

**Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra East, Mumbai – 400 051
held on April 16, 2024**

In the matter of the Trading Member Growth Securities Private Limited

CORAM:

Mr. S. Ravindran	-	Chairman
Mr. S. Sudarshan	-	Committee Member
Mr. Essaji Vahanvati	-	Committee Member
Mr. Ashishkumar Chauhan	-	Committee Member

ALSO PRESENT:

Mr. Piyush Chourasia	-	Chief Regulatory Officer
Mr. Ankit Sharma	-	Chief Regulatory Officer
Ms. Renu Bhandari	-	Vice President – Inspection
Ms. Sonali Karnik	-	Vice President – Enforcement
Mr. Janardhan Gujran	-	Vice President – Enforcement

BACKGROUND

1. **Growth Securities Private Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("**NSEIL**"/"**Exchange**") and enabled for trading in the Capital Market, Futures and Options ("**F&O**") and Currency Derivatives segments since September 2021, and Commodity Derivatives segment since June 2023.
2. The Exchange conducted a limited purpose inspection of the books and records of the Noticee in February 2023 to verify the availability of client funds under the Enhanced Supervision of Stockbrokers from October 1, 2022, to December 6, 2022. Post-inspection, the Exchange observed that the Noticee *inter alia* violated

Principle 1 of Enhanced Supervision of Stockbrokers. Therefore, the Exchange issued a show-cause notice ("**SCN-1**") dated February 21, 2023, to the Noticee for the observed non-compliances with the regulatory provisions. Further, the Exchange conducted a limited purpose inspection of the books and records of the Noticee in February 2023 to verify the availability of clients' funds under the Enhanced Supervision of Stockbrokers from December 7, 2022, to January 19, 2023. Post-inspection, the Exchange observed that the Noticee *inter alia* violated Principle 1 of Enhanced Supervision of Stockbrokers. Therefore, the Exchange issued a show-cause notice ("**SCN-2**") dated March 2, 2023, to the Noticee for the observed non-compliances with the regulatory provisions.

3. The Noticee, vide email dated March 17, 2023, replied to SCN-1 and SCN-2.

INSPECTION OBSERVATIONS

4. The inspection observations mentioned in SCN-1 and SCN-2 are summarized hereunder: -

SCN-1

- 4.1. Violation of Principle 1 of Enhanced Supervision of Stockbrokers on 9 days between October 17, 2022, to December 6, 2022, wherein the amount of shortfall ranged from Rs. 4.81 crores to Rs. 17.42 crores
- 4.2. Incorrect data reported in the weekly client-level cash and cash equivalent balances in 17 instances pertaining to 1 client involving Rs. 163 crores between October 1, 2022, and October 31, 2022

SCN-2

- 4.3. Violation of Principle 1 of Enhanced Supervision of Stockbrokers on 16 days between December 7, 2022, to January 19, 2023, wherein the amount of shortfall ranged from Rs. 3.85 crores to Rs. 13.66 crores

- 4.4. Incorrect data reported in the weekly client-level cash and cash equivalent balances in 13 instances pertaining to 1 client involving Rs. 107 crores between December 7, 2022, and December 22, 2022

REGULATORY PROVISIONS

5. At the outset, it is appropriate to refer to the relevant regulatory provisions for safeguarding the client assets which were violated by the Noticee; extracts whereof are reproduced below: -

5.1. **Violation of Principle 1 of Enhanced Supervision of Stockbrokers**

- a. Regulation 4.5.3 (e) of NSEIL Regulations (Capital Market and F&O Segments)

No Trading Member or person associated with a Trading Member shall make improper use of the constituent's securities or funds.

