedule II of Stock Brokers Regulation
 - (l) Clause 2.4 of SEBI Circular MRD/DoP/SE/Cir-11/2008 dated April 17, 2008
 - (m) Para no. 36 of Annexure-1 SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 on Cyber Security and Cyber Resilience dated 3rd December 2018.
15. Thus, the undersigned is of the view that it is a fit case for imposition of penalty under section 15F(b) and 15HB of the SEBI Act, which reads as given below:

Section 15F of SEBI Act - Penalty for default in case of stock brokers - If any person, who is registered as a stock broker under this Act,-

(b) fails to deliver any security or fails to make payment of the amount due to the investor in the manner within the period specified in the regulations, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees;

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.*

ISSUE III: If so, how much penalty should be imposed on the Noticees taking into consideration the factors mentioned in Section 15J of the SEBI Act?

16. While determining the quantum of penalty under sections 15F(b) and 15HB of the SEBI Act, it is important to consider the factors stipulated in section 15J of SEBI Act, which reads as under-

15J - Factors to be taken into account by the adjudicating officer

While adjudging quantum of penalty under section 15-I, 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.”

17. The material available on record has not quantified the amount of disproportionate gain or unfair advantage, if any, made by the Noticee and the loss, if any, suffered by the investors as a result of its failure nor has it been alleged by SEBI. As regard to the repetitive nature of the default, there is nothing on record to show that the nature of default by the Noticee is repetitive.
18. It is observed that the Noticee was under a statutory obligation to abide by and comply with the provisions of the Circulars / directions issued by SEBI and stock exchanges, which they failed to do during the inspection period. The very purpose of the said provisions is to deter wrongdoing and promote ethical conduct in securities market. While remedial action has been taken in some cases, Noticee being a registered intermediary is expected to take the statutory compliances seriously and take extra care to maintain a high degree of professionalism in the conduct of their business. Therefore, violations as established above do attract imposition of suitable penalty.

ORDER

19. Having considered the facts and circumstances of the case, the material available on record, the submissions made by the Noticee, the factors mentioned in Section 15J of the SEBI Act, and also taking into account judgment of the Hon'ble Supreme Court in *SEBI vs. Bhavesh Pabari (2019) 5 SCC 90* and in exercise of power conferred upon the undersigned under section 15-I of the SEBI Act read with rule 5 of the Adjudication Rules, 1995, the following penalty is imposed under section 15 F(b) and 15HB of the SEBI Act on the Noticee:

Name of entity	Penalty Provisions	Penalty
Reliance Securities Limited (PAN- AADCR0206P)	Section 15HB of SEBI Act	Rs. 5,00,000/- (Rs. Five Lakhs Only)
	Section 15F(b) of SEBI Act	Rs. 2,00,000/- (Rs. Two Lakhs Only)

I am of the view that the said penalty is commensurate with the lapse/omission on the part of the Noticee.

20. 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.

21. In case of any difficulties in payment of penalties, Noticee may contact the support at portalhelp@sebi.gov.in.
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 Adjudication Rules, 1995, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

PLACE: MUMBAI

AMIT KAPOOR

DATE: April 07, 2025

ADJUDICATING OFFICER