



**Before the
Member and Core Settlement Guarantee Fund Committee ("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra East, Mumbai – 400051
held on February 18, 2022**

In the matter of Trading Member M/s. Junjharji Investment Private Limited

CORAM:

Ms. Mona Bhide	- Chairperson
Mr. K Narasimha Murthy	- Committee Member
Ms. Anuradha Rao	- Committee Member
Mr. Ranganayakulu Jagarlamudi	- Committee Member
Mr. Vikram Limaye	- Committee Member

ALSO PRESENT:

Ms. Priya Subbaraman	- Chief Regulatory Officer
Dr. Dinesh Kumar Soni	- Senior Vice President - Regulatory
Mr. Suresh Nair	- Vice President – Enforcement

BACKGROUND

1. **M/s. Junjharji Investment Private Limited ("Junjharji")** is a member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") segment since December 1995 and Futures & Option ("**F&O**") segment since December 2002.
2. The Exchange conducted a limited purpose inspection of Junjharji's books of accounts in April 2021, based on an offsite alert generated on account of the incorrect data submitted towards the client level cash and cash equivalents balances, from January 29, 2021, to February 10, 2021. Post-inspection, the Exchange issued a show-cause notice dated September 09, 2021 ("**SCN-1**") to Junjharji for the observed non-compliances. Junjharji, vide its email dated September 15, 2021, submitted its response to the SCN-1.
3. The Exchange conducted a regular inspection of the books of accounts and records of Junjharji from April 1, 2019, to December 31, 2019, in March 2021.
4. Thereafter, offsite alerts were generated on account of the incorrect reporting towards the margin collection and weekly client level cash and cash equivalents balances on the following dates:
 - i. May 14, 2021,
 - ii. 6 dates from May 28, 2021, to July 2, 2021,
 - iii. July 9, 2021, and July 16, 2021, and

- iv. July 23, 2021, and July 30, 2021.
5. Based on the aforesaid offsite alerts, the Exchange conducted a limited purpose inspection of the books of accounts and records of Junjharji in July and August 2021, from May 14, 2021, to July 30, 2021.
 6. Pursuant to the regular and limited purpose inspections as mentioned in para 3 and 5, the Exchange issued a show-cause notice dated November 18, 2021 ("SCN-2") to Junjharji for the observed non-compliances. Junjharji, vide its email dated December 17, 2021, submitted its response to the said SCN-2.
 7. The Exchange, based on the offsite alerts, conducted limited purpose inspections of the books of accounts and records of Junjharji. Post-inspection, the Exchange issued Letters of Observations ("L.O."), for the observed non-compliances. Junjharji submitted its replies to these L.O.s. Details are as per the Table below:

Sr. No.	Date of Issuance of L.O.	Period of Inspection	Date of reply received from Junjharji
LO-1	September 07, 2021	May 07, 2021, to June 11, 2021	September 15, 2021
LO-2	November 23, 2021	August 13, 2021, to August 17, 2021	February 11, 2022
LO-3	December 23, 2021	November 12, 2021, to November 16, 2021	February 11, 2022
LO-4	January 13, 2022	October 08, 2021, to October 13, 2021	February 11, 2022
LO-5	January 13, 2022	October 18, 2021	February 11, 2022
LO-6	January 20, 2022	December 2021	February 11, 2022
LO-7	February 09, 2022	November 26, 2021, to December 03, 2021	February 11, 2022
LO-8	February 09, 2022	December 09, 2021, and December 17, 2021	February 11, 2022

INSPECTION OBSERVATIONS

8. The observation/ alleged violations mentioned in SCN-1, SCN-2, LO-1 to LO-8, are summarized hereunder:

8.1. SCN – 1: Limited Purpose Inspection

- i. False reporting of margin collected from clients – In all 41 instances verified involving Rs.7.55 crores.
- ii. Non-cooperation in providing data during inspection - Junjharji failed to respond to the Exchange email dated April 05, 2021, communicating violations pertaining to margin shortfall observed during inspection and arising out of data submitted by Junjharji towards the client-wise cash

and cash equivalent balances. Further, Junjharji also failed to respond to the reminder email issued by the Exchange vide emails dated April 08, 2021, April 15, 2021, April 19, 2021, May 07, 2021, May 12, 2021, May 27, 2021, June 08, 2021, June 15, 2021, June 25, 2021, and July 02, 2021.

