

Date: 20.11.2020

National Stock Exchange of India Ltd,
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block,
Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051

BSE Ltd,
Department of Corporate Services
P. J. Towers, Dalal Street,
Mumbai - 400 001

Scrip Name: Inventure

Scrip Code: 533506

Ref: - Inventure Growth & Securities Limited.

Sub: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) 2015

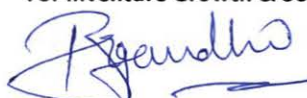
Pursuant to the requirements under Regulation 30 of SEBI (listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that, the Company had received an order under section 15-1 of the of the Securities and Exchange Board of India Act, 1992 read with the Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and under Section 23-1 of the Securities Contracts (Regulation) Act, 1956 read with Rule 5 of the Securities Contracts (Regulation) Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 in respect of the Show Cause Notice dated 21st April 2020 received on 26th August 2020.

The content of Order is as follows:

"Having considered all the facts and circumstances of the case, violations established, level of lapses committed and mitigating factors considered, the factors mentioned in Section 15J of the SEBI Act and Section 23J of the SCRA and in exercise of the powers conferred upon me under Section 23-I of the SCRA and Section 15-I of the SEBI Act read with Rule 5 of the SEBI AO Rules and SCRA AO Rules, I hereby impose a penalty of Rs. 10,00,000/- (Rupees Ten Lakhs only) on the Noticee under Section 23D of SCRA and Section 15HB of SEBI Act."

Copy of the Order attached herewith for your kind perusal, please take the above on your record.

For Inventure Growth & Securities Ltd



Bhavi R. Gandhi
(Company Secretary)



**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. ORDER/VV/NK/ /2020-21/9576]**

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

In respect of:
Inventure Growth and Securities Limited
(SEBI Registration No. INB010901730, INB230901739, INB260901732, IN-DP-CDSL-12-99)

IN THE MATTER OF INSPECTION OF INVENTURE GROWTH AND SECURITIES LIMITED

BACKGROUND

1. Inventure Growth and Securities Limited (hereinafter referred to as "**Broker/Noticee/DP**") is SEBI registered Stock Broker and Depository Participant having following registration details:-

Category	Concerned Exchange/ Depository	SEBI Registration No
Broker	BSE	INB010901730
	NSE	INB230901739
	MSEI	INB260901732
DP	CDSL	IN-DP-CDSL-12-99

2. The Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") carried out Comprehensive Joint Inspection ("**Inspection**") with the Exchanges of the Noticee for the period from April 2017 to May 2018 ("**Inspection Period**").
3. Based on the findings of inspection, SEBI initiated adjudication proceedings against the Noticee under the provisions of Section 15HB of the SEBI Act, 1992 (hereinafter referred to as "SEBI Act") and Section 23D of the Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as the "SCRA") for the following alleged violations of the relevant provisions of the securities law:

- A. Non - segregation of clients' funds and securities:** the provisions of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 and SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.



- B. **Pledging of clients securities:** the provisions of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 2.5 of Annexure of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016.
- C. **Stock reconciliation:** the provisions of Clause 2.3 of SEBI Circular No. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.
- D. **Monthly / Quarterly settlement of funds and securities:** the provisions of Clause 12 SEBI Circular No. SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009.
- E. **Reporting and short collection of Margin:** the provisions of SEBI Circular No. CIR/DNPD/7/20111 dated August 10, 2011.
- F. **Client Funding:** the provisions of Clause 2.6 of Annexure of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016 read with Clause 2(d) of SEBI Circular No. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017.
- G. **Contract Notes:**the provisions of Clause-1 of SEBI Circular No. SMD/MDP/CIR/043/96 dated August 5, 1996.
- H. **Requirement related to Brokerage (10Trades date for each segment):** the provisions of SEBI Circular No. CIR/MIRSD/16/2011 dated August 22, 2011 read with Regulation 26(vii) of SEBI (Stock Brokers) Regulations, 1992.
- I. **Client Registration Process (KYC and KRA Process):** the provisions of SEBI Circular No. CIR/MIRSD/16/2011 dated August 22, 2011 and SEBI Circular No. SMDRP/Policy/CIR-39/2001 dated July 18, 2001 read with NSE Circular No. NSE/INVG/2005/015 dated July 29, 2005.
- J. **Verification of Email ID & Mobile numbers (All active clients):** the provisions of Clause 2(B) of SEBI Circular No. CIR/MIRSD/15/2011 dated August 02, 2011.
- K. **Incorrect reporting Networth to the extent of Rs.2.53Cr. to the exchange:** the provisions of Clause 6.1.1 (j) of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/ 2016/95 dated September 26, 2016.
- L. **Analysis of Enhanced Supervision data:** various provisions of Annexure of SEBI Circular No. SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/ 95 dated September 26, 2016.

APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer vide Communiqué dated January 30, 2020 to conduct adjudication proceedings in the manner specified under Rule



4 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "SEBI AO Rules") and Rule 4 of Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter referred to as "SCRA AO Rules") for the alleged violations committed by the Noticee.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

5. Show Cause Notice dated April 21, 2020 (hereinafter referred to as "**SCN**") was issued to the Noticee through Speed Post under Rule 4(1) of the SEBI Adjudication Rules and Rule 4(1) of the SCRA Adjudication Rules to show-cause as to why an inquiry should not be initiated against the Noticee and why penalty should not be imposed upon the Noticee under Section 15HB of the SEBI Act and Section 23D of the SCRA act for the violations alleged to have been committed by the Noticee mentioned therein.
6. Noticee vide letter dated September 08, 2020 requested 15 days extension for submission of reply. Noticee's request was acceded to and was given 15 days' time. However, Noticee failed to reply to the SCN within stipulated time.
7. In order to comply with the principles of natural justice, The Noticee was provided an opportunity of personal hearing through Webex due to ongoing pandemic as well as for Hearing at SEBI Head Office on October 19, 2020 and was also advised to file reply to the SCN. However, Noticee vide email dated October 16, 2020 asked for adjournment of hearing and also requested time to file reply to the SCN. Noticee was again granted an opportunity of personal hearing on October 23, 2020.
8. Noticee submitted its Reply to the SCN on October 23, 2020
9. Mr. Ravi V Ramaiya, the Authorised Representative (AR) of the Noticee appeared for hearing on the scheduled date and time through WebEx. AR reiterated the submissions made by Noticee vide email dated October 23, 2020 and also undertook to submit additional documents which were made vide email dated October 30, 2020.

CONSIDERATION OF ISSUES, EVIDENCE AND FINDINGS

10. I have carefully perused the charges levelled against the Noticee in the SCN, written and oral submissions made and all the documents available on record. In the instant matter, the following issues arise for consideration and determination:
 - I. **Whether the Noticee has violated the aforesaid Provisions and Circulars mentioned under point no 3 above?**
 - II. **Whether the Noticee is liable for imposition of monetary penalty under Section 15HB of the SEBI Act and Section 23D of the SCRA?**



III. If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act and Section 23J of the SCRA?

Issue – I:- Whether the Noticee has violated the aforesaid provisions mentioned at point no. 3 above?

In this regard, based on the material available on record and on the submissions made by Noticee vide email dated October 23 and 30, 2020 against these allegations, I Proceed to discuss Allegations against Noticee, Noticee's replies and my observations thereon:

A. Non - segregation of clients' funds and securities

Allegation:

- i. The Inspection has observed that, the Noticee has misused client funds. Funds of credit balance clients have been used for purpose of debit balance clients. The Noticee has mis-used the credit client's fund in the range of the amount of Rs. 3.03 Crores to Rs. 12.05 Crores for all 22 days out of 22 sample days. Misuse of funds ranges from 11% to 34% of funds of credit balance clients.

To check whether the broker was misusing client funds, the following data was sought from broker for Top 22 based on Turnover criteria during inspection period.

A: Total fund balance available in all Client and Settlement Bank Accounts maintained by the stock broker

B: Aggregate value of collateral deposited with clearing corporations and/or clearing broker (in cases where the trades are settled through clearing broker) in form of Cash and Cash Equivalents (FD, BG, etc.). Only funded portion of the Bank Guarantee (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)

Adjusted C: Aggregate value of Credit Balances of all clients as obtained from trial balance across stock exchanges (after adjusting for open bills of clients, un-cleared cheques deposited by clients and un-cleared cheques issued to clients)

D: Aggregate value of Debit Balances of all clients as obtained from trial balance across stock exchanges (after adjusting for open bills of clients, un-cleared cheques deposited by clients, un-cleared cheques issued to clients)

G:(A+B)-C; Negative value depicts extent of misuse of client funds by broker for debit balance client or for own purpose.



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

Analysis of data submitted according to principle laid down above is given below.

Sr. No.	Date	Funds Available in client bank accounts and cash/cash equivalent deposits with clearing corporation/ clearing member - across all Stock Exchanges		Clients' Funds as per the client ledger- across all Stock Exchanges	Total debit balance (after adjusting for open bills and uncleared cheques)	Difference
		Total of end of the day balance in all Client Bank Account s	Collateral deposited with clearing corporation/ clearing member in form of Cash and Cash Equivalents*	Total Credit Balance of all clients (after adjusting for open bills and uncleared cheques)		
		A	B	C	D	G = (A+B)-C
1	01-Jan-18	35,273,312.97	169,856,343.71	280,078,630.50	366,990,956.44	-74,948,973.82
2	02-Jan-18	41,629,976.46	169,856,343.71	277,404,567.63	389,340,368.40	-65,918,247.46
3	03-Jan-18	38,640,287.49	169,856,343.71	288,956,481.13	402,876,776.90	-80,459,849.93
4	04-Jan-18	55,347,153.60	179,856,343.71	274,830,856.55	395,870,402.67	-39,627,359.24
5	05-Jan-18	46,953,156.41	189,856,343.71	300,471,858.65	395,377,771.76	-63,662,358.53
6	08-Jan-18	53,905,543.75	174,897,743.71	302,716,651.44	399,956,274.19	-73,913,363.98
7	09-Jan-18	48,487,274.74	172,397,743.71	301,927,131.60	399,839,103.06	-81,042,113.15
8	10-Jan-18	74,015,615.89	174,897,743.71	321,282,087.60	421,851,945.51	-72,368,728.00
9	11-Jan-18	60,702,032.92	174,897,743.71	325,386,721.96	425,132,732.08	-89,786,945.33
10	12-Jan-18	46,297,199.93	184,897,743.71	328,713,337.86	438,372,857.81	-97,518,394.22
11	15-Jan-18	44,710,277.17	184,897,743.71	327,999,735.26	451,284,552.22	-98,391,714.38
12	16-Jan-18	60,577,805.68	184,897,743.71	338,773,118.87	431,448,383.78	-93,297,569.48
13	17-Jan-18	53,769,538.58	187,397,743.71	325,859,907.04	435,824,674.84	-84,692,624.75
14	18-Jan-18	53,195,134.17	182,397,743.71	356,114,983.46	462,737,413.79	-120,522,105.58
15	19-Jan-18	56,736,528.64	182,397,743.71	333,309,022.43	441,334,575.06	-94,174,750.08
16	22-Jan-18	64,397,275.00	182,397,743.71	329,352,748.30	431,555,110.05	-82,557,729.59
17	23-Jan-18	71,492,432.99	182,397,743.71	326,509,317.93	412,665,479.97	-72,619,141.23
18	24-Jan-18	86,388,044.96	182,397,743.71	333,553,495.21	400,911,837.17	-64,767,706.54
19	25-Jan-18	33,602,685.09	182,397,743.71	328,037,784.00	402,617,240.41	-112,037,355.20
20	29-Jan-18	81,089,743.36	182,397,743.71	310,004,369.33	419,833,769.52	-46,516,882.26
21	30-Jan-18	65,754,880.62	182,397,743.71	290,256,347.90	398,153,907.42	-42,103,723.57
22	31-Jan-18	73,382,174.90	182,397,743.71	286,082,033.90	404,685,954.28	-30,302,115.29

