

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
SO/SG-VS/EAD/ 32/2017

SETTLEMENT ORDER

On the Application No. 2876 of 2014

Submitted by

M/s. ITI Financial Services Limited (PAN: AAACI8316C)

(merged with M/s Intime Equities Limited - PAN:- Not on record)

In the matter of M/s. ITI Financial Services Limited

1. An inspection of books of accounts, documents and other records of M/s ITI Financial Services Limited (hereinafter referred to as "Noticee"), a member of National Stock Exchange Limited having registration numbers INB23133863 & INF231338634, BSE Limited having registration number INB011323731 and Multi Commodities Stock Exchange having registration number INE261202830 was carried out by Securities and Exchange Board of India (hereinafter referred to as "SEBI") on 7th, 13th and 18th of September, 2012 for the period from April 01, 2011 till the date of inspection.
2. During inspection, following alleged irregularities were observed:
 - a) The Noticee had done quarterly pay-out of funds only to very few clients. There was no fixed date or uniformity in the settlement done. There were no pay-outs during the months of May, July, August, October and November of 2011. Further, the number of clients to whom pay-outs were made during a quarter varied from 78 in Q2 to 1097 in Q4 (2011-12) which was very less compared with the number of clients who had traded during the period. Upon enquiry, the Noticee stated that irrespective of the quantum of credit balance in the client ledger, pay-out shall not be made to any client who had open

positions in F&O and/or outstanding margin obligations on the settlement date or would not have traded in the last six months.

- b) In respect of accounts which were not settled due to outstanding margin obligations, the inspection team did a sample check of client accounts which had outstanding obligations on the date of settlement of funds. Scrutiny of the ledger balance of 217 accounts which had outstanding market obligations on the quarterly pay-out done on October 4, 2011 showed credit balances net of outstanding obligations in as many as 106 accounts.
- c) It was observed that settlement had not been done with respect to many of the client accounts despite large credit balances; even after retaining the funds required to meet their outstanding obligations, funds were available in their ledger. It was therefore alleged that Noticee had not done the settlement for 66 client accounts despite their ledgers having funds equal to 2 or more than 2 times their margin obligations. Therefore the amount of funds retained by the Noticee appeared to be significantly more than the total obligations of clients as on the dates of settlement. Retention of clients' funds equivalent to many times of the margin requirement by the Noticee to meet contingencies did not appear to be a prudent practice.
- d) The margin obligations of the clients as on various dates of settlement were also furnished by the Noticee and similar analysis was done for the settlement of funds done by the Noticee on December 29, 2011, April 25, 2012, May 25, 2012 and June 2012, which also yielded the same result.
- e) It was observed that nearly 25% of the clients' accounts had substantial amount of funds in excess of margin obligations but Noticee had not considered these accounts for quarterly settlement. Noticee, upon seeking clarification/explanation, stated that its back office software namely

TechExcel that generated the list of clients due for settlement, captures only those accounts which are active and have nil obligation on the settlement date. In other words, the system does not capture or reckon accounts which had settlement obligations irrespective of whether the ledger balance was in excess of outstanding margin obligations or otherwise. A serious lapse on the part of Noticee was alleged considering the fact that the Noticee had not initiated any steps to rectify the said anomaly even after two years of implementation of its quarterly settlement.

f) The inspection team noticed that in the latest settlement done by the Noticee prior to inspection, 2478 clients accounts did not have any exposure/margin obligation and had credit balance for more than 90 days. Out of which, 729 clients had a credit balance in excess of ₹ 5000/- in the ledger and their accounts were not settled by the Noticee.

3. Thus, it is alleged that the Noticee had not settled the accounts of 729 clients which were having a credit balance in excess of ₹ 5000/- in the ledger and nil margin obligations.
4. It is therefore alleged that, the Noticee had not settled the funds of all clients at least once in a calendar quarter or month, thereby alleged to have violated the provisions of SEBI circular no. MIRSD/SE/Cir-19/2009 dated December 3, 2009 (hereinafter referred to as “Circular”) read with clause A(5) of Code of Conduct specified under Schedule II read with Regulation 7 of SEBI (Stock Brokers & Sub Brokers) Regulations, 1992 (hereinafter referred to as “Stock Brokers Regulations”).
5. Shri Jayanta Jash was appointed as Adjudicating Officer vide order dated January 06, 2014 under section 15-I of Securities and Exchange board of India Act, 1992 (hereinafter referred to as “SEBI Act”) & Rule 3 of SEBI (Procedure for holding

Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as "SEBI Rules") and Section 23-I of Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as "SCR Act") & Rule 3 of SCR(Procedure for holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 2005 (hereinafter referred to as "SCR Rules") to inquire into and adjudge under Section 15HB of SEBI Act and Section 23H of SCR Act, the alleged violations by the Noticee as observed during the inspection. Accordingly, a Show Cause Notice no. EAD/JJ/AK/17074/2014 dated June 16, 2014 (hereinafter referred to as "SCN") was issued to the Noticee, calling upon the Noticee to show cause as to why an inquiry should not be held against it under rule 4 of the SEBI Rules read with section 15-I of SEBI Act & rule 4 of SCR Rules read with section 23-I of SCR Act for the alleged violations as specified in the SCN and penalty be not imposed under Section 15HB of SEBI Act and Section 23H of SCR Act. The SCN was served through speed post AD and the proof of delivery is on record. In response to the same, the Noticee vide its letter dated June 30, 2014 requested to grant it an inspection of the entire record and material relied in the matter so as to enable it to file a comprehensive reply.