8.2. SCN – 2: Regular Inspection and Limited Purpose Inspection

a. Regular Inspection

- i. Incorrect reporting of margin collected from clients in 10 instances of 10 clients out of 15 instances of 15 clients verified involving Rs. 2.02 crores.
- ii. Non-cooperation in providing data during inspection - The Exchange shared the details of initial data required for conducting the inspection on February 19, 2021, and April 26, 2021. However, despite more than 30 reminder emails issued by the Exchange, Junjharji failed to provide the requisite data.
- iii. Misuse of clients' funds - Junjharji has utilized funds of credit balance clients for margin obligations of debit balance clients or for proprietary trading purposes involving Rs.1.70 crores for the week ended December 20, 2019.
- iv. Non-reconciliation of securities in beneficiary account with the back-office records in 16 ISINs involving Rs.1,87,943/-, as of December 31, 2019.
- v. Non-settlement of clients' funds and securities in 32 instances of 16 clients out of 90 instances of 30 clients verified involving Rs.7.89 crores.
- vi. Incorrect submission towards weekly holding statement - Junjharji under-reported securities available in the de-mat account involving Rs.47,279/- and 16 ISINs as of December 31, 2019.
- vii. Operating of one trading terminal in the CM segment without a valid certification
- viii. Shortfall of clients' securities - 9 instances involving Rs. 3,46,975/- as of December 31, 2019.
- ix. Non-issuance of the statement of accounts and retention statements at the time of settlement of clients' accounts - 23 instances of 14 clients out of 90 instances of 30 clients verified.
- x. Funding of clients' transactions – 1 out 17 instances involving Rs.7,09,235/-.
- xi. Incorrect submission toward weekly monitoring of clients' funds under Enhanced Supervision in 6 areas as of December 20, 2019
- xii. Incorrect submission towards monthly monitoring of clients' funds and securities under Enhanced Supervision of Stockbrokers in 50 instances involving Rs.46.89 lakhs as of December 31, 2019

b. Limited Purpose Inspection**i. Incorrect reporting of margin collected from clients -**

- 1) As of May 14, 2021 – 9 instances involving Rs.2.14 crores.
- 2) 6 dates from May 28, 2021, to July 2, 2021 – 92 instances involving Rs.12.56 crores.
- 3) As of July 9, 2021, and July 16, 2021, – 8 instances involving Rs.11.99 lakhs.
- 4) As of July 23, 2021, and July 30, 2021, – All 4 clients involving Rs.4 lakhs.

ii. Non-cooperation in providing data during inspection- Instance-wise response and supporting documentary evidence not provided for the below-mentioned instances of incorrect margin reporting, despite multiple reminders-

- 1) As of May 14, 2021 – 9 instances
- 2) 6 dates from May 28, 2021, to July 2, 2021 – 92 instances.
- 3) As of July 9, 2021, and July 16, 2021 - 8 instances.
- 4) As of July 23, 2021, and July 30, 2021 - 4 instances.

8.3. LO-1

- i. Misuse of clients' funds - Junjharji has utilized funds of credit balance clients for margin obligations of debit balance clients or for proprietary trading purposes (Principle 3) involving Rs.19.92 lakhs, Rs. 1.41 crores, Rs. 1.11 crores and Rs. 1.20 crores, respectively as of May 07, 2021, May 28, 2021, June 04, 2021, and June 11, 2021. Further, there is a shortfall of clients' funds (Principle 1) as of May 28, 2021, amounting to Rs. 8.91 lakhs.**
- ii. Incorrect submission towards weekly monitoring of clients' funds under Enhanced Supervision of Stockbrokers – 5 areas as of May 07, 2021, May 28, 2021, June 04, 2021, and June 11, 2021.**

8.4. LO-2

Misuse of clients' funds – The funds available in the bank accounts, Clearing Member/Clearing Corporation were insufficient to the extent of Rs. 1.22 lakh and Rs. 2.69 lakhs, respectively as of August 13, 2021, and August 17, 2021, indicating misuse of client funds.

8.5. LO-3

- i. Misuse of clients' funds – The funds available in the bank accounts, Clearing Member/Clearing Corporation were insufficient to the extent of Rs.28.18 lakhs, Rs. 14.52 lakhs and Rs. 6.61 lakhs, respectively as**

of November 12, 2021, November 15, 2021, and November 16, 2021, indicating misuse of client funds.

- ii. Incorrect submission towards weekly monitoring of clients' funds under Enhanced Supervision of Stockbrokers – 7 areas for the week ended on November 12, 2021.

8.6. **LO-4**

Incorrect reporting of margin collected from clients - 2 instances of 2 clients involving Rs. 31,551/-.

8.7. **LO-5**

Incorrect reporting of margin collected from clients - 3 instances of 3 clients involving Rs.24,526/-.