On analysis of the above detail, it is alleged that, The Noticee has mis-used the credit client's fund in the range of the amount of Rs. 3.03 Crores to Rs. 12.05 Crores for all 22 days out of 22 sample days. Misuse of funds ranges from 11% to 34% of funds of credit balance clients.

- ii. It is also observed that during inspection period that, Noticee has transferred excess funds of Rs. 31.71 Crores from client account to own account. As per Noticee's submission, majority of the fund transfers were on account of Brokerage Income, previous year funded client recovery, etc.
- iii. It is also observed that the Noticee is maintaining single account for client and settlement purpose (i.e. Bank of India - BSE Cash Client & Settlement A/c - 008620100009101). Instances observed wherein payment/Receipts to Intermediaries were done from client account. 5-instances of receipts from



intermediaries amounting to Rs. 15 lacs. 1-instance of payment to intermediary of Rs. 4.45 lacs.

- iv. It is observed that client entries observed in OD account i.e. INDUSIND BANK MTF FOND OD A/C – 606014011724. The same is not designated as client.
- v. Noticee has availed OD on client bank account (i.e. HDFC 99501415) till July 2017. For OD collateral given of OWN FD. However, Source of & creation of FD is not made available. Also, Interest for the June and July month has been paid from Client Bank account.
- vi. Noticee has mechanism to transfer Own obligation to client account and then settlement account. It was observed that there is no segregation/reconciliation of client and own funds. As per Enhanced supervision stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred between client and Own account. However, Noticee is not maintaining the same.
- vii. In view of the above it is alleged that, the Noticee has violated the provisions of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 and SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

Reply:

- i. With regard to mis-utilization of credit clients, Noticee has submitted its own workings and provided the recalculated Excel sheet with supporting documents. Noticee has provided justification for 22 cases as follows:
 - i. *We would like to inform you that, in our system the amount of Rs. 2,48,50,000/- was shown as BMC. However, only the amount of Rs. 75/- lakh was towards BMC i.e. Rs. 25 Lakh each for three Exchanges, NSE, BSE and MSEIL. Rs. 2,48,50,000/- was inadvertently submitted to SEBI as BMC. Please note, the remaining amount of Rs. 1,73,50,000/- was towards Exchange Deposits on which the Exchanges grant exposure for trading.*
 - ii. *Secondly, the credit balances of institutional clients, PRO A/c's & company associates accounts are included as creditors, which in fact should not be considered as creditors.*
 - iii. *Further, while reporting Enhanced supervision data, we are allowed to report only the funded portion of BGs, however, Exchanges provide exposure on the entire amount including the Non funded portion of BG. The non-funded portion of BG during the month of January 2018 was Rs. 13.5 Crores.*
 - iv. *SEBI has provided a table showing use of funds of clients having credit balance towards clients having debit balances. In the same table we have included our deposits available with the Exchanges on which exposure was granted, the*



credit balances of institutional clients, PRO A/c's & company associates accounts and the non-funded portion of the BG. The revised workings as under:

<i>Difference as per SEBI</i>	<i>Balance of institutional clients, PRO A/c's & company associates accounts</i>	<i>Broker's funds available with Exchanges</i>	<i>Non Funded portion of BG</i>	<i>Total</i>	<i>Surplus Available</i>
<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E=B+C+D</i>	<i>F=E-A</i>
-7,49,48,974	2,39,593	1,73,50,000	13,58,50,000	15,34,39,593	7,84,90,619
-6,59,18,247	2,48,648	1,73,50,000	13,58,50,000	15,34,48,648	8,75,30,401
-8,04,59,850	2,96,760	1,73,50,000	13,58,50,000	15,34,96,760	7,30,36,910
-3,96,27,359	2,97,987	1,73,50,000	13,58,50,000	15,34,97,987	11,38,70,628
-6,36,62,359	2,28,029	1,73,50,000	13,58,50,000	15,34,28,029	8,97,65,670
-7,39,13,364	2,07,988	1,73,50,000	13,58,50,000	15,34,07,988	7,94,94,624
-8,10,42,113	2,85,043	1,73,50,000	13,83,50,000	15,59,85,043	7,49,42,929
-7,23,68,728	2,79,624	1,73,50,000	14,58,50,000	16,34,79,624	9,11,10,896
-8,97,86,945	2,91,456	1,73,50,000	14,58,50,000	16,34,91,456	7,37,04,511
-9,75,18,394	2,64,473	1,73,50,000	15,58,50,000	17,34,64,473	7,59,46,079
-9,83,91,714	2,42,190	1,73,50,000	15,58,50,000	17,34,42,190	7,50,50,476
-9,32,97,569	2,46,999	1,73,50,000	15,58,50,000	17,34,46,999	8,01,49,429
-8,46,92,625	2,17,783	1,73,50,000	15,83,50,000	17,59,17,783	9,12,25,158
-12,05,22,106	86,80,731	1,73,50,000	15,83,50,000	18,43,80,731	6,38,58,625
-9,41,74,750	52,66,714	1,73,50,000	15,83,50,000	18,09,66,714	8,67,91,964
-8,25,57,730	52,33,036	1,73,50,000	15,83,50,000	18,09,33,036	9,83,75,306
-7,26,19,141	2,64,079	1,73,50,000	15,83,50,000	17,59,64,079	10,33,44,938
-6,47,67,707	3,34,147	1,73,50,000	15,83,50,000	17,60,34,147	11,12,66,440
-11,20,37,355	2,51,841	1,73,50,000	15,83,50,000	17,59,51,841	6,39,14,486
-4,65,16,882	26,46,575	1,73,50,000	15,83,50,000	17,83,46,575	13,18,29,693
-4,21,03,724	2,58,267	1,73,50,000	15,83,50,000	17,59,58,267	13,38,54,544
-3,03,02,115	3,32,860	1,73,50,000	15,83,50,000	17,60,32,860	14,57,30,745

- v. From the above table it can be seen that there is no misuse of funds of clients having credit balances.
- vi. We are enclosing herewith following documents in support of our above submissions:
- i. Annexure 1A – Extract from our system showing the bifurcation of BMC amount
- ii. Annexure 1B – Date-wise details showing the credit balances of institutional clients, PRO A/c's & company associates accounts



iii. Annexure 1C – Details of non-funded portion of BMC

a) We deny the above allegation.

b) Transfer of funds from client to own account was done only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc.

c) The transfer of funds from own account to client account was done for meeting the Exchange obligations as per requirement. Whenever there was shortage of funds in Client Bank Account, we used to transfer funds from our Own Account to meet the Exchange obligations and upon receipt of funds in the Client Bank Account, we used to transfer the funds given earlier by us in Client Bank account to our Own Bank account.

d) We have never used clients' funds for meeting any single obligation of own account. Our Net Worth as on March 31, 2018 is in surplus over Rs. 46.19 crores as per Dr. L.C. Gupta format & Rs. 152.42 Crore as per format other than Dr. L.C. Gupta. Both these networth certificates are enclosed as Annexure 2A and Annexure 2B respectively.

e) Further, we had already explained to the inspection officer that during the FY 17-18, our total receivable was Rs. 35.31 crore and extract of figure was already given during the onsite inspection. We state that, we had collected Rs. 31.71 crore against the total receivable (Rs. 35.31 Crore). For your ready reference we again give below the details of receivable during the FY 17-18 :

Details of amount receivable from client account 2017-2018	
Particulars	Amount
Brokerage Income	170,695,982
Stamp Duty	10,961,850
GST	26,797,927
Service Tax Q1	5,900,302
Transaction charges NSE	9,515,907
Demat Income	4,189,475
Profit from Arbitrage/Securities Trading	42,954,014
Delayed payment charges	17,190,817
Previous year funded client recovery	64,897,389
TOTAL Receivable from Client Account 2017-18	353,103,663

f) From the above table it can be seen that we were required to transfer Rs. 35.31 Crores against which we transferred only Rs.31.72 Crores.

g) Annexed herewith and marked as **Annexure 2C** is the audited financials for FY 17-18 which would substantiate that we had transferred the funds only when due.

h) Immediately, upon bringing the same to our notice by the Inspection Official, we had transferred the Settlement bank Account to HDFC Bank and have stopped using the account of Bank of India for Settlement purposes. We also changed the nomenclature of Bank of India Account to "Client Bank" Account.



- i) We enclose herewith copies of following documents to confirm our submission:
- Annexure 3A - Application to the Clearing & Settlement department of BSE for shifting Cash Settlement account from Bank of India to HDFC Bank
 - Annexure 3B - NOC given by Bank of India to open Settlement account with HDFC Bank
 - Annexure 3C – Cheque copy of Bank of India account no. 008620100009101 showing the nomenclature as “Client Bank Account”
 - Annexure 3D –Welcome letter of HDFC Bank Account No. 00990620011751 showing the nomenclature as “Settlement Account.”