- b. Exchange Circular No. NSE/INSP/33276 dated September 27, 2016

3.2. Stock brokers shall submit the following data as on last trading day of every week to the Stock Exchanges on or before the next trading day:

A- Aggregate of fund balances available in all Client Bank Accounts, including the Settlement Account, maintained by the stock broker across stock exchanges

B- Aggregate value of collateral deposited with clearing corporations and/or clearing member (in cases where the trades are settled through clearing member) in form of Cash and Cash Equivalents (Fixed deposit (FD), Bank guarantee (BG), etc.) (across Stock Exchanges). Only funded portion of the BG, i. e. the amount deposited by stock broker with the bank to obtain the BG, shall be considered as part of B.

C- Aggregate value of Credit Balances of all clients as obtained from trial balance across Stock Exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations)

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

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

Principle

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

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

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

If difference G is negative, then the total available fund is less than the ledger credit balance of clients. The value of G may indicate utilization of clients' funds for other purposes i.e. funds of credit balance clients are being utilized either for settlement obligations of debit balance clients or for the stock brokers' own purposes. The negative value of G acts as an alert to the Stock Exchanges.

5.2. Incorrect data reported in the weekly client-level cash and cash equivalent balances

Exchange Circular No. NSE/INSP/43926 dated March 23, 2020

Member's attention is drawn to Exchange Circular No. NSE/INSP/43486 dated February 10, 2020, regarding proposed submission of the following data /details:

1. *Day-wise upload of client level cash & cash equivalent balances on a weekly basis for all calendar days of that week except Sunday (i.e. Monday to Saturday);*

2. ...

The aforesaid data / details shall be required to be submitted on or before the next four trading days of the subsequent week.

PRESENT MCSGFC PROCEEDINGS

The Exchange, vide its email dated April 10, 2024, granted the Noticee an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. Dhruv Gupta, Director, and Mr. Himanjali Brahmabhatt, Compliance Officer, attended the personal hearing and reiterated its written submissions.

CONSIDERATION AND FINDINGS

6. The inspection observations, reply of the Noticee, and the findings of the Committee are as under: -

6.1. **Violation of Principle 1 of Enhanced Supervision of Stockbrokers**

6.1.1 The following irregularities were observed during the inspection:

SCN-1

- a. The Exchange verified the collaterals/deposits available with the Clearing Corporation (CC)/Clearing Member (CM), bank balances lying in the client bank and settlement accounts of the Noticee, and client payables reported in the client-level cash and cash equivalent submission by the Noticee from October 1, 2022, to December 6, 2022.
- b. Upon verification, the Exchange observed that the Noticee used the funds of credit balance clients to meet the settlement obligation of debit balance clients and/or own purpose on the following 9 days between October 17, 2022, to December 6, 2022, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers.

Sr.	Date	Shortfall of Client Funds (Rs)
1	17-Oct-2022	8,30,05,721
2	18-Oct-2022	6,59,56,791
3	20-Oct-2022	7,19,46,581
4	21-Oct-2022	7,49,52,620
5	31-Oct-2022	6,63,16,078
6	15-Nov-2022	4,81,19,585
7	02-Dec-2022	11,99,72,997
8	05-Dec-2022	15,38,08,755
9	06-Dec-2022	17,42,20,395

SCN-2

- c. The Exchange verified the collaterals/deposits available with the CC/CM, bank balances lying in the client bank and settlement accounts of the Noticee, and client payables reported in the client-level cash and cash equivalent submission by the Noticee from December 7, 2022, to January 19, 2023.

- d. Upon verification, the Exchange observed that the Noticee used the funds of credit balance clients to meet the settlement obligation of debit balance clients and/or own purpose on the following 16 days between December 7, 2022, to January 19, 2023, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers.