8.8. **LO-6**

- i. Misuse of clients' funds – The funds available in the bank accounts, Clearing Member/Clearing Corporation were insufficient to the extent ranging from Rs. 7.44 lakhs to Rs.1.36 crores, as of 14 dates from December 06, 2021, to December 24, 2021.
- ii. Incorrect submission towards weekly monitoring of clients' funds under Enhanced Supervision of Stockbrokers – 6 areas for the week ended on December 10, 2021, December 17, 2021, and December 24, 2021.

8.9. **LO-7**

Incorrect reporting of margin collected from clients - 4 instances of 3 clients involving Rs.9.69 lakhs.

8.10. **LO-8**

Incorrect reporting of margin collected from clients - 4 instances of 3 clients involving Rs.28.58 lakhs.

RELEVANT REGULATORY PROVISIONS

9. At the outset, it is appropriate to refer to the relevant regulatory provisions alleged to have been violated by Junjharji; extracts whereof are reproduced below:

i. **Regulation 3.10 of Exchange Regulations (F&O Segment)**

The Trading Members must demand from its constituents the margin deposit which the Member has to provide under these Trading Regulations in respect of the business done by the Members for such constituents.

ii. **Regulation 4.5.3 (e) of the Exchange Regulations (CM and F&O Segment)**

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

iii. Regulation 7.3.1 of Exchange Regulations (CM and F&O Segments)

It shall be the duty of every director, officer and employee of the Trading Member, who is being inspected, to produce to the inspecting authority such books, accounts and other documents in his custody or control or arrange to produce where such books, accounts and other documents when they are in any other person's custody or control and furnish him such statements and information within such time as the said inspection authority may require.

iv. Byelaw (2) (h) of Chapter V of Exchange Byelaws

Trading members shall extend full co-operation and furnish such information and explanation as may be required for the purpose of any inspection or audit authorised by the relevant authority or other authorised official of the Exchange into or in regard to any trades, dealings, their settlement, accounting and/or other related matters.

v. Exchange Rule 3 (e) and (g) of Chapter IV of Exchange Rules

(3) A trading member shall be deemed guilty of misconduct for any of the following or similar acts or omissions namely:

(e) Failure to comply with Resolutions : If it contravenes or refuses or fails to comply with or abide by any resolution, order, notice, direction, decision or ruling of the relevant authority or of any Committee or officer of the Exchange or other person authorised in that behalf under the Bye Laws, Rules and Regulations of the Exchange;

(g) Failure to testify or give information : If it neglects or fails or refuses to submit to the relevant authority or to a Committee or an officer of the Exchange authorised in that behalf, such books, correspondence, documents and papers or any part thereof as may be required to be produced or to appeal and testify before or cause any of its partners, attorneys, agents, authorised representatives or employees to appear and testify before the relevant authority or such Committee or officer of the Exchange or other person authorised in that behalf;

vi. Exchange Circular No. NSE/INSP/10367 dated February 28, 2008

All Clearing Members and Trading Members in the F&O segment are required to collect upfront initial margins from all the Trading

Members/Constituents whose transactions are settled by them and also to report on a daily basis, details in respect of such margin due and collected.

- vii. Exchange Circular No. NSE/MA/22732 dated February 13, 2013

B. Particulars of Certification and type of Connectivity

- *Certification:*

Trading member desirous of obtaining user ids are required to meet certification requirement as specified by SEBI /Exchange from time to time. Applicable requirement are as follows:

S. No.	Segment	Applicable Norms
1.	Capital Market Segment	Valid NCFM certification for Corporate Manager & Branch Manager for each connectivity (Tap I.P.).

- viii. Exchange Circular No. NSE/INSP/29096 dated March 11, 2015

The Members are advised to reconcile client beneficiary account/s and the Register of Securities on a quarterly basis and maintain complete audit trail & documentation of such reconciliation

- ix. Exchange Circular No. NSE/INSP/10605 dated April 21, 2008

The records should be periodically reconciled with the actual collateral deposited with the broker

Brokers should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client's margin requirements / pay-ins. Brokers should also maintain records to ensure proper audit trail of use of client collateral

- x. Exchange Circular No. NSE/INSP/13606 dated December 03, 2009

Unless otherwise specifically agreed to by a client, the settlement of funds/securities shall be done within 24 hours of the payout. However, a client may specifically authorize the stockbroker to maintain a running account subject to inter alia the following condition:

The actual settlement of funds and securities shall be done by the broker at least once in a calendar quarter or month, depending on the preference of the client.