We request you to please condone this error.

Immediately, upon bringing the same to our notice, we changed the nomenclature of the said bank account to “MTF Client Account”. We enclose herewith Copy of the cheque of Indusind Bank attached as **Annexure 4A** showing the nomenclature as “MTF Client Account”.

- a) We wish to submit here that the Overdraft (OD) Facility was obtained by us using our own FDs and not clients’ funds. Kindly refer the below mentioned table, wherein FD Creation bank account & creation date mentioned. The FD copies are enclosed as **Annexure 5A:**

FD NUMBER	Principal Amount	Rate	Deposit Renewal Date	Maturity Date	OD Facility	Tenure	FD creation account No (own bank account)	Deposit Creation Date
50300044 052978	12,500,000	5.50%	23-May-17	23-May-18	12,500,000	12 months	6003400170 82	23/05/2014
50300044 178823	15,000,000	5.50%	24-May-17	24-May-18	15,000,000	12 months	6003400170 82	24/05/2014
50300099 702107	10,000,000	7.50%	03-Jul-16	03-Jul-17	10,000,000	12 months	6003400170 82	03/07/2015
50300099 707517	10,000,000	7.50%	03-Jul-16	03-Jul-17	10,000,000	12 months	6003400170 82	03/07/2015
50300043 281120	10,000,000	5.50%	15-May-17	15-May-18	10,000,000	12 months	6003400170 82	15/05/2014
50300106 502569	10,000,000	7.25%	20-Aug-16	20-Aug-17	10,000,000	12 months	6003400170 82	20/08/2015
50300123 824921	9,900,000	6.90%	29-Dec-16	29-Dec-17	9,900,000	12 months	6003400170 82	29/12/2015
50300127 231710	9,900,000	6.90%	21-Jan-17	21-Jan-18	9,900,000	12 months	6003400170 82	21/01/2016
50300131 785932	9,990,000	6.90%	22-Feb-17	22-Feb-18	9,990,000	12 months	6003400170 82	22/02/2016

- b) With regard to payment of interest from Client Bank account, we submit the interest was wrongly debited by HDFC bank to the client account. Please note, we have stopped the OD facility from 31st July 2017.
- c) Further the OD is used for meeting obligations of clients only and therefore in any case the same is not an issue.



We would like to inform you that, transfer of funds from client bank account to own bank account was done only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc.

Further, as per the guidance/clarity given by onsite inspection Officer on maintaining trail of fund transfer between client bank account and own bank account, we had also started to maintain the same with proper coding of reason for transfer of fund movement under the below mentioned head.

- Client Fund
- Brok Cont
- Stamp duty
- GST Cont

For your ready reference we enclose herewith the above mentioned ledger for the period November 1, 2018 to March 31, 2019 as **Annexure 6A**.

1. SEBI circular SMD/SED/CIR/93/23321 dated November 18, 1993 specifies under which circumstances the funds can be transferred between Client Bank Account and Own Bank account of the Broker we hereby submit that we have not violated the provisions of the said SEBI Circular, as we had transferred funds between client bank account and own bank account only for legitimate purposes as mentioned in our reply in point A-2 above.
2. Vide SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIRIP/2016/95 dated September 26, 2016, SEBI had specified requirements of "Enhanced Supervision" reporting and compliances.
 - a. With regard to misuse client funds by using the funds of credit balance clients for purpose of debit balance clients, as explained in point A-1 above, after considering our deposits available with the Exchanges on which exposure was granted, the credit balances of institutional clients, PRO A/c's & company associates accounts and the non-funded portion of the BG there is no misuse of funds of clients having credit balances.
 - b. With regard to maintaining single account for client and settlement purpose, as explained in point A-3 above, we have immediately opened another account with HDFC Bank for settlement purposes and changed the nomenclature of account of Bank of India as 'Client Bank' account. Further, as explained in point A-4 above, we have also immediately changed the nomenclature of the account maintained with INDUSIND bank as 'client bank' account.
 - c. With regard to not providing Source of & creation of FD and charging of interest on client bank account, we have provided the Source of & creation of FD in point A-5 and also are in the process of crediting the amount of interest on OD to client bank account.



d. *With respect to transfer Own obligation to client account and then settlement account, as explained in Point A-6 above, we have transferred the funds only for legitimate purposes.*

Observation:

- i. It is to be noted that, the said 1993 Circular lays down comprehensive guidelines for stock brokers in dealing with funds and securities of clients. It specifies several exclusive requirements. The aforesaid observation clearly falls under Clause D of the 1993 Circular. In terms of 1993 Circular, the stock broker is mandated not only to keep separate accounts for clients' and own dealings but also not to withdraw money from clients' account except in the situations permitted thereunder. The 1993 Circular does not permit using excess funds of one client to meet liability of another client. The observations and finding in the inspection report that are basis of charge in this case had been provided to the Noticee alongwith the SCN as Annexure 14.
- ii. In order to determine whether the Noticee has utilized clients' funds for purposes other than those permitted as stipulated in 1993 circular, the principle specified in the 2016 Circular has been applied such that the total available funds i.e. day end balance in all clients bank accounts (A), cash and cash equivalents with the stock broker and with the exchange / clearing corporation/ clearing member (B), should always be equal to or greater than clients' funds as per ledger balance (C) and if $[(A+B) - C = G]$ is negative, then it indicates that the credit balance clients' funds have been misused by the stock broker for its own purposes or for settlement obligations of debit balance clients.
- iii. In this case, it has been specifically found in the inspection report that the total of clients' funds (available in bank accounts, cash / cash equivalent deposits with exchange / clearing corporation / clearing member) available with the Noticee on all 22 sample dates were lesser than the total credit balance of all clients of the Noticee resulting into mis-utilisation of credit balance clients fund for the purpose of debit balance clients which is not permissible in terms of the 1993 Circular, I further note that the difference between the clients' funds available with the Noticee i.e. (A+B) and the total credit balance of clients as prescribed in terms of the 2016 Circular ranges from Rs. 3.03 Crores (on 31-Jan-18) to Rs. 12.05 Crore (18-Jan-18).
- iv. I also note that the Noticee in its reply had submitted that full value of the Bank guarantee (BG) had to be considered since Exchanges provide exposure on the entire amount including the Non funded portion of BG. Further the Noticee also submitted that the amount Rs. 2,48,50,000/- was inadvertently submitted to SEBI as BMC and the remaining amount of Rs. 1,73,50,000/- was towards Exchange Deposits on which the Exchanges grant exposure for trading and Secondly, the credit balances of institutional clients, PRO A/c's & company associates accounts are included as creditors, which in fact should not be considered as creditors.



- v. With respect to Non funded portion of BG, it is to be noted that the only funded portion of Bank guarantee has been considered, since the funded portion (i.e. funds deposited for availing the Bank guarantee) of a Bank guarantee is 50% of the BG extended to a broker. The leveraged portion (i.e. extra 50% extended by the Bank in lieu of the 50% deposit) of the BG is over and above money held for clients. In view of the above, I note that leveraged part of the BG does not involve fund and therefore the non-funded portion of BG is not to be considered while computing the funds of the clients.
- vi. further, even after considering the submission of the Noticee of including deposits available with the Exchanges and the credit balances of institutional clients, PRO A/c's & company associates accounts, then also I am inclined to state here the value of G is negative which shows mis-utilisation of credit balance clients fund for the purpose of debit balance clients which is not permissible in terms of the 1993 Circular.
- vii. I also take note of submissions made by Noticee vide letter dated October 30, 2020 which contains the exchange files being reported by Noticee to all 3 exchanges for the month of April 2020 to October 2020 under enhanced supervisions. The said files shows that G is not negative in any said 7 months.
- viii. With respect to transfer of excess funds from client account to own account, I take note of reply of Noticee including the audited financials for FY 17-18 that, Transfer of funds from client to Noticee own account was done only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. Given the volume of turnover of the Noticee during the inspection period, such transfers may be considered as legitimate recovery of dues by Noticee from the client bank account in terms of the provisions contained in the 1993 Circular. Besides, I do not find any conclusion as such in the post inspection analysis holding such transfers as illegitimate. However, I find that Noticee has admitted that, it was only after guidance from onsite inspection officer that it has started to maintain the trail of fund transfer between client bank account and own bank account with proper coding of reason for transfer of fund movement.
- ix. With respect to maintaining single account for client and settlement purpose I take note from the submissions of Noticee that it has admitted that, it was and had opened account for settlement purpose and changed the nomenclature of said Bank of India account as 'Client Bank' account after being pointed out by inspection team.
- x. With respect to nomenclature of INDUSIND BANK MTF FOND OD A/C – 606014011724. I take note that, Noticee in its reply has admitted that said OD account was not designated as client bank account and that, Noticee has changed the nomenclature of said INDUSIND bank account as 'client bank' account only after being pointed out by inspection team.

I note that the SEBI circular dated November 18, 1993 clearly requires the client account name to contain "client" word.



- xi. With respect to availing OD on client bank account, I note that, this bank account is designated as client bank account which should not have been used for availing OD from the bank by the Noticee. Noticee in its reply has submitted that FD used for availing OD were its own FD. I have observed that, the source of FD creation bank account no., which was not provided at the time of inspection has been provided by Noticee now. Further, Noticee has also admitted that, interest was wrongly debited by HDFC bank to the client account and that, it is in the process of crediting the amount of interest on OD to client bank account. this implies that, Noticee has till date not credited the amount back to client bank account and such practices should be avoided in future for the purpose of maintaining segregation of clients' funds from those of the Noticee's, at all times.
- xii. With respect to transferring obligation to client account and then settlement account, Noticee in its reply has denied the said allegation and submitted that the fund transfers were on account of meeting out the exchange pay in/client payout as per requirement whenever it feels that the balances available in client account is falling short to meet such requirements and after receipt of due funds from clients in client bank account, it again transfer the amount given earlier by Noticee in client account to its own account, However, I do not find any documents/correspondence brought on record by the Noticee in support of the same. Further, Noticee has also not clarified the reason for not maintaining daily reconciliation statement clearly indicating the amount of funds transferred between client and Own account.
- xiii. Noticee has also submitted that it has not used funds of clients for meeting any obligations of its own account as it has surplus Network. With respect to surplus Network being maintained by Noticee, I am of the view that surplus of net worth of a broker has no direct cause and effect relationship with use and misuse of client's funds lying with the broker.
- xiv. I also note from the Noticee's reply dated February 19, 2019 that, it had admitted that it had not started procedure of enhanced supervision till February 2018.
- xv. In view of the foregoing, I conclude that the Noticee has violated the provisions of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 and SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

B. Pledging of clients securities.

Allegation:

- i. It is alleged that, Noticee has pledged client securities in excess of client's indebtedness and misutilisation were observed in all 5 dates verified. Summary of the same are as under:-

Sr. No.	Date	Total number of clients whose securities have been mis-utilized	Total value of excess of securities pledged (after applying 50% haircut) over the debit balance
1	06/10/2017	28	12,474,746
2	11/10/2017	28	15,896,040

3	10/11/2017	29	16,692,431
4	16/11/2017	37	24,466,433
5	05/12/2017	22	13,359,882

- ii. In view of the above it is alleged that, the Noticee has violated the provisions of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 2.5 of Annexure of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016.