6. While the said Adjudication Proceedings were in progress, an application was filed by the Noticee with Enforcement Department, SEBI vide its letter dated August 08, 2014 stating that the same was in terms of SEBI Circular No. EFD/ED/Cir-1/2007 dated April 20, 2007 read along with SEBI Circular No. CIR/EFD/1/2012 dated May 25, 2012. As certain deficiencies were noted in the said application, the same was returned vide letter dated August 22, 2014. Noticee vide its letter dated September 1, 2014 filed another application along with the rectified documents proposing to settle the aforementioned adjudication proceedings without admitting the alleged violations on following terms:

- (i) payment of total consent fees of ₹ 1,00,000/- (Rupees One Lakh only), subject to discussion with internal committee.

- (ii) other such conditions as may be mutually agreed after discussion with Internal Committee.
7. The Noticee vide its letter dated September 11, 2014 submitted a fresh undertaking with respect to the consent application filed by it.
8. Form B dated November 25, 2014 signed by the concerned department of SEBI *inter alia* mentioning that the Noticee in its reply to the inspection observations had stated that it had initiated steps to streamline its quarterly settlement process and had started making quarterly settlements to the clients including those who had obligations after retaining the required margin, is also on record.
9. Pursuant to transfer of Shri Jayanta Jash, the undersigned has been appointed as Adjudicating Officer vide order dated June 22, 2015 to inquire and adjudge the matter.
10. In connection with the settlement proceedings, M/s Intime Equities Limited (hereinafter referred to as "IEL") vide its letter dated February 10, 2016 informed that the Noticee was merged with it since June 17, 2015. Pursuant to the meeting of Internal Committee (hereinafter referred to as "IC") of SEBI with the representatives of IEL on February 11, 2016 and April 05, 2016, vide its letter dated May 11, 2016, IEL proposed to settle the aforesaid adjudication proceedings on payment of ₹ 42,90,000/- (Rupees Forty Two Lakh Ninety Thousand only) towards revised settlement terms.
11. The revised settlement terms proposed by IEL were placed before the High Powered Advisory Committee (hereinafter referred to as "HPAC"). HPAC during its meeting held on July 04, 2016 discussed the matter and desired to know whether clients' accounts were settled and amount due to them were paid by the Noticee and accordingly the matter was deferred.

12. In response to the communication from the dealing division on the aforesaid query of HPAC, IEL vide its letter dated August 02, 2016, submitted a certificate issued by M/s Bathiya & Associates LLP, Chartered Accountants dated August 01, 2016 certifying that the 729 clients accounts of the Noticee which were having a credit balance in excess of ₹ 5000/- in the ledger and nil margin obligations as alleged in the SCN had been settled on respective dates mentioned in Annexure I attached with the aforesaid Certificate.
13. The HPAC in its meeting held on December 14, 2016 considered the facts and circumstances of the case, material brought before it and recommended the case for settlement on payment of ₹ 42,90,000/- (Rupees Forty Two Lakh Ninety Thousand only) towards settlement terms. The panel of Whole Time Members of SEBI accepted the said recommendation of the HPAC on January 19, 2017. The same was communicated to IEL by SEBI vide its email dated January 20, 2017.
14. In response to the aforesaid, IEL has remitted a sum of ₹ 42,90,000/- (Rupees Forty Two Lakh Ninety Thousand only) vide a demand draft bearing no. 498788 dated January 30, 2017 drawn on Axis Bank Limited in favour of "Securities and Exchange Board of India".
15. In view of the above, in terms of Regulation 15(1) of Settlement Regulations, it is hereby ordered that this settlement order disposes of the adjudication proceedings initiated against the Noticee vide the aforesaid show cause notice dated June 16, 2014.
16. This Order is without prejudice to the right of SEBI to take enforcement actions including commencing/ reopening of these proceedings against the Noticee, if SEBI finds that:
- i. any representation made by the Noticee in the settlement proceedings is subsequently discovered to be untrue.

- ii. the Noticee has breached any of the clauses/conditions of undertakings/waivers filed during the current settlement proceedings.

17. This Settlement Order passed on this the 21st day of March, 2017 shall come into force with immediate effect.

18. In terms of Regulation 17 of Settlement Regulations, a copy each of this order is being sent to M/s Intime Equities Limited (since M/s. ITI Financial Services Limited is merged with it) and for publishing on the website of Securities and Exchange Board of India.

March 21, 2017
Place: Mumbai

Suresh Gupta
Adjudicating Officer