While settling the account, the broker shall send the client a statement of accounts containing an extract from the client ledger for funds and an extract from the register of securities displaying all receipts/deliveries of funds/securities. The statement shall also explain the retention of funds/securities and the details of the pledge, if any.

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

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

Principle I – The total available funds, i.e., cash and cash equivalents with the stockbroker and the Clearing Corporation/Clearing Member (A +B) should always be equal to or greater than client's funds as per ledger balance (C)...”

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

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

3.3.3. Funds of credit balance clients used for margin obligations of debit balance clients and proprietary trading:

Principle

The clients' funds lying with the clearing corporation/clearing member should be less than or equal to the sum of credit clients' margin obligations (MC) and free collateral deposits available with the clearing corporation/clearing member (MF)

$$J = (C - A) - (MC + MF)$$

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

3.2. Stockbrokers shall submit the following data on the 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 stockbroker 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 (F.D.), Bank Guarantee (B.G.), etc.) (across Stock Exchanges). Only funded portion of

the B.G., i. e. the amount deposited by stockbroker with the bank to obtain the B.G., 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)

F-Aggregate value of non-funded part of the B.G. across Stock Exchanges

P-Aggregate value of proprietary margin obligation across Stock Exchanges

MC-Aggregate value of margin utilized for positions of credit balance clients across Stock Exchanges

MF-Aggregate value of Unutilized collateral lying with the clearing corporations and/or clearing member across Stock Exchanges.

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

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

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

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

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

7.2 Each Stock Exchange shall, in turn, forward this information to clients via email and/or SMS on the email I.D.s and mobile numbers uploaded by the stockbroker to the Exchange for their clients.

xiv. Exchange Circular No. NSE/INSP/35184 dated June 23, 2017

Stockbrokers 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

xv. Exchange Circular No. NSE/INSP/38154 dated June 27, 2018

Regarding: False reporting of margin/MTM (Non Compliance)

Where the upfront Margin/MTM Losses has not been collected by the Member in any of the applicable modes prescribed above, however the same has been reported by the member as collected, it would be construed as false reporting to the Exchange/NSCCL.

The Trading Members must collect initial margin, net buy premium, delivery margin & exposure margin from respective clients on an upfront basis and Mark-to-market losses (MTM) by T+1 day.

xvi. Exchange Circular No. NSE/INSP/39855 dated January 03, 2019

All Members were advised to comply with the requirement and upload the holding statement data electronically for all calendar days of the reporting week on or before the next four trading days of subsequent week through the Inspection module in the Member portal. The procedure for submission of the data was given in Annexure-1 of this circular.

xvii. Exchange Circular No. NSE/INSP/38743 dated August 30, 2018

In order to standardize the maintenance of books of accounts / records and ensure uniformity across all Members, a standard format for register of securities, Holding Statement, Bank Book and Client Ledger is prescribed herewith. The formats have been finalized in consultation with SEBI & Member associations.

Members are requested to note that, post implementation of standard formats across the members, Exchange may seek periodic upload of data relating to funds and securities in the manner prescribed in the formats. The details of the same including the periodicity shall be informed in due course.

xviii. Exchange Circular No.NSE/INSP/43069 dated December 31, 2019

Regarding: Margins required to be collected by Trading Members from clients in Capital & Derivatives Segment.

A. Capital Market Segment: In capital segment, Trading Members (TM) are required to mandatorily collect VaR margins and Extreme loss Margin (ELM) from their clients on an upfront basis. Other margins such as Mark-to-market margin (MTM), delivery margin, special/additional margin or such other margins as may be prescribed from time to time, shall be collected within 'T+2' working days from their clients. It must be ensured that VaR margins and ELM are collected in advance of trade and other margins are collected/paid as soon as margin calls are made by the Stock Exchanges.

B. F&O segment: In the F&O segment, it is mandatory for Trading Members to collect initial margin, net buy premium, delivery margin & exposure margin from respective clients on an upfront basis. It must be ensured that all upfront margins are collected in advance of trade. Mark-to-market losses (MTM) shall be collected from clients by T+1 day.

C. Currency Derivative segment: In case of Currency Derivatives segment also, it is mandatory for Trading Members to collect initial margin, net buy premium and extreme loss margins from their client on an upfront basis. It must be ensured that all upfront margins are collected in advance of trade. The Mark-to-market losses shall be collected from clients by T+1 day. However, in case of currency future contracts, final settlement amount shall be collected by T+2 day.