Reply:

- a) Our clients maintain deposit in the form of funds as well securities in varying ratios, however, the Exchange mandates equal proportion of funds and securities (Cash 50% and non-cash 50%). The shares of clients are pledged with an intention to make sure that the amount is available whenever the client intends to transact. But it is only used for the respective client only.
- b) If we do not keep the limit available, then only after the client approaches us for order placement we will have to go and pledge his stock, seek limits from NBFC / Bank, get those funds remitted into our client bank account, and then deposit these funds with Exchange/Clearing Corporation to get exposure. Surely this process cannot happen instantaneously and the client would have lost the opportunity. So it is imperative for us to maintain excess drawing power but use only requisite amount of funds.
- c) Apart from the above we also maintain surplus with the Exchange so that the same is readily available for clients to us when they want to place an order.
- d) Also the value of pledged securities also included our own stocks.
- e) Noticee vide letter dated October 30, 2020 has submitted revised date-wise details as under:

Date	Value of Share with Bank (A)	Value of Credit balance clients as per SCN (B)	Net Value of other clients and own shares (C=A-B)	Drawing Power on other clients and Own (D = 50% C)	OD Used as per SCN (E)	Excess OD availed (F=E-D)	Exchange Surplus (G)	Whether any Misuse?
06-Oct-17	51269955	12474746	38795209	19397605	20677910	1280306	237489511	No
11-Oct-17	43912484	15896040	28016444	14008222	20287242	6279020	246322675	No
10-Nov-17	54802716	16692431	38110285	19055143	24905544	5850402	258617164	No
16-Nov-17	82436696	24466433	57970263	28985131	33472420	4487288	258458461	No
05-Dec-17	43933827	13359881	30573946	15286973	20974472	5687499	276267724	No

- f) From the above it can be seen that we have not misused funds/securities of clients having credit balances.
- g) Annexed herewith are the following documents:
a. Annexure 7A – List of shares with bank and valuation thereof.



b. Annexure 7B – Exchange files reflecting surplus balance with Exchange.
As submitted above, we have not violated the provisions of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 2.5 of Annexure of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016.

Observation:

- i. From the reply of Noticee, it is admitted fact that, Noticee has pledged clients' securities in excess of client's indebtedness and the reason provided by the Noticee is that, it has done the same with an intention to make sure that the amount is available whenever the client intends to transact and is used for the respective client only.
- ii. In this context, I note that as per the provisions of the relevant SEBI circular viz. Circular No. SEBI/HO/MIRSD/MIRSD2/CIR//P/2016/95 dated September 26, 2016, a stock broker can have a lien on the clients' securities, only to the extent of the clients' indebtedness to the broker. A pledge by the broker can occur only with the explicit authorization of the client and the stock broker needs to maintain records of such authorisation. However, I do not find that Noticee has provided any proof of such authorization being granted to it by its clients. Further, Pledge of such securities is permitted, only if, the same is done through Depository system in compliance with Regulation 58 of the SEBI (Depositories and Participants) Regulations, 1996. To strengthen the existing mechanism, the stock brokers shall ensure that securities of only those clients can be pledged who have a debit balance in their ledger and the funds so raised against such pledged securities for a client shall not exceed the debit balance in the ledger of that particular client. Thus, it is clear that under no circumstances, a stock broker is allowed to pledge the securities of its clients in excess of their indebtedness. However, in the instant matter, the Noticee was observed to have acted in violation of the aforementioned condition while pledging the securities of its clients.
- iii. I also take note of Noticee's reply dated February 19, 2019 wherein Noticee has admitted misutilisation by also inter- alia stating that, *clients had taken position on T+1 & T+2 day against the availability of appropriate balances and hence misutilisation is not so huge*. Noticee has also inter- alia submitted that after completion of onsite inspection & advice of respective inspection officer, it do not hold any clients securities if he/she having balance as NIL/credit and follow the respective circular accordingly.
- iv. Thus, in view of the above, I find that, Noticee has violated the provisions of SEBI Circular No. SMD/SED/CIR/93/23321 dated November 18, 1993 and Clause 2.5 of Annexure of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016.



C. Stock reconciliation

Allegation:

- i. It is alleged that, the Noticee has not done periodic reconciliation of back office holdings of client's securities with actual stocks lying in DP accounts. No. of Instances - 34 Instances (total quantity is 65277) of Rs.1,80,607/-
- ii. In view of the above it is alleged that, the Noticee has violated the provisions of Clause 2.3 of SEBI Circular No. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008.

Reply:

- a) We would like to submit that the securities not available in the Back office software, due to:
 - i. Securities being unlisted – The back office software does not support the valuation of securities which are delisted. Hence the securities were moved to Suspense NSDL / Suspense CDSL Accounts created in the back office and hence it was not appearing in the data given to SEBI.
 - ii. Securities listed however, client is not identifiable – These securities are lying with us for a very long time and the clients are unidentifiable. We request SEBI to please guide us in this matter.

Our instance-wise reply is enclosed herewith as **Annexure 8A**.

- b) Further in case of below mentioned stock quantity wrongly mentioned as 600 instead of 300 quantity as per the DP by inspection team and said 300 quantity lying in our back office system under the head of SUSPENSE NSDL account:

S.No.	ISIN	Scrip Name	Quantity as per DP	Quantity as per back office	Difference	Value
21	INE655F01012	BHAGYASHREE LEASING AND FINANCE LTD EQ	600	0	600	18,720.00

We deny the above allegation.

We would like to submit that the clause 2.3 of the aforesaid SEBI circular directs the broker to periodically reconcile clients securities with the actual collateral deposited with the broker.

We have periodically reconciled the clients' securities and then only categorized these securities and kept them separately.

Observation:

- i. With respect to periodic reconciliation of back office holdings of client's securities with actual stocks lying in DP accounts not being done by Noticee in 34 instances , I have



taken note of the reply of the Noticee that, there has been mismatch in back office holdings of client's securities with actual stocks lying in DP accounts because back office software of Noticee does not support the valuation of securities which are delisted and therefore, the securities were moved to Suspense NSDL / Suspense CDSL Accounts created in the back office and secondly securities are lying with it as clients are unidentifiable.

- ii. I have also taken note that, the details of securities lying in Suspense NSDL / Suspense CDSL Accounts were not provided to inspection team.
- iii. Since Noticee has provided the reason of mismatch between back office holdings of client's securities with actual stocks lying in DP accounts and has also submitted details of suspense NSDL and CDSL account in excel files. In view of the same, I am inclined to give benefit of doubt and accept the submission of the Noticee on this count that, it had periodically reconciled the clients' securities and then only categorized these securities and kept them separately in suspense account.

D. Monthly / Quarterly settlement of funds and securities

Allegation:

- i. It is alleged that, Noticee has not settled 16 clients account on monthly/quarterly basis as per preference given by client.
- ii. It is also alleged that, the stock broker has not settled for Inactive clients as mentioned hereunder:

Quarters	Number of inactive clients not settled	Amount of non-settlement (In Rs.)
Apr 17 to June 17	3299	694,736,418
June 17 to Sept 17	2621	557,403,471
Sept 17 to Dec 17	1451	385,091,087
Dec 17 to March 18	52	4,394,496

- iii. It is also alleged that stock broker has not provided complete details in the retention statement send to clients such as holding in NSDL client beneficiary account and Debit bills.
- iv. In view of the above it is alleged that, the Noticee has violated the provisions of Clause 12 SEBI Circular No. SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009.

Reply:

- a. *In 11 instances the accounts were settled post SEBI Inspection. The Details are as under:*



<i>UCC</i>	<i>Client Name</i>	<i>Year</i>	<i>Quarter</i>	<i>SEBI Remarks</i>	<i>Member Remarks</i>
KD049	NOOR NAVAZISH VIRANI	2017- 18	Mar-18	Not Settled	The client's account was settled on 30-Jun-2019. The amount of Rs.61,644.05 was transferred to her account.
KD049	NOOR NAVAZISH VIRANI	2017- 18	Dec-17	Not Settled	The client's account was settled on 30-Jun-2019. The amount of Rs.61,644.05 was transferred to her account.
5678	INVENTURE MERCHANT BANKER SERVICES PRIVATE LIMITED	2017- 18	Jun-17	Not Settled	The client's account was settled on 30-Jun-201.
5678	INVENTURE MERCHANT BANKER SERVICES PRIVATE LIMITED	2017- 18	Sep-17	Not Settled	The client's account was settled on 06-Sep-2017.
SP009	GIRISH GOKULBHAI SHAH	2017- 18	Jun-17	Not Settled	The account was settled on 23-Mar-2020.
ST002	JYOTSNA JAISING JOSHI	2017- 18	Jun-17	Not Settled	The account was settled on 30-Mar-2019 and 30-Dec-19.
ST002	JYOTSNA JAISING JOSHI	2017- 18	Sep-17	Not Settled	The account was settled on 30-Mar-2019 and 30-Dec-19.
5980	JAI PRAKASH AGRAWAL (HUF)	2017- 18	Jun-17	Not Settled	The account was settled on 27-Jun-2017.
RNR020	RAJESH PREMJI SHAH (HUF)	2017- 18	Mar-18	Not Settled	The client's account was settled on 20-Jun-2018.
7428	RAMNIKLAL SHAMALJI MAHETALIA	2017- 18	Dec-17	Not Settled	The client's account was settled on 25-Nov-2017.