Sr.	Date	Shortfall of Client Funds (Rs)
1	7-Dec-2022	78,401,164
2	8-Dec-2022	136,647,324
3	9-Dec-2022	86,783,422
4	12-Dec-2022	53,396,847
5	13-Dec-2022	43,102,466
6	14-Dec-2022	72,518,076
7	15-Dec-2022	112,203,481
8	16-Dec-2022	84,905,915
9	19-Dec-2022	60,340,338
10	20-Dec-2022	85,589,084
11	21-Dec-2022	82,538,707
12	22-Dec-2022	61,164,592
13	27-Dec-2022	52,644,159
14	28-Dec-2022	109,205,165
15	30-Dec-2022	38,536,758
16	19-Jan-2023	46,496,610

6.1.2 In reply to the SCN-1 and SCN-2, the Noticee submitted as under:

- a. There is balance available to the tune of Rs. 2 crores on October 21, 2022, in the business account (A/c. No. 921020020781255). On the same day, the Noticee raised an online request for transfer of the said amount to settlement account in order to consider it for Enhanced Supervision reporting. However, due to a technical error on part of the bank, the said amount was credited on the

next day to the settlement bank account (A/c. No. 921020022031842). The effect of said amount has already been factored for respective date. The Noticee provided collateral details, client margin report, cash and cash equivalent balances and bank account balances details in support of its claim.

- b. The Noticee availed overnight TOD facility from Axis Bank to the tune of Rs. 15 crores during the beginning of the respective day in order to maintain the appropriate margin requirements as can be seen from the statements of the overnight TOD and settlement bank account. However, due to technical glitches in the back-office software, the appropriate margin obligation amount of client/proprietary trading was wrongly fetched from the back-office software for the captioned dates. Accordingly, due to an inadvertent error by the banking staff, a certain amount of the said overnight TOD was returned to the bank at the end of the respective day. The Noticee provided copy of bank statement of settlement account and overnight TOD account to demonstrate that the Noticee availed the said TOD facility and said amount was transferred to the settlement account in order to take the effect of the same for the purpose of reporting under Enhanced Supervision.
- c. After taking into consideration the unutilized amount available in the overnight TOD account (inadvertently remitted back at the end of the day), there is no shortfall of client funds on any of the dates mentioned in the SCN-1 and SCN-2. Instead, there is surplus amount of 'G' in the range of Rs. 1.55 crores up-to Rs. 11.46 crores. The Noticee provided revised calculation of 'G'.
- d. The instance has been rectified and the said amount has already been recouped on the respective next day as the Noticee had sufficient funds. The instance arose merely due to internal wrong report from back-office software, human lapses and inadvertent omission resulting into return of certain portion of the overnight TOD amount to the bank on respective end of day. On rest of the dates in the captioned period, the respective overnight TOD

amount was retained in the settlement account; therefore, there is no instance of shortfall of client funds.

- e. Furthermore, there are certain debtors and creditors that have directors/partners/promoters who are common to the Noticee. The Noticee provided details of 10 clients and their relationship with the Noticee in support of its claim. Upon considering the minimum amount of common creditors and debtors whose directors/partner/promoter/UBO/SBO are common to the Noticee, the alleged maximum shortfall of 'G' as per column 7, without considering the amount available in the overnight TOD account during the period October 17, 2022, to January 19, 2023, amounts to Rs. 7.90 crores as against Rs. 13.66 crores mentioned in the SCN-2.
- f. Furthermore, aggregate amount of Rs. 117.06 crores out of the total alleged misuse pertains to clients wherein debtor and creditor clients are common to each other and to the Noticee. Therefore, no third person/party is involved wherein funds of credit balance client is appropriated to meet the settlement obligation of debit balance client. The Noticee provided details of the common directors/partner/promoter/UBO/SBO in support of its claim.
- g. The Noticee has put in place an internal system to monitor and ensure non-occurrence of such an instance.
- h. The Noticee obtained the trading membership of the Exchange w.e.f. July 23, 2021, and started operations w.e.f. third quarter of F.Y. 2022. This is first instance wherein such observations are made by the Exchange. The Noticee is in a transition phase to setup strong operation and compliance function with the help of technology and qualified personnels to avoid future lapse.