D. Commodity Derivative Segment: Initial Margin and extreme loss margins shall be collected from client on an upfront basis. It must be ensured that all upfront margins are collected in advance of trade. Other margins such as Mark-to-market margin (MTM), delivery margin, special/additional margin or such other margins as may be prescribed form time to time, shall be collected within 'T+2' working days from their clients.

xix. Exchange Circular No. NSE/INSP/45072 dated July 21, 2020

In order to align and streamline the risk management framework of both cash and derivatives segments, with respect to collection of margins from the clients and reporting of short-collection/non-collection of margins, SEBI, vide Circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019, inter alia, required the Trading Members (TMs) /Clearing Members (CMs) in cash segment as well to mandatorily collect upfront VaR margins and ELM from their clients.

Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments

(ii) The client wise margin file (MG-12/13) provided by the C.C.s to T.M./CMs shall contain the EOD margin requirements of the client as well as the peak margin requirement of the client, across each of the intra-day snapshots.

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

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

AND

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

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

PRESENT PROCEEDINGS BEFORE MCSGFC

10. The Exchange, vide email dated February 12, 2022, granted Junjharji an opportunity for a personal hearing before the Committee on February 14, 2022. Mr. Aditya Karwa, Designated Director, on behalf of Junjharji, appeared for the personal hearing and submitted as under:

- i. There was no misutilization of clients' funds. Most of the clients are the family members/promoters/directors of the family. Junjharji used own funds only to trade in the market. No banking arrangements / borrowed money is being utilized to trade. No complaint has been registered by any client over past 15 years. None of the pay-outs to any client has been delayed even by one day.
- ii. Further, Junjharji has not made any false reporting of any information to the Exchange.
- iii. Regarding non-cooperation during the inspection, Junjharji submitted that it is incorrect to state that Junjharji did not communicate with the Exchange officials. Junjharji has provided access to all documents.
- iv. Junjharji's office was not functioning during the pandemic. Therefore, Junjharji could not address the Exchange reminders.

11. CONSIDERATION OF OBSERVATIONS/ALLEGED VIOLATIONS, REPLIES OF JUNJHARJI, AND THE FINDINGS OF THE COMMITTEE

11.1. Incorrect reporting of margin collected from clients

A. SCN-1

- a. Upon verification of the margin reported by Junjharji vis-à-vis the client-wise cash and cash equivalents file reported to the Exchange, it was observed that Junjharji had incorrectly reported the margin collected from its clients as of January 29, 2021, February 03, 2021, and February 10, 2021, in 41 instances, out of total 93 instances, involving Rs.7.55 Crores constituting 44.09% of the total instances verified.
- b. In reply to the SCN-1, Junjharji submitted as under:
 - i. 90% of the observed shortfall pertains to Junjharji's Director, Mr. Aditya Karwa.
 - ii. On the observed dates, there was a miscommunication on the margin held for the mentioned clients.
 - iii. Junjharji did not consider excess margin available on the observed dates while reporting.
 - iv. Junjharji is neither involved in margin funding nor has charged the interest to any client.
 - v. The remaining instances of margin shortfall pertain to running accounts of the clients, which were cleared on the next date.
 - vi. Most of Junjharji's trades are in the CM segment, and no margin shortfall has been reported therein.
 - vii. All the observed instances belong to regular clients with trades within limits, and the observed shortfall occurred in the ordinary course of business.
 - viii. Junjharji has submitted ledgers, stock and collateral balance, and a C.A. certificate in support of its claim.
- c. The Committee finds as under:
 - i. For 3 instances of 1 client i.e., Aditya Karwa involving Rs.7.44 crores – Junjharji has claimed that the client had sufficient collateral as margin against the margin requirement. Upon verification of the documents submitted by Junjharji, it was observed that Junjharji had recorded a journal entry of Rs.1.64 crores on January 20, 2021, in the client's ledger, Aditya Karwa. Junjharji claimed that the journal entry was recorded for the free balances available in the accounts of the relatives of Aditya Karwa and submitted a C.A. certificate dated March 4, 2022, certifying the availability of free fund and collateral

balances with the client, Aditya Karwa and in the account of his relatives viz. father, mother, spouse, and son. Junjharji had considered these balances towards the margin requirement of Aditya Karwa as of January 29, 2021, February 03, 2021, and February 10, 2021.

Exchange Circular No. NSE/INSP/43493 dated February 11, 2020, clarifies that with effect from April 01, 2020, the margin available with related entities of the client cannot be considered as its (clients) margin. All margins should necessarily be collected from the respective client only.

The observed instances pertain to January 29, 2021, February 3, 2021, and February 10, 2021. In view of the above, the free balance and collateral available with relatives of Aditya Karwa cannot be considered against the margin requirement of Aditya Karwa.