UCC	Client Name	Year	Quarter	SEBI Remarks	Member Remarks
NRN007	SHANTILAL RIKABDAS JAIN	2017-18	Dec-17	Not Settled	The client's account was settled on 20-Dec-2017.

b. The retention statements in case of all the above instances are enclosed as **Annexure 9A**.

c. In following 4 instances, the clients became inactive. On multiple occasions, we tried to transfer this money to their account however, the transfer failed. Now we have transferred his money to the bank account opened separately to maintain funds of inactive clients in terms of NSE Guidelines in dealings with funds and securities of inactive clients, issued vide circular dated February 10, 2020. The details are as under:

UCC	Client Name	Year	Quarter	SEBI Remarks	Member Remarks
SP055	KAMLESH NATWARLAL JOSHI	2017-18	Jun-17	Not Settled	The last trade date of this client was 19-Oct-2016. The balance in its ledger was Rs. 87508.38
SP055	KAMLESH NATWARLAL JOSHI	2017-18	Sep-17	Not Settled	The last trade date of this client was 19-Oct-2016. The balance in its ledger was Rs. 87508.38 as on June 30, 2018.
YA490	SOUMIK ALOKE CHATTERJEE	2017-18	Dec-17	Not Settled	The last trade date of this client was 09-Dec-2015. The balance in its ledger was Rs. 25876.55 as on June 30, 2018.
YA490	SOUMIK ALOKE CHATTERJEE	2017-18	Mar-18	Not Settled	The last trade date of this client was 09-Dec-2015. The balance in its ledger was Rs. 25876.55 as on June 30, 2018.

The Bank Statement showing the transfer of funds is enclosed as **Annexure 9B**.

List of clients whose funds were transferred to this bank account is enclosed as **Annexure 9C**.

d. The client **AUCTOR INVESTMENTS LIMITED** is an institutional client, where settlement was not applicable.

We would like to state that, there seems to be some error in the quarterly balances of the clients mention by SEBI in its Annexure 6.

We have taken the balances of each quarter beginning and end and for each of the clients mentioned in SEBI Annexure 6 and given our comments for each client. The summary of our reply is as under:

In the following table, date-wise bifurcation of clients based on their settlement issues is given:

Details as per SEBI				
Particulars	Apr17-June17	June17-Sept17	Sept17-Dec17	Dec17-March18
Total inactive clients as per SEBI	3299	2621	1451	52
Total non-settlement as per SEBI (Rs)	69,47,36,418	55,74,03,471	38,50,91,087	43,94,496



The client-wise reply for each quarter is enclosed as **Annexure 10A**.

Based on the above table and the client-wise reply, we give below the details showing the amount which was not settled:

<i>Details as per SEBI</i>				
<i>Particulars</i>	<i>Apr17-June17</i>	<i>June17-Sept17</i>	<i>Sept17-Dec17</i>	<i>Dec17-March18</i>
<i>Total inactive clients as per SEBI</i>	3299	2621	1451	52
<i>Total non-settlement as per SEBI (Rs)</i>	69,47,36,418	55,74,03,471	38,50,91,087	43,94,496

<i>Details as per Member</i>				
<i>Particulars</i>	<i>Apr17-June17</i>	<i>June17-Sept17</i>	<i>Sept17-Dec17</i>	<i>Dec17-March18</i>
<i>Total inactive clients having credit balances where settlement was required to be done - no. of instances</i>	319	336	250	13
<i>Total inactive clients having credit balances where settlement was required to be done – Amount</i>	74,49,439.90	60,15,747.24	3287879.19	197254.15
<i>Active clients having more than Rs.10000/- credit balance where was not done in the respective quarter – no. of clients</i>	555	553	357	0
<i>Active clients having more than Rs.10000/- credit balance where was not done in the respective quarter – amount</i>	4,51,01,179.70	5,32,15,426.61	60413097.93	0
<i>Total non-settlement amount (Rs)</i>	5,25,50,619.6	5,92,31,173.85	6,37,00,977.12	197254.15

Further it may be noted that the amount of non-settlement has been repeated across clients over different quarters and therefore the amount of non-settlement cannot and should not be considered as a total of 4 quarters but only the highest amount of all 4 quarters should be treated as to be settled.

At this juncture we would like to submit that we have always made prompt payments to clients and there has been no instance of client grievance or complaint.

We have consistently worked over improvement of our operations and the same is reflected in the findings where in the last quarter there is hardly any non-settlement even as per the SCN of SEBI.

Due to system bugs, our system had not taken in to consideration the NSDL client beneficiary account. We have rectified our system immediately at time of onsite inspection.



Further, we would like to inform that the majority of clients have their beneficiary accounts with CDSL and very few clients' stock was lying in our NSDL client beneficiary account (Less than 1% of active clients). Hence you are requested to consider our submission.

As submitted above, we have immediately rectified our system to include the clients' stocks lying in NSDL Client Beneficiary account and hence request you to please condone this error.

Observation:

- i. I observe that, Noticee did not settle credit balance of active and inactive clients within specified time and also incomplete retention statement were sent to clients till the time of inspection.
- ii. I also note that, Noticee has reworked the table showing number of active and inactive clients whose account were unsettled within specified time and balance amount which was required to be settled. The Noticee had mentioned (as per post inspection analysis) that it treated such clients as inactive who did not trade for 12 months. However, they have not submitted any documented policy in respect of inactive clients required in terms of the SEBI Circular No. SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009. Moreover, the aforesaid Circular clearly requires actual settlement of funds and securities at least once in calendar quarter or month, depending upon preference of the client. I am not able to accept the reply of the Noticee that there was any error in the quarterly balances of clients as mentioned in the Annexure 6 of the SCN. I observe that the said Annexure had clearly depicted balances of Inactive clients as at start and end of each quarter as not changing and, hence, drawing conclusion that Noticee was not settling the Inactive clients. The Noticee has mentioned in its reply that *"we have consistently worked over improvement of our operations and he same is reflected in the findings where in the last quarter there is hardly any non-settlement even as per the SCN of SEBI."* In this regard, I observe that, as per the SCN, there is drastic reduction in the number and value of non-settled Inactive clients from quarter ended June 2017 to March 2018, during the inspection period. I also note that Noticee has submitted that there is no client grievance or complaint in respect of payment of funds and securities by the clients. I observe that Inspection has also not brought any complaint or grievance in this regard. However, absence of complaints do not absolve the Noticee from the violation observed. It can only be considered as mitigating factor.
- iii. Noticee in its reply has admitted that it did not settled credit balance of 16 active clients within specified time as per preference given by them and has submitted that, out of these 16 active clients, 11 accounts were settled post SEBI Inspection, 1 account is institutional client, 4 accounts are not settled due to improper bank details & further clients were not active in any manner and that the funds in this 4 accounts are transferred to the bank account opened separately to maintain funds of inactive clients in terms of NSE Guidelines in dealings with funds and securities of inactive clients, issued vide circular dated February 10, 2020.



- iv. On perusal of retention statement of said 11 accounts being settled by Noticee it has come into light that, Noticee has failed to provide retention statement of 3 clients namely with client code RNR020,7428 and NRN007 in its submissions.
- v. Noticee has also admitted that, retention statements sent to clients were incomplete. Noticee submitted that, due to system bugs their system had not taken in to consideration of the NSDL client beneficiary account and the same has been rectified at time of onsite inspection. As per clause A(3) of the Code of Conduct of the stock brokers "*stock-broker shall act with due skill, care and diligence in the conduct of all his business*". Thus, the Noticee should have been more careful and its reply cannot be accepted.
- vi. Thus, in view of the foregoing, It is established that Noticee was not settling accounts of its active clients within time as per their preferences and also not settling account of inactive clients. Further, Noticee did not sent accurate retention statements to clients. In view of the same, I find that the Noticee has violated the provisions of Clause 12 SEBI Circular No. SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009.

E. Reporting and short collection of Margin.

Allegation:

- i. It is alleged that, during inspection period, Noticee has not correctly reported margin to Exchange in F&O and CDS segment.
- ii. No. of Instances:
 - (1) CDS Segment : - Shortfall of 12 clients (Sample 70 clients) amounting to Rs. 4,80,486.74/- against minimum of collected & total margin of all sample clients of Rs. 77,39,920.93
 - (2) F&O Segment :- Shortfall of 3 clients (Sample 74 clients) amounting to Rs. 4,16,69,095/- against minimum of collected & total margin of all sample clients of Rs. 27,26,04,551/-
- iii. Thus, In view of the above it is alleged that Noticee has violated the provisions of SEBI Circular No. CIR/DNPD/7/20111 dated August 10, 2011.

Reply:

We would like to inform you that, 10 margin shortfall instances observed in month of April 2017 out of total 12 instances of margin shortfall in CDS Segment were due to system bugs, this was also discussed in earlier SEBI meeting held on 05/07/2018 at BKC.

We would like to inform you that, 2 margin shortfall instances observed in month of April 2017 out of the total 3 instances of margin shortfall in F&O Segment were due to system bugs, this was also discussed in earlier SEBI meeting held on 05/07/2018 at BKC.



It can be observed that majority of the shortfall observation of both the segment CDS & F&O were in the month of April 2017 only which constitutes to 96.04% and 99.71% respectively out of the total margin shortfall observation and hence in view of the above we request you to kindly consider the same and take a lenient view.

As mentioned above, the error occurred only in the month of April 2017, that too due to technical glitch in the system. We request you to please condone the error.

Observation:

- i. I have taken note that, the Noticee has not reported margin correctly to Exchange in F&O and CDS segment. such that, out of 70 sample clients in CDS Segment there has been shortfall of 12 clients and out of 74 sample clients in F &O Segment, there has been shortfall of 3 clients in reporting margin against minimum of collected & total margin by Noticee.
- ii. It is evident from the reply of Noticee, that it had admitted that, it had not correctly reported margin for CDS and F&O segment which has been due to technical glitch in their system. Thus, in view of the same, I find that, the Noticee has violated the provisions of SEBI Circular No. CIR/DNPD/7/20111 dated August 10, 2011.