6.1.3 The Committee finds as under:

- a. Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016, stipulates that bank account(s) which hold clients funds shall be named as “Name of Stock Broker – Client Account”, bank account(s) held for the purpose of settlement of funds would be named as “Name of the Stock Broker – Settlement Account” and bank account(s) which hold own funds of the stock broker shall be named as "Name of Stock Broker - Proprietary Account". The uniform nomenclature to be followed by the stock brokers for naming/tagging of bank accounts enables the stock exchanges to monitor the clients’ funds lying with the stock broker through a sophisticated alerting and reconciliation mechanism with an aim to detect any misutilization of clients funds.
- b. Thus, it is clear that any funds received from the clients should be parked in “Name of Stock Broker – Client Account” and any funds towards settlement purpose should be parked in "Name of Stock – Settlement Account”. Further, the stock brokers may also deposit client funds as collateral with CC/CM in the form of cash and cash equivalent (fixed deposit and bank guarantee to the extent of only funded portion). The said circular was introduced by SEBI to effectively monitor the misutilization of client funds by stock broker. Further, Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, stipulates that FDRs created out of the client funds received by the Trading Members should be only for the purpose of placing with clearing corporation/clearing members. Further, aggregate value of collateral deposited with CC/CM in the form of cash and cash equivalent should be in cash, FDR and BG (only funded portion of the BG should be considered).
- c. Further, Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016, stipulates that the total available funds, i.e. cash and cash equivalents with the stock broker [funds lying in Client Account and Settlement Account (Value of ‘A’)] and CM and/or CC (Value of ‘B’) should always be equal to or greater than clients funds as per ledger balance (Value of ‘C’) and the stock exchanges shall calculate the difference, i.e. value of ‘G’ as $G =$

(A+B)-C. A negative value of 'G' indicates utilization of clients' funds for other purposes, i.e. funds of credit balance clients are being utilized either for settlement obligations of debit balance clients or for the stock brokers' own purposes.

- d. Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, stipulates the guidelines for each of the data points while submitting data towards weekly monitoring of client funds, including value of A, B and C, as under: -
- i. *Value of 'A' - Total of day end balance in all Client Bank Accounts (In Rs.) -*
 - *Total EOD fund balance available in all Client Bank Accounts (as per Bank Statement) including the Settlement Accounts across all Exchanges.*
 - *Balances in OD/LAS (Loan against shares) accounts shall not be considered.*
 - ii. *Value of 'B' - Collateral deposited with Clearing Corporations/Clearing Member in form of Cash and Cash Equivalentents [Aggregate value of collateral deposited with all clearing corporations/clearing member in form of cash and cash equivalentents as mentioned below (Cash, FD, BG)]*
 - *Cash, FDRs and BGs deposited with Clearing Corporation/ Clearing Member*
 - *In case of BG, only funded portion of the BG shall be considered. Value of any immovable assets pledged for getting the BG should not be considered as funded portion.*
 - iii. *Value of 'C' - Total Credit Balance of all clients - Aggregate value of Credit Balances of all clients as obtained from trial balance across stock exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and*

uncleared cheques issued to clients and the margin obligations if posted in the client ledger if any).

- e. The Noticee claimed that funds amounting to Rs. 2 crores on October 21, 2022, were available in the business account and a request was raised for transfer of the said funds to the settlement bank account. However, due to a technical issue on part of the bank, the said funds were transferred to the settlement bank account on the next day instead of the same day.
- i. The Noticee admitted having failed to transfer the funds to the settlement account from the Noticee's own account due to alleged technical issue on part of the bank. As per Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016, total fund balance available in all client bank accounts (as per bank statement) including the settlement accounts across stock exchanges is considered towards total of day end balance in all client bank accounts and not in any other bank account including own/proprietary account of the Noticee. Further, the Noticee's admittance of clients' funds lying in own/proprietary account is not acceptable as the SEBI regulation does not allow transferring of clients' funds in any account other than either Client bank accounts including Settlement account or with Clearing Member/Clearing Corporations. Therefore, the Noticee's contention that funds amounting to Rs. 2 crores as on October 21, 2022, lying in the own/proprietary account should be considered towards total of day end balance in client bank accounts is not acceptable.
- f. The Noticee claimed that it availed overnight Term Over Draft (TOD) facility to the tune of Rs. 15 crores in order to maintain the appropriate margin requirements and the same can be seen from the overdraft account and settlement bank account. However, due to alleged technical glitches in the back-office software, the appropriate margin obligation amount of client/proprietary trading was wrongly fetched from the back-office software for the captioned dates. Accordingly, due to an inadvertent error by the