Regarding the free fund balance available in the ledger of Aditya Karwa, it was observed that balances considered by Junjharji on all the three dates include the journal entry of Rs.1.64 crores, which represents the balances of related entities. The said amount of Rs.1.64 crores cannot be considered for the reasons enumerated above.

Regarding the securities of Aditya Karwa, Junjharji has not provided the details of securities, along with relevant demat statements, which Junjharji had considered towards margin. In the absence of the said details and the relevant documentary evidence, the claim of Junjharji cannot be accepted.

- ii. For the remaining 38 instances of 26 clients involving Rs. 0.11 Crores – Junjharji has attributed the false reporting of margin to a shortfall that was cleared by the clients on the next day. However, Junjharji did not provide any documentary evidence in the form of bank statements and ledgers to prove the same.
- iii. Therefore, after considering Junjharji's submission, the irregularity continues in all the 41 instances out of 93 instances involving Rs.7.55 crores (44.09%)

B. SCN-2

a. Regular inspection

Upon verification of the clients' ledgers, bank statements, register of securities and submissions of Junjharji along with the records of the Exchange, it is observed that Junjharji had incorrectly reported the margin collected from its clients, during the period April 01, 2019, to December 19, 2019, in 10 instances of 10 clients out of 15 instances of 15 clients, involving Rs. 2.02 crores, constituting 67% of the total instances verified.

b. Limited purpose inspection

Upon verification of the total margin collection vis-a-vis the weekly client-wise cash and cash equivalent balances reported by Junjharji to the Exchange, it was observed that Junjharji has falsely reported the margin collected from its clients, the details of which are as follows:

- i. As of May 14, 2021 – 9 out of 29 instances involving Rs.2.14 crores, constituting 31.03% of the total instances verified.
- ii. As of 6 dates from May 28, 2021, to July 2, 2021 – 92 out of 200 instances involving Rs.12.56 crores, constituting 46% of the total instances verified.
- iii. As of July 9, 2021, and July 16, 2021 - 9 instances out of 60 instances involving Rs. 0.12 crores, constituting 15% of the total instances verified.
- iv. As of July 23, 2021, and July 30, 2021 - 4 instances out of 67 instances involving Rs.0.04 crores, constituting 5.97% of the total instances verified.

c. In reply to the SCN-2, Junjharji submitted as under:

- i. There is neither incorrect reporting of the margin as collected from its clients nor any shortfall of margin.
- ii. The clients viz., Mr. Kamal Kishore Karwa and Ms. Saroj Karwa have sufficient credit balances in their accounts to meet the margin requirement in related accounts being children of the said clients.
- iii. Additionally, clients viz; Ms. Anjalika Karwa and Mr. Kabeer Karwa i.e., wife and son respectively of Mr. Aditya Karwa, have substantial margins in their accounts.
- iv. Junjharji has submitted ledgers, stock reports and other statements supporting its claim.

d. The Committee finds as under:

- i. Upon verification of the ledgers and stock reports submitted by Junjharji, it was observed that Junjharji has mentioned remarks like “Director”, “Relative”, “Traded on 3.4.2021 & did square-up on 4.4.2019”, “04.11.19- Cr bal- Rs.5677 & debit of 7600 till 15.12.19”. which are vague. Further, documentary evidence is not provided in

- most of the cases. Also, there are instances pointed out for which Junjharji has not provided any details/comments.
- ii. As regards the instances observed in the regular inspection, the Exchange, vide email dated February 24, 2022, sought-
 - 1) C.A. certificate for the instances wherein the relative's free balances and collaterals were considered against the margin obligation of the client (since the instances pertain to period before April 01, 2020) and
 - 2) Instance-wise details of ledger balance and collaterals available where margin was claimed to be available.
 - iii. However, Junjharji failed to submit the said documents despite reminders. In the absence of the documentary evidences, Junjharji's claim cannot be accepted. Therefore, the irregularity persists in all 10 instances of 10 clients involving Rs.2.02 crores.
 - iv. Exchange vide Circular No. NSE/INSP/43493 dated February 11, 2020, mandated that with effect from April 01, 2020, the margin available with related entities of the client cannot be considered as margin of the respective client. All margins should necessarily be collected from the respective clients only. Hence, the benefit of the free balance and collateral available with the client's relatives cannot be considered post-April 1, 2020.
 - v. In view of the above, the irregularity continues in all 124 out 371 instances verified, involving Rs.16.89 crores. (33.42%)