F. Client Funding (55 sample clients).

Allegation:

- i. It is alleged that, in 35 instances, Noticee has funded its clients beyond T+2+5 and the funded exposure amounts to Rs. 14.19 Crores (after considering free collaterals).
- ii. Thus, In view of the above it is alleged that Noticee has violated the provisions of Clause 2.6 of Annexure of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with Clause 2(d) of SEBI Circular No. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017.

Reply:

a) *NSE, vide Circular no. NSE/INSP/29662 dated 08/05/2015 had allowed the Members to offer further exposure to client on beyond T+2+5 Days to the extent of availability of excess of client's fully paid securities over his debit balance, deposited with the Member.*

b) *The extract of clause is as follows.*

"it is clarified that the Member may grant further exposure to the clients beyond fifth trading day reckoned from pay-in date to the extent of availability of excess of client's fully paid securities over his debit balance, deposited with the Member".

c) *Further, SEBI in Clause 2.6 of its Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 had directed that "Stock brokers shall not grant further exposure to the clients when debit balances*



arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in."

d) However, SEBI vide its circular no. CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, extended the timeline for this compliance of the above clause up to August 1, 2017. The clause "d" of the said is circular given below for your reference:
"Clause 2.6 stands modified as, "Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017 or as may be issued from time to time." This clause would be effective from August 1, 2017.

e) We received our registration of MTF segment from NSE on 22/08/2017 and from BSE on 23/08/2017 (BSE).

f) **Based on the above we make following submissions:**

i. In following 15 instances, further exposure was given to clients on beyond T+2+5 days up to July 31, 2017 which was allowed by SEBI:

Sr. No	Client Code	Date of Debit	T+2+5 day	Amount Funded
1	MH001	06-04-2017	17-04-2017	5,49,00,270.75
2	MH031032	07-04-2017	18-04-2017	11,32,989.59
3	A31003	11-04-2017	20-04-2017	5,17,943.83
4	B008	18-04-2017	27-04-2017	38,47,559.64
5	K9257	06-04-2017	17-04-2017	33,63,923.15
6	B008	24-04-2017	03-05-2017	37,07,187.93
7	A31003	24-05-2017	02-06-2017	16,17,983.46
8	A31003	30-05-2017	08-06-2017	14,05,216.32
9	B008	02-06-2017	13-06-2017	37,19,905.44
10	SSP009	22-06-2017	03-07-2017	15,15,907.57
11	5593	02-05-2017	11-05-2017	13,53,446.70
12	K9257	13-06-2017	22-06-2017	8,96,624.27
13	A31003	30-06-2017	11-07-2017	14,27,001.19
14	B008	04-07-2017	13-07-2017	35,15,411.10
			Total	8,29,21,370.94

ii. In following 1 instance, the exposure given after the client obtaining registration on MTF segment on 23-Apr-2020:

Sr. No	Client Code	Date of Debit	T+2+5 day	Amount Funded
34	AG463	01-05-2018	10-05-2018	13,10,734.42

iii. In following 20 instances we provided exposure to clients beyond T+2+5 as this concept was new to us, it took some time for us to update our systems:

Sr. No	Client Code	Date of Debit	T+2+5 day	Amount Funded
1	P12094	08-08-2017	17-08-2017	11,63,489.42
2	AP46	04-09-2017	13-09-2017	12,40,588.35
3	A31003	06-09-2017	15-09-2017	16,04,110.64
4	SSP009	05-10-2017	16-10-2017	9,61,827.93
5	B008	04-12-2017	13-12-2017	30,94,953.13
6	AB001	20-12-2017	29-12-2017	66,59,234.72
7	5593	17-10-2017	26-10-2017	27,296.29
8	B008	27-12-2017	05-01-2018	8,29,681.66
9	P15128	11-01-2018	22-01-2018	85,15,115.39



Sr. No	Client Code	Date of Debit	T+2+5 day	Amount Funded
10	A31003	25-01-2018	05-02-2018	3,60,516.83
11	5492	02-02-2018	13-02-2018	1,29,19,347.98
12	5492	01-02-2018	12-02-2018	1,04,03,029.31
13	B008	17-01-2018	26-01-2018	57,10,297.32
14	V55006	12-02-2018	21-02-2018	3,36,651.34
15	5592	27-03-2018	05-04-2018	15,67,875.12
16	B008	01-04-2018	10-04-2018	34,20,565.22
17	5592	03-04-2018	12-04-2018	15,57,560.71
18	Y12230	13-04-2018	24-04-2018	13,16,028.14
19	5592	02-05-2018	11-05-2018	2,93,367.25
20	9922	26-07-2017	04-08-2017	11,10,802.46

Further we also submit that the above clients are clients in F&O segment where MTM can be collected in the form of securities. We will shortly submit the details thereof. Out of the 35 instances pointed by SEBI, following clients have obtained margin trading facility:

Sr. No	Client Code	Date of client obtaining MTF facility
1	MH031032	13-05-2019
2	SSP009	04-04-2018
3	5593	07-10-2019
4	SSP009	04-04-2018
5	5592	27-09-2018
6	AG463	23-04-2018
7	5592	27-09-2018

Since the concept of margin trading facility was new to us inadvertently we had provided exposure to clients beyond T+2+5. Out of the 35 instances, 7 clients have obtained Margin trading facility. Further all clients are F&O clients where MTM can be collected in securities and therefore no further exposure has been give. We will submit the details shortly.

Vide letter dated October 30, 2020, Noticee as mentioned above has submitted remaining details alongwith statements of holdings.

Observation:

- I find merit in the reply of the Noticee that, 14 instances pertains to period when the said circular wasn't applicable and as such, these instances may not be taken into account. However, I observe that, there are still remaining 21 instances which pertains to period post applicability of the said circular even after excluding aforesaid instance.
- Noticee has mentioned that, out of remaining 21 instances, 7 clients had obtained Margin trading facility. However it is noted that, the instances pertains to dates before obtaining margin trading facility by these clients. Further, apart from these 7 clients, in 1 instance of client code AG463, t+2+5 date is 10-05-2018 and client obtaining registration on MTF segment date is 23-Apr-2020.
- Noticee in its reply has also admitted that, it has provided exposure to clients beyond T+2+5 as this concept was new to them and it took some time for them to update their systems. However it has also submitted that, since all clients are F&O clients where MTM can be collected in securities and therefore no further exposure has been given by it.



- iv. I have taken note of Noticee's submissions vide letter dated October 30, 2020 which shows the value of securities of the said 20 clients and has admitted that it has ensured compliances with T+2+5 in most cases and only 3 clients has been inadvertently missed out from compliance with the said Circular.
- v. However, with respect to clarification given by Noticee that, all clients are F&O clients where MTM can be collected in securities and therefore no further exposure has been given . I note that the NSE Circular dated April 26, 2012 with its Annexure I providing clarifications states as follows: "If debit balances arise out of client's failure to pay such amount for more than fifth trading day reckoned from date of pay-in, and further exposure is granted to client it would be construed as a funding violation even if fully paid collaterals are available for margins."
- vi. In terms of modified Clause 2.6 of Circular CIR/MRD/DP/54/2017 dated June 13, 2017, "*Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017 or as may be issued from time to time.*" I find that the Noticee has provided funding to clients outside of the Margin Trading facility beyond T+2+5 days, which is in violation of clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 read with clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017 and NSE circular NSE/INSP/20638 dated April 26, 2012.

G. Contract Notes (sample dates 03/08/2017 & 10/04/2017).

Allegation:

- i. It is alleged that, in 68 instances, Noticee has not sent contract notes to the clients.
- ii. In view of the above it is alleged that, the Noticee has violated the provisions of Clause-1 of SEBI Circular No. SMD/MDP/CIR/043/96 dated August 5, 1996.

Reply:

- i. *In case of the following 5 instances (3 clients codes), the accounts were related to our PRO account; hence there is no requirement of issuing contract note.*
 - a. 5603 (10-Apr-2017, 03-Aug-2017)
 - b. 992023
 - c. 5604 (10-Apr-2017, 03-Aug-2017)
- ii. *In case of 39 clients, there was no trading done by the said clients on the days selected by SEBI. The clients had either opened the accounts on the days selected by SEBI or after the said dates.*



- iii. In case of 25 clients / instances, the contract notes were given to clients in physical form through hand delivery. The POD of the same are enclosed herewith as **Annexure 14A**.

We also submit here that we had given online back office view rights to all our clients, wherein they can download his/her ledger & contract notes etc using their login credentials. For your ready reference we enclose snapshot of the same attached as **Annexure 14B**. Further, please note most of our clients are introduced by Authorised Persons (AP)/Sub-Brokers (SB). The APs/SBs also deliver the contract notes in physical forms to clients. Some clients also come to our branch offices and collect contract notes in physical form. Hence we had never received complaint from any client with regard to non-receipt of contract notes.

Based on the above submission, we state here that we have not violated the provisions of Clause-1 of SEBI Circular No. SMD/MDP/CIR/043/96 dated August 5, 1996

Observation:

- i. It is observed that in 68 instances, the stock broker has not sent contract notes to the clients.
- ii. I observe that, Noticee has stated that, in 5 instances (3 clients codes), the accounts were related to their PRO account and hence did not sent contract notes.
- iii. With respect to Noticee's reply for 39 clients, Noticee has not provided any evidence reflecting his contention that, the said 39 clients opened their accounts on the days selected by Inspection team or after the said dates and that there was no trading being done by these clients on said dates.
- iv. With respect to Noticee's contention of providing contract notes to 25 clients in physical form through hand delivery, though Noticee has provided proof of delivery of the same in its reply but as noted in Post inspection analysis, Noticee did not produce the records of delivering the contract note to its clients at the time of inspection.
- v. Though upon perusing the proof of hand delivery for 25 clients, I am inclined to accept the submission of Noticee that it has provided contract notes to these said 25 clients. However, failure of Noticee in providing any evidence wrt 39 clients makes it evident of non- delivery of contract notes to said 39 clients. Thus, Noticee has violated the provisions of Clause-1 of SEBI Circular No. SMD/MDP/CIR/043/96 dated August 5, 1996.

H. Requirement related to Brokerage (10Trades date for each segment)

Allegation:

- i. It is alleged that, the Noticee has levied excess brokerage to clients in F&O segment. Total excess brokerage in 23 instances is Rs.3362/-.



- ii. In view of the above it is alleged that, the Noticee has violated the provisions of SEBI Circular No. CIR/MIRSD/16/2011 dated August 22, 2011 read with Regulation 26(vii) of SEBI (Stock Brokers) Regulations, 1992.