banking staff, a certain amount of the said overnight TOD was returned to the bank at the end of the respective day. After taking into consideration the unutilized amount available in the overnight TOD account (inadvertently remitted back at the end of the day), there is no shortfall of client funds on any of the dates as mentioned in the SCN-1 and SCN-2.

- i. The Committee notes that the Noticee has attributed its failure to maintain availability of credit balances of clients at all times to technical glitches in the Noticee's back-office software due to which a certain amount of the said overnight TOD was returned to the bank at the end of the respective day by the Noticee's staff.
- ii. Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016, stipulates that total fund balance available in all client bank accounts (as per bank statement) including the settlement accounts across stock exchanges is considered towards total of day end balance in all client bank accounts. Further, Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, specifies that while calculating the value of 'A' i.e., total of day end balance in all Client Bank Accounts, the Trading Members have to consider total end of the day fund balance available in all Client Bank Accounts (as per bank statement) including Settlement Accounts across all stock exchanges. Thus, the balances in overdraft account cannot be considered while calculating the value of 'A'.
- iii. Thus, in view of the aforesaid regulatory provisions, the Noticee's contention that there is no shortfall of client funds on any of the dates as mentioned in the SCN-1 and SCN-2 after taking into consideration the unutilized amount available in the overnight TOD account (inadvertently remitted back at the end of the day due), is not tenable. The balances lying in the overdraft account shall not be considered and only end of day balances available in all client bank account including

settlement accounts across all stock exchanges shall be considered.

- iv. It is observed that the value of 'G' was negative on 25 dates between October 17, 2022, and January 19, 2023, and the Noticee attributed the violation to technical glitches in its back-office software and inadvertent error by its staff. Merely having a limit in TOD does not tantamount to availability of client funds with the Noticee as this is the limit provided by the bank for borrowing. Since sufficient funds were not available in the client bank account, settlement bank account and/or deposits with CC/CM at the end of the day to meet the funds payable to the creditors as per clear ledger balance, it is observed that the Noticee used the funds of credit balance clients to meet the settlement obligations of debit balance clients and/or Noticee's own purpose and thereby violated Principle 1 of Enhanced Supervision of Stockbrokers.
- g. The Noticee claimed that there are certain debtors and creditors that have directors/partners/promoters who are common to the Noticee and submitted revised calculation of 'G' after adjusting such balances.
 - i. The Committee notes that Exchange Circular No. NSE/INSP/2016/33276 dated September 27, 2016, does not exempt director/partner/promoter from being considered as creditors/debtors while calculating value of 'G'. Further there cannot be inter client adjustments of funds.
 - ii. Exchange Circular No. NSE/INSP/50012 dated October 19, 2021, stipulates that while calculating the value of 'C' i.e., total Credit Balance of all clients, the Trading Members has to consider an aggregate value of credit balances of all clients as obtained from trial balance across stock exchanges (after adjusting for open bills of clients, uncleared cheques deposited by clients and uncleared cheques issued to clients and the margin obligations if posted in the client ledger, if any).