C. LO-4, L.O. 5, LO7 and L.O. -8

- a. Upon verification of the clients' ledgers, bank statements, register of securities and submissions of Junjharji along with the records of the Exchange pertaining to the margin requirement and the margin reported by Junjharji, it is observed that Junjharji had incorrectly reported the margin collected from its clients as under-
 - i. L.O.- 4 - As of October 08, 2021, in 2 instances of 2 clients out of 33 instances of 33 clients involving Rs. 31,551/-, constituting 6.06% of the total instances verified.
 - ii. L.O.- 5 – As of October 18, 2021, in 3 instances of 3 clients out of 32 instances of 32 clients involving Rs.24,526/-, constituting 9.38% of the total instances verified.
 - iii. L.O.- 7- As of November 26, 2021, and December 03, 2021, in 4 instances of 3 clients out of 61 instances involving Rs.9.69 lakhs, constituting 6.56% of the total instances verified.
 - iv. L.O.- 8 – As of December 09, 2021, and December 17, 2021, in 4 instances of 3 clients out of 63 instances involving Rs.28.58 lakhs, constituting 6.35% of the total instances verified.

- b. In reply to the LO-4, LO-5, LO-7, and LO-8, Junjharji submitted as under-
- i. In 4 instances involving Rs. 25.58 Lakhs, the shares were given in early payin.
 - ii. In 6 instances involving Rs. 10.78 Lakhs, no early payin was done.
 - iii. In 3 instances involving Rs. 2.48 Lakhs, incorrect ledger balance was considered.
 - iv. Junjharji submitted the details of early pay-in (EPI) securities, demat account statement and client ledgers in support of its claim.

c. The Committee finds as under:

- i. Out of total 13 instances involving Rs.38.84 lakhs, in 4 instances involving Rs. 25.58 Lakhs, it was observed that although Junjharji has provided a transaction statement from Clearing Member to prove the early payin of shares, Junjharji did not provide the contract notes and demat account trail to demonstrate the early payin securities to the client and hence the contention cannot be considered.
- ii. For 6 instances involving Rs.10.78 Lakhs, Junjharji has accepted the observation as they have submitted that no early payin was done.
- iii. For 3 instances involving Rs. 2.48 Lakhs, upon verification of Junjharji's claim that incorrect ledger balance was considered, it is observed that the ledger balance claimed by Junjharji was lower than the balance considered by the inspection team.
- iv. Therefore, the irregularity continues in all 13 instances involving Rs.38.84 lakhs.

D. Disciplinary action

- a. Upfront collection of margins and reporting is an indispensable factor in for ensuring prompt settlement and maintaining market integrity. Failure in proper margin collection and reporting could have a significant impact on the settlement system. In the instant case, it is an admitted fact that Junjharji did not submit proper account of margin collection, therefore, made false reporting on various occasions and it is a repeated offence which according to the circulars of the Exchange would result in both monetary penalties as prescribed for the falsely reported amount as well as suspension of the Trading Member as prescribed under the said circular.
- b. The said non-compliance attracts the monetary penalty under Exchange Circular No. NSE/INSP/42919 dated December 16, 2019. As per the said Circular, the Penalty for false reporting of margin is based on a percentage (%) of false reporting. Further, the % of false reporting is set out in the context of the proportion of the instances with false reporting to

the Total sample instances verified for which a matrix (slab) is also notified. Based on the slabs, the penalty amount for the false reporting of margin shall be capped at Rs.15,00,000/- in case of violation by a Trading member. Accordingly, the penalties as set out below is applicable-

SCN-1

Sr.no	Particulars	Amount (Rs.)
1	Amount of false reporting	Rs.7.55 crores
2	% of the violation in the current inspection (Proportion of the instances with false reporting to the Total sample instances verified)	44.09% (41/93*100)
3	Observed in 2 out of 3 previous inspections in addition to the current inspection	Yes
4	Applicable Penalty as a percentage (%) of the False Reporting	60%
5	Penalty amount @ 60% of Rs.7.55 crores	Rs.4.53 crores

However, the Penalty leviable for false reporting of margin in accordance with the Exchange Circular of December 16, 2019, is capped at Rs.15,00,000/-.

Further, along with the monetary Penalty, the false reporting shall be treated as material for the purpose of suspension if it meets all the following broad criteria: -

- i. Instances of false reporting are more than 5% of the instances verified (minimum 3 instances) during inspection - *in the instant case, the violation is observed in 41 out of 93 instances selected for sample scrutiny (44% of the sample instances verified).*
- ii. Percentage of the value of false reporting is more than 5% of the total margin required to be collected for the instances verified during inspection - *in the instant case, the value of false reporting was Rs.7.55 crores, whereas the total margin required to be collected for the instances verified was Rs.14.50 crores. (52%)*
- iii. Value of false reporting of margin is more than Rs. 15 lakhs - *in the instant case, the value of false reporting was Rs.7.55 crores.*

In view of the above, it is found that the observations meet the criteria for suspension of one trading day in the CM and F&O segment.