Reply:

We submit that our system had charged minimum one paisa on per share as brokerage if the market value of share was are less than Rs. 10/- as per the cash segment norms. In F&O segment (Stock Futures) also our system had calculated as per the cash segment norms.

We have credited the respective client ledgers to the extent of excess brokerage charged. For your ready reference we enclosed Annexure 15A.

As mentioned above, the error happened due to system of calculation of brokerage and we have already credited the amounts to clients.

Observation:

- i. It is observed that the Noticee has levied excess brokerage to clients in 23 instances in F&O segment to the tune of Rs.3362/-.
- ii. From the submission of Noticee, I observe that, Noticee has admitted that it had charged excess brokerage to its clients of F & O segment and on perusal of journal voucher submitted by Noticee, it is evident that, it has also taken the corrective steps and credited the respective client ledgers to the extent of excess brokerage charged
- iii. In view of the above, I find that, Noticee has violated the provisions of SEBI Circular No. CIR/MIRSD/16/2011 dated August 22, 2011 read with Regulation 26(vii) of SEBI (Stock Brokers) Regulations, 1992.

I. Client Registration Process (KYC and KRA Process)

Allegation:

- i. It is alleged that, in 37 instances, following discrepancies was observed w.r.t. Client registration documents.
- Financials not obtained
 - Shareholding pattern was not dated
 - Signature on blank nomination form
 - Signature on blank letter of authorization
 - Running account authorization was not dated.
- ii. Further, Noticee has not uploaded correct and complete details of the 28841 clients to the UCC database of the Exchange.
- iii. In view of the above it is alleged that, the Noticee has violated the provisions of SEBI Circular No. CIR/MIRSD/16/2011 dated August 22, 2011 and SEBI Circular No.



SMDRP/Policy/CIR-39/2001 dated July 18, 2001 read with NSE Circular No. NSE/INVG/2005/015 dated July 29, 2005.

Reply:

We would like to submit that the Running account authorisation is a part of Client Registration form (CRF), hence date column is not available on the running account authorization page. The date on the account opening form is considered as Running account authorization date. Hence in all these 37 cases, the date mentioned in the account opening form is considered as date on running account authorization letter.

*Kindly refer the attached **Annexure 16 A**.*

a) Annexure 13 to the SCN contains data of 28841 clients but the said annexure does not identify the 56 clients mentioned in the SCN. We will furnish the reply upon the information of 56 clients is provided.

Observation:

- i. It is observed that, in 37 instances, there were certain discrepancies w.r.t. Client registration documents and Noticee has not uploaded correct and complete details of the 28841 clients to the UCC database of the Exchange.
- ii. With regard to 37 instances, on the perusal of document submitted by Noticee, it is evident that, Member has rectified the observation with respect to discrepancies in the KYCs as mentioned in the inspection report and has also explained that, account opening date is taken as date of running account authorization.
- iii. Further, with regard to uploading of correct and complete details of the 28841 clients to the UCC database of the Exchange, Noticee in its reply dated February 19, 2019 has admitted that it had not uploaded the clients UCC data to the exchange within specified time.
- iv. Therefore, in view of the submissions made by the Noticee, I find that, the Noticee has violated the provisions of SEBI Circular No. CIR/MIRSD/16/2011 dated August 22, 2011 and SEBI Circular No. SMDRP/Policy/CIR-39/2001 dated July 18, 2001 read with NSE Circular No. NSE/INVG/2005/015 dated July 29, 2005.

J. Verification of Email ID & Mobile numbers (All active clients).

Allegation:

- i. Email id and mobile number not uploaded to Exchange: - 48 clients for mobile and 131 clients for email id
- ii. Single email id mapped to multiple clients: - 874 email id mapped to 2340 clients.
- iii. Single mobile number mapped to multiple clients: - 1020 mobile number mapped to 2698 clients.



- iv. PAN mismatch instances between UCC & TM back office record: - 20 Clients
- v. Mobile number & Email id mismatch instances between UCC & TM Records:-18 Instances for Email & 14 Instances for Mobile number.
- vi. In view of the above, it is alleged that, Noticee has violated the provisions of Clause 2(B) of SEBI Circular No. CIR/MIRSD/15/2011 dated August 02, 2011.

Reply:

- i. *Our consolidated remarks on Email id not uploaded is as under:*

<i>No of Clients</i>	<i>Remarks</i>
67	We have now uploaded Email IDs of 67 clients
63	63 clients have not traded from July 2018 to June 2020. These accounts have been marked as dormant accounts in our system. At the time of reactivation we will obtain email id
1	The one code belongs to OWN account
131	Total

*The Instance-wise reply is enclosed as **Annexure 18A.***

- a) *Annexure to SCN contains 50 records and therefore our response is for 50 and not 48 instances. Our consolidated remarks on Mobile No not uploaded is as follows:*

<i>No of Clients</i>	<i>Remarks</i>
22	We have now uploaded Mobile numbers of 22 clients
25	25 clients have not traded from July 2018 to June 2020. These accounts have been marked as dormant accounts in our system. At the time of reactivation we will obtain Mobile number
3	3 codes belongs to OWN account
50	Total

*The Instance-wise reply is enclosed as **Annexure 18B.***

Out of 2340 instances, we have rectified 284 email ids. Further, 276 clients have not have traded from July 2018 till date and we have marked them as dormant in the system.

In most of the remaining cases, the single email id was used for multiple clients as there was family relationship which is permitted.

Out of 2698 instances, we have rectified 250 mobile numbers ids. Further, 328 clients have not traded July 2018 till date and we have marked them as dormant in the system.

In most of the remaining cases, the single mobile number was used for multiple clients as there was family relationship which is permitted.

- vii.

<i>Current Status of clients</i>	<i>No of Clients</i>	<i>Remarks</i>
Pan No Matched	11	We have now uploaded PAN of 11 clients to exchanges 1 client is inactive.
Pan No Not Matched	9	In the remaining 8 cases, we are in touch with the Exchange to unfreeze PAN field as it cannot be otherwise modified.



Pan No Not Matched as per the SEBI	20	
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The Instance-wise reply is given as **Annexure 21A**.

a) Mismatch in Mobile Numbers:

Current Status of clients	No of Clients	Remarks
Mobile No Matched	11	We have now uploaded correct Mobile Numbers to the Exchanges in case of 11 clients.
Mobile No Not Matched	3	Clients have not traded from July 2018 to June 2020. These accounts have been marked as dormant accounts in our system. At the time of reactivation we will obtain correct mobile number.
TOTAL	14	

The Instance-wise reply is given as **Annexure 22A**.

a) Mismatch in Email ID:

Current Status of client s	No of Clients	Remarks
Email ID Matched	8	We have now uploaded correct email id to the Exchange in case of 8 clients
Email ID Not Matched	10	9 out of 10 clients have not traded from July 2018 to June 2020. These accounts have been marked as dormant accounts in our system. At the time of reactivation we will obtain correct email id. We are following up with the remaining 1 client for getting the correct email IDs.
TOTAL	18	

The Instance-wise reply is given as **Annexure 22B**.

As aforesaid, we have rectified most of the instances and are in the process of rectifying the same.

Observation:

- i. I observe that, Noticee has not uploaded email id and mobile number of some clients to exchange.
- ii. Also, single email id and mobile numbers were mapped to multiple clients and further, there were instances of PAN mismatch and Mobile number & Email id mismatch between UCC & TM back office record.
- iii. In this regard, I find from reply of Noticee that, it has admitted the allegation and has also taken corrective steps to rectify the same as is evident from the perusal of documents provided by Noticee in this regard.
- iv. With respect to Single mobile no and email id being used for multiple clients being family member, Noticee has not provided declaration from corresponding clients as a proof of the same



- v. Thus, In light of the above, I find that, the Noticee was in violation of the provisions of Clause 2(B) of SEBI Circular No. CIR/MIRSD/15/2011 dated August 02, 2011.

K. Incorrect reporting Networth to the extent of Rs.2.53Cr. to the exchange.

Allegation:

- i. It is alleged that, Noticee has reported Networth of Rs. 46,19,92,563/- as on 31-03-2018. While verifying Networth, it is observed that the Noticee has not deducted "investment in property" of Rs. 2,53,35,483/- under Fixed asset section mentioned under L.C. Gupta Method. Revised Networth after deducting said item is 43,66,57,080/- .
- ii. In view of the above it is alleged that, the Noticee has violated the provisions of Clause 6.1.1 (j) of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/ 2016/95 dated September 26, 2016.

Reply:

We have noted the same and will ensure the same in future.

*Investment in Property is shown in Balance Sheet under Noncurrent Investments line Item. Non allowable Asset does not include any head Investment, hence not deducted. Henceforth while calculating Net worth will take it into consideration. However revised net worth is in compliance with the net worth requirement of the stock broker. Kindly refer the networth certificate dated 31/03/2019 attached as **Annexure 23A**, wherein investment in property included in net worth certificate under the non-allowable assets.*

We will ensure correct calculation going forward.

Observation:

- i. I have taken Notice of the fact that, Noticee has done Incorrect reporting of Networth to the extent of Rs.2.53Cr. to the exchange under L.C. Gupta Method and Revised Networth is 43,66,57,080/-. The Inspection has noted that the revised Networth is in compliance with Networth requirement of the stock broker (Rs.5.00 crore).
- ii. Based on the submissions of Noticee, I note that, Noticee has admitted that, it had reported wrong net worth to the exchange and will ensure correct calculation as per L.C. Gupta Method going forward. Noticee has also submitted networth certificate dated 31/03/2019 wherein investment in property is included in net worth certificate under the non-allowable assets.
- iii. In view of the above, I find that, the Noticee has violated the provisions of Clause 6.1.1 (j) of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/ 2016/95 dated September 26, 2016.