- iii. The Committee notes that the circular does not differentiate director/partner/promoter since they are registered as clients in the records of the Exchange in their individual capacity and are allotted unique client code. A Trading Member has to treat each of its clients as a separate and independent entity and ensure that each client account is treated separately. Hence, the claim of the Noticee is not acceptable.
- h. The Noticee claimed that the Exchange incorrectly considered the value of collateral deposited with CC and CM.

Upon verification of collateral files of CC and CM, the Noticee's contention is partially found to be correct. Post considering the revised value of collateral deposited with CC/CM, the value of 'G' stands revised on 17 days (highlighted in bold in Column 8) out of 25 days as under: -

Table-1

Amount in Rs

Sr. No.	Date	Total of day end balance in all client bank accounts	Net CC Deposit	Net CM Deposit	Total credit balance of all clients	Credit balance of client not reported in weekly cash and cash equivalent	Principle 1 Violation
(Column 1)	(Column 2)	(Column 3)	(Column 4)	(Column 5)	(Column 6)	(Column 7)	(Column 8)
1.	17-10-2022	4,90,98,763	2,13,82,37,925	12,52,62,562	2,22,23,82,952	15,00,00,000	-5,97,83,702
2.	18-10-2022	3,54,45,794	2,15,82,37,925	12,51,70,057	2,21,14,59,892	15,00,00,000	-4,26,06,116
3.	20-10-2022	2,10,26,044	2,14,32,37,925	12,44,86,934	2,18,73,71,708	15,00,73,739	-4,86,94,544
4.	21-10-2022	2,17,51,321	2,11,32,37,925	14,58,12,515	2,20,47,19,091	15,10,35,274	-7,49,52,604
5.	31-10-2022	1,17,72,434	2,08,82,37,925	13,96,11,625	2,22,39,38,061	8,00,00,000	-6,43,16,077
6.	15-11-2022	5,66,849	2,02,16,61,000	18,28,53,050	2,25,32,00,475	-	-4,81,19,576
7.	02-12-2022	74,59,951	2,40,41,61,000	15,96,07,366	2,48,90,99,701	20,01,01,613	-11,79,72,997
8.	05-12-2022	4,85,63,819	2,40,41,61,000	19,22,64,045	2,68,87,65,460	11,00,32,149	-15,38,08,745
9.	06-12-2022	5,59,71,246	2,40,41,61,000	17,09,69,181	2,69,52,62,942	11,00,58,880	-17,42,20,395
10.	07-12-2022	12,33,20,768	2,40,41,61,000	18,17,65,492	2,67,74,30,415	11,00,00,000	-7,81,83,155
11.	08-12-2022	2,16,24,702	2,40,41,61,000	18,35,00,100	2,63,57,15,116	11,00,00,000	-13,64,29,314
12.	09-12-2022	2,79,33,482	2,40,37,20,000	18,26,42,481	2,59,08,61,376	11,00,00,000	-8,65,65,413
13.	12-12-2022	6,98,13,840	2,40,37,20,000	17,21,22,573	2,60,88,35,252	9,00,00,000	-5,31,78,839
14.	13-12-2022	7,20,29,306	2,40,46,20,000	17,21,22,573	2,60,60,06,283	9,00,00,000	-4,31,02,466
15.	14-12-2022	4,46,08,716	2,40,46,20,000	17,97,16,915	2,61,12,45,697	9,00,00,000	-7,23,00,066
16.	15-12-2022	35,77,953	2,40,46,20,000	17,55,68,477	2,60,57,51,901	9,00,00,000	-11,19,85,471
17.	16-12-2022	96,04,848	2,40,37,20,000	18,03,47,346	2,58,83,60,100	9,00,00,000	-8,46,87,906
18.	19-12-2022	5,71,89,443	2,40,37,20,000	17,72,75,809	2,64,83,07,580	5,00,00,000	-6,01,22,328

19.	20-12-2022	52,60,507	2,40,37,20,000	17,59,07,508	2,62,02,59,090	5,00,00,000	-8,53,71,075
20.	21-12-2022	54,67,524	2,40,37,13,000	17,48,92,191	2,61,63,93,413	5,00,00,000	-8,23,20,698
21.	22-12-2022	32,34,764	2,40,37,13,000	17,14,29,312	2,58,93,23,659	5,00,00,000	-6,09,46,583
22.	27-12-2022	6,20,98,707	2,37,37,13,000	10,86,59,829	2,59,71,15,695	-	-5,26,44,159
23.	28-12-2022	35,86,311	2,37,37,13,000	10,69,95,122	2,59,34,99,598	-	-10,92,05,165
24.	30-12-2022	5,44,09,670	2,49,87,13,000	8,86,65,966	2,67,80,07,155	-	-3,62,18,519
25.	19-01-2023	7,62,933	2,17,07,05,000	9,24,09,347	2,31,03,73,890	-	-4,64,96,610

i. The Noticee violated the provisions of Regulation 4.5.3 (e) of NSEIL Regulations (CM and F&O Segments) and Exchange Circular No. NSE/INSP/33276 dated September 27, 2016.

j. The Noticee provided its calculation for value of 'G' as of January 20, 2023.

Upon verification of collaterals/deposits available with the CC/CM and bank balances lying in the client bank accounts, it is observed that the value of 'G' is positive as of January 20, 2023.

k. Since the value of 'G' is positive subsequently, the prescribed penalty as per Schedule I of Exchange Circular No. NSE/INSP/53530 dated September 2, 2022, as under:

If misuse of funds and securities is equal to or more than Rs. 10 crores

i. If misuse is up to 50% of net worth - Monetary penalty of 3% of misuse.

ii. If misuse is more than 50% of net worth - Monetary penalty of 3% of the misuse + No new clients up to six months

l. Considering that the shortfall persisted on 25 days between the period October 17, 2022, to January 19, 2023, the Committee decided to levy a monetary penalty on total of the highest amount within a period of 30 days slab as per table below: -

Table-2

Amount in Rs

Sr.	Period	Date	Shortfall of client funds
1.	17-10-22 to 16-11-22	21-10-2022	7,49,52,604
2.	02-12-22 to 01-01-23	06-12-2022	17,42,20,395
3.	19-01-23 to 18-02-23	19-01-2023	4,64,96,610
Total			29,56,69,609

- m. The net worth of the Noticee is Rs. 3.69 crores as of September 30, 2022. Since the amount of shortfall is more than 50% of the net worth, prescribed monetary penalty is 3% of the amount of shortfall and prohibition from registration of new clients for 6 months.
- n. However, considering that the Noticee commenced its operations in March 2022 and the violation occurred in October 2022, i.e. within a year of commencement of operations, the Committee decided to prohibit the Noticee from registering new clients for 3 months in addition to the prescribed monetary penalty of 3% of value of 'G' amount.

6.1.4 Given the findings mentioned above, the Committee decided to: -

- Levy a monetary penalty of Rs. 88,70,100/- [3% of the amount of misuse, i.e. Rs. 29,56,69,609/- (as mentioned in Table-2)] in terms of Exchange Circular No. NSE/INSP/53530 dated September 2, 2022, and
- Prohibit the Noticee from registering new clients for 3 months from the date of the order.

6.2. **Incorrect data reported in the weekly client-level cash and cash equivalent balances**

6.2.1 The following irregularities are observed:

SCN-1

- a. The Exchange verified the data reported by the Noticee in the weekly client-level cash and cash equivalent balances vis-a-vis trial balances from October 1, 2022, to October 31, 2022.

Upon verification, the Exchange observed that the Noticee reported incorrect financial clear ledger balance to the Exchange in 17 instances pertaining to 1 client (Client Code: BNB1) involving Rs. 163 crores.

SCN-2

- b. The Exchange verified the data reported by the Noticee in the weekly client-level cash and cash equivalent balances vis-a-vis trial balances from December 7, 2022, to January 19, 2023.