L. Analysis of Enhanced Supervision data.

Allegation:

- i. It is observed that the Noticee has not reported details of all the bank accounts and demat accounts to Exchange under Enhanced supervision submission. Further, the Noticee has also not reported balances of all the clients for the Month of April 2018. Details provided by the Noticee with respect to client's securities under Enhanced supervision does match with details provided during inspection.
- ii. Stock broker has not send statement to clients reflecting the pledge and funding to the clients as and when their securities are pledged/unpledged.
- iii. Stock broker has not uploaded all client details to the Exchange as per Enhanced Supervision requirement (6097 clients).
- iv. It is observed that stock broker has not submitted correct data w.r.t Count of ISIN, Quantity of securities and Quantity of securities Pledge (52 instances 151 ISIN).
- v. It is observed that stock broker has not designated Client and Settlement bank account required as per Enhanced Supervision (6 bank a/c).
- vi. It is therefore alleged that the Noticee has violated various provisions of Annexures of SEBI Circular No. SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/ 95 dated September 26, 2016

Reply:

- i. With respect to non-reporting of Bank accounts on exchange portal:
Post SEBI inspection, we have uploaded details of all the Bank Accounts.
*Please find snapshot of NSE Exchange portal, wherein we had already uploaded all the 82 number of bank account of Inventure Growth & Securities Limited OWN, Client & Settlement account attached as **Annexure 24A** under the enhance supervision during the onsite inspection.*
- ii. With respect to non reporting of Demat accounts on exchange portal:
Post SEBI inspection, we have uploaded details of all the Demat Accounts.
*Please find snapshot of NSE Exchange portal, wherein we had already uploaded all the 18 demat account of Inventure Growth & Securities Limited OWN, Client & Settlement account attached, Kindly refer as **Annexure 24A** under the enhance supervision during the onsite inspection.*
- iii. With respect to non reporting of clients data:
We would like to inform you that as per the SEBI circular number CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated 25th September 2017, has given right to stock broker are not required to upload the data of following clients.
 - a) Custodian settled clients



b) Client with zero funds and securities zero balances and also not traded in the last 12 months.

We had not uploaded following 3173 number of clients as details given below.

- 3164 number of clients not uploaded due to zero funds balance lying in NSE
- 6 clients settled through custodian as it is Intuitional clients i.e.- 3450,3550,3662, 3400, 3660 & 3661
- 1 Client is ERROR account
- 2 clients at NSE exchange portal already uploaded by us in April 2018. i.e. 4888 & 8227

iv. With respect to Incorrect reporting of Quantity of client's securities:

Due to technical error details of securities in NSDL demat account was not included. Application was later rectified and correct report was ensured.

v. With respect to Incorrect reporting of Quantity of client's pledged securities

Due to technical error details of securities in NSDL demat account was not included. Application was later rectified and correct report was ensured.

vi. With respect to non submission of statement to clients reflecting the pledge and funding to the clients as and when their securities are pledged/unpledged.

We had started complying with the same from May 21, 2019 onwards. However, pledging is not permitted.

vii. With respect to non-uploading of all client details to the Exchange as per Enhanced Supervision requirement (6097 clients)

We would like to inform you that as per the SEBI circular number CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated 25th September 2017, has given rights to stock broker shall not be required to upload the data for the following clients.

a) Custodian settled clients

b) Client with zero funds and securities zero balances and also not traded in the last 12 months.

We had not uploaded following 6097 number of clients as per details given below.

- 6088 number of clients not uploaded due to zero funds balance lying in BSE
- 6 clients settled through custodian as it is Intuitional clients i.e.- 3200,3650,3660, 3661,3662 & 3750
- 1 Clients related to ERROR account
- 2 Code related to OWN account

Instance-wise reply is enclosed as **Annexure 24D**.



viii. With respect to non-submission of correct data w.r.t Count of ISIN, Quantity of securities and Quantity of securities Pledge (52 instances 151 ISIN).

Due to technical error in software, the ISINs were not properly exported.

ix. *We submit that the violations are due to technical errors and not intentional.*

Observation:

- i. It is observed that the Noticee has not reported details of all the bank accounts and demat accounts to Exchange under Enhanced supervision submission. Noticee has not designated Client and Settlement bank account in its 6 bank account. Further, there was non reporting, incorrect reporting, non-uploading and non-submission of details of clients securities under Enhanced supervision as mentioned under allegation.
- ii. In this regard, I have taken note of the fact that, Noticee has accepted the allegations arising out of inspection and which were also being pointed out in inspection report and has taken corrective step to rectify the same and has submitted necessary documents in this regard.
- iii. In view of the above, I find that the Noticee is in violation of Clause 2.1 & 2.2, Clause 7.1.1, Clause 7.1.2, Clause 2.2.5 and Clause 1.2.1 of Annexure of SEBI Circular No. SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/ 95 dated September 26, 2016.

Issue – II:- Whether the Noticee is liable for imposition of monetary penalty under Section 23D of SCRA, Section 15HB of the SEBI Act and Section 19G of Depositories Act?

11. SEBI takes various steps and measures from time to time in order to protect the interest of investors in securities market and also to promote orderly, fair and transparent dealings by the stock brokers. Further, SEBI also prescribes various checks and balances by issuing various circulars to prevent any misuse by stock brokers while dealing in the market and with their clients.
12. Under the SEBI Act 1992, SEBI has been assigned a statutory duty to protect the interests of investors in securities and regulating the securities market by such measures as it may think fit. The role of the stock broker as a market intermediary is indeed very crucial. It is the role of the stock broker to put proper systems, process and procedure in place to detect and prevent any practice and non-compliance, which is effecting the interests of investors. In the instant case, I note that stock broker has not been compliant to aforementioned circulars as stock broker on various instances as mentioned above.
13. The object of inspection of the books of accounts and records of any intermediary is to monitor and identify any non-compliances with respect process, procedure and systems prescribed through various provisions of the SEBI Act, Rules, and Regulations made thereunder and Circulars issued from time to time and thereafter take necessary corrective steps for orderly, fair and transparent conduct of market participants.



14. In this connection I would like to refer to the order of the Hon'ble Securities Appellate Tribunal in the matter of **Religare Securities Limited v. Securities and Exchange Board of India (Appeal No. 23 of 2011 dated June 16, 2011)** wherein, the Hon'ble SAT has observed, *"It must be remembered that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements in regard to the maintenance of records. We also cannot lose sight of the fact that every minor discrepancy/irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant. This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent."*

15. Therefore, The aforesaid violations committed by the Noticee attracts penalty under Section 23D of SCRA and Section 15HB of the SEBI Act which reads as below –

Section 23D of SCRA

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

"23D. If any person, who is registered under section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) as a stock broker or sub-broker, fails to segregate securities or moneys of the client or clients or uses the securities or moneys of a client or clients for self or for any other client, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees."

Section 15HB of SEBI Act.

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."

16. Here, it is also important to refer to the observation of the Hon'ble Supreme Court of India in the matter of **SEBI Vs. Shri Ram Mutual Fund [2006] 68 SCL 216(SC)** wherein it was held that, *"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant..."*

Issue – III:- If so, what quantum of monetary penalty should be imposed on the Noticee considering the factors stated in section 15J of SEBI Act, 1992 and Section 23J of the SCRA which reads as under :-

While determining the quantum of penalty under Section 23D of SCRA, Section and 15HB of the SEBI Act, it is important to consider the relevant factors as stipulated in Section 15J of the SEBI Act and Section 23J of the SCRA which reads as under :-



Factors to be taken into account by the adjudicating officer:

Section 15J - While adjudging quantum of penalty under section 15, 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.

Section 23J - While adjudging the quantum of penalty under Section 23-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. With regard to the above factors to be considered while determining the quantum of penalty, it is noted that the disproportionate gain made by the Noticee through such non-compliances is not exactly quantifiable. Further, from the material available on record, it may not be possible to ascertain the exact monetary loss caused, to investors/clients on account of default by the Noticee. As regards the repetitive nature of the default, I do not find Inspection having brought on record any regulatory action taken by SEBI in past against the Noticee for violations/ under charging provisions, same as observed in the instant inspection. I observe that there are no investor complaints on record arising out of failure on the part of the Noticee. Further, I have considered corrective steps being taken by Noticee wherever appropriate and backed by acceptable reasoning as well as valid documents, as mitigating factors. However, I cannot ignore the fact that the Noticee was under a statutory obligation to abide by the provisions of the SEBI Act, Rules and Regulations and Circulars / directions issued thereunder, which it failed to do during the inspection period.

18. In view of the above, I am of the opinion that the case in hand deserves an appropriate penalty as stipulated under section 23-D of SCRA, 1956 and section 15HB of the SEBI Act 1992.

ORDER

19. Having considered all the facts and circumstances of the case, violations established, level of lapses committed and mitigating factors considered, the factors



mentioned in Section 15J of the SEBI Act and Section 23J of the SCRA and in exercise of the powers conferred upon me under Section 23-I of the SCRA and Section 15-I of the SEBI Act read with Rule 5 of the SEBI AO Rules and SCRA AO Rules, I hereby impose a penalty of Rs. 10,00,000/- (Rupees Ten Lakhs only) on the Noticee under Section 23D of SCRA and Section 15HB of SEBI Act.

PENALTY PAYMENT OPTIONS

20. The amount of penalty shall be paid either by way of demand draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, or by online payment through following path at SEBI website www.sebi.gov.in ENFORCEMENT → Orders → Orders of AO → Click on PAY NOW or at link <https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html>. In case of any difficulties in payment of penalties, the Noticee may contact the support at portalhelp@sebi.gov.in.

21. Noticee can also remit / pay the said amount of penalties through e-payment facility into Bank Account. the details of which are given below:

Account No. for remittance of penalties levied by Adjudication Officer	
Bank Name	State Bank of India
Branch	Bandra Kurla Complex
RTGS Code	SBIN0004380
Beneficiary Name	SEBI- Penalties Remittable To Government of India
Beneficiary A/c No.	31465271959

22. The said demand draft and its details or details of online payments made (in the format as given in table below) should be forwarded to "The Division Chief (Enforcement Department 1-DRA-2), the Securities and Exchange Board of India, SEBI Bhavan, Plot No. C4 – A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051."

1. Case Name :	
2. Name of Payee :	
3. Date of Payment:	
4. Amount Paid :	
5. Transaction No. :	
6. Bank Details in which payment is made :	
7. Payment is made for : (like penalties/ disgorgement/ recovery/ settlement amount and legal charges along with order details)	



23. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated 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.

24. In terms of Rule 6 of the Adjudication Rules, 1995, copy of this Order is sent to the Noticee and also to the Securities and Exchange Board of India.

Date: November 17, 2020
Place: Mumbai



V. V. Verma
Vijayant Kumar Verma
Adjudicating Officer