Upon verification, the Exchange observed that the Noticee reported incorrect financial clear ledger balance to the Exchange in 13 instances pertaining to 1 client (Client Code: BNB1) involving Rs. 107 crores from December 7, 2022, to December 22, 2022.

6.2.2 In reply to the SCN, the Noticee submitted as under:

- a. Due to technical glitches in back-office software, auto bank reconciliation function was not working properly. The Noticee made bank reconciliation manually for respective dates. However, due to the technical glitches in the back-office software, the reconciliation entries were not considered by the system. Subsequently, the Noticee rectified the issue. There was no malafide intention on part of the Noticee.

- b. Furthermore, the Exchange incorrectly considered the values of financial ledger balance (Clear Actual) in SCN-2. The Noticee provided revised calculation.

6.2.3 The Committee finds as under:

- a. The Noticee accepted the inspection observation and attributed the same to alleged technical errors in its back-office software. The Exchange monitors the details submitted by the Trading Members as part of its regulatory supervision. Any incorrect reporting for reasons whatsoever defeats the purpose of regulation, and therefore, is neither permissible nor acceptable. Hence, the Noticee must verify the data before submission to the Exchange.
- b. It is observed that the Noticee incorrectly reported the financial clear ledger balance to the Exchange on 30 days during the period October 2022 to December 2022 and attributed the incorrect reporting to the Noticee's back-office software and its staff
- c. The Committee further noted that the Exchange monitors the value of 'G' basis the submissions made by the Trading Members. Since the Noticee incorrectly reported the clear financial ledger balance, i.e., value of 'C', the online alert mechanism of the Exchange failed to generate the alerts on value of 'G' shortfall under Enhanced Supervision of Stockbrokers, thereby exposing clients funds to risk.
- d. The Noticee violated Exchange Circular No. NSE/INSP/43926 dated March 23, 2020, by incorrectly reporting the weekly client-level cash and cash equivalent balances.

- 6.2.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs. 1,00,000/- for the observed violation in

terms of Exchange Circular No. NSE/INSP/53530 dated September 2, 2022.

DECISION

7. In view of the above, the Committee levies the following penalties as indicated against the violations: -

Sr.	Committee's Findings	Prescribed penalty as per Exchange Circular No. NSE/INSP/53530 dated September 2, 2022	Penalty
<u>SCN-1 and SCN-2</u>			
1.	<p>Violation of Principle 1 of Enhanced Supervision of Stockbrokers on 25 days between October 17, 2022, and January 19, 2023, ranging from Rs. 3.85 crores to Rs. 17.42 crores</p> <p>The highest shortfall for a period of 30 days from: -</p> <p>a. <u>17-10-22 to 16-11-22:</u> Rs. 7.50 crores as of 21-10-22</p> <p>b. <u>02-12-22 to 01-01-23:</u> Rs. 17.42 crores as of 06-12-22</p> <p>c. <u>19-01-23 to 18-02-23</u></p>	<p>If amount involved is more than 50% of net worth: Monetary penalty of 3% of the amount involved + No new clients up to six months</p>	<p>Rs. 88,70,100/- + No new clients for 3 months (Reasons enumerated above)</p>

	Rs. 4.65 crores as of 19-01-23 Total amount of shortfall: - Rs. 29.57 crores		
2.	Incorrect data reported in the weekly client-level cash and cash equivalent balances	Rs. 1,00,000/-	Rs. 1,00,000/-
Total			Rs. 89,70,100/- + No new clients for 3 months

8. The Noticee is directed to pay a monetary penalty of Rs. 89,70,100/- (Rupees Eighty-Nine Lakhs Seventy Thousand One Hundred Rupees only) as indicated above.
9. The Noticee is prohibited from registering new clients for 3 months from the date of the order.

Sd/-
S Ravindran
(Chairman)

Sd/-
Essaji Vahanvati
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: November 26, 2024