SCN-2

Sr.no	Particulars	Amount (Rs.)
1	Amount of false reporting	Rs.16.89 crores
2	% of the violation in the current inspection (Proportion of the instances with false reporting to the Total sample instances verified)	33% (12/371*100)
3	Observed in 2 out of 3 previous inspections in addition to the current inspection	Yes
4	Applicable Penalty as a percentage (%) of the False Reporting	60%
5	Penalty amount @ 60% of Rs. 16.89 crores	Rs.10.13 crores

However, the Penalty leviable for false reporting of margin in accordance with the Exchange Circular of December 16, 2019, is capped at Rs.15,00,000/-.

Further, along with the monetary Penalty, the false reporting shall be treated as material for the purpose of suspension if it meets all the following broad criteria: -

- i. Instances of false reporting are more than 5% of the instances verified (minimum 3 instances) during inspection - *in the instant case, the violation is observed in 124 out of 371 instances selected for sample scrutiny (33% of the sample instances verified).*
- ii. Percentage of the value of false reporting is more than 5% of the total margin required to be collected for the instances verified during inspection - *in the instant case, the value of false reporting was Rs.16.89 crores whereas the total margin required to be collected for the instances verified was Rs.56.67 crores. (30%)*
- iii. Value of false reporting of margin is more than Rs. 15 lakhs - - *in the instant case, the value of false reporting was Rs.16.89 crores.*

In view of the above, it is found that the observations meet the criteria for suspension of one trading day in the CM and F&O segment.

LO-4

The irregularity was observed in 2 out of 33 instances verified involving Rs.31,551/-. The Committee, considering the non-materiality of the amount involved, decided that a monetary penalty may not be levied.

LO-5

The irregularity was observed in 3 out of 32 instances verified involving Rs.24,526/-. The Committee, considering the non-materiality of the amount involved, decided that a monetary penalty may not be levied.

LO-7

The irregularity was observed in 4 out of 61 instances verified involving Rs.9,69,172/-. (6.56%). The Committee hence decided that a monetary penalty @ 25% of the amount involved, being Rs.2,42,293/- and rounded off to Rs.2,42,300/- be levied for the observed violation in terms of Exchange Circular No. NSE/INSP/42919 dated December 16, 2019. The said case does not meet the criteria for suspension enumerated in Exchange Circular dated December 16, 2019.

LO-8

The irregularity was observed in 4 out of 63 instances verified involving Rs.28,58,018/- (6.35%). The Committee hence decided that a monetary penalty @ 25% of the amount involved, being Rs.7,14,504/- and rounded off to Rs.7,14,500/- be levied for the observed violation in terms of Exchange Circular No. NSE/INSP/42919 dated December 16, 2019. The said case does not meet the criteria for suspension enumerated in Exchange Circular dated December 16, 2019.

11.2. Non-cooperation in providing the data during inspection**A. SCN-1**

- a. Junjharji failed to respond to the Exchange email dated April 05, 2021, communicating the violations pertaining to the shortfall of margin observed during the inspection and arising out of the data submitted by Junjharji towards the client-wise cash and cash equivalent balances.
- b. Further, Junjharji also failed to respond to the reminders issued vide Exchange emails dated April 08, 2021, April 15, 2021, April 19, 2021, May

07, 2021, May 12, 2021, May 27, 2021, June 08, 2021, June 15, 2021, June 25, 2021, and July 02, 2021.

c. In reply to the SCN-1, Junjharji submitted as under:

- i. The observed violation occurred due to the unavailability of the staff and medical issues on account of the pandemic.
- ii. The non-responsiveness of Junjharji could be condoned on humanitarian grounds.
- iii. Further, Junjharji did not wrongfully report facts or details to the Exchange. It is a bona fide member with a strong sense of integrity and discipline, and in the past years of the business, there has been no misdeed or client complaint against it.

B. SCN-2

a. Regular inspection

The Exchange shared the details of the initial data required for conducting inspection with Junjharji on February 19, 2021, and April 26, 2021. However, despite more than 30 reminder emails issued by the Exchange from April 2021 to September 2021, Junjharji failed to provide the following data:

- i. Workings related to net-worth,
- ii. Data related to turnover and net-sell,
- iii. Certifications details of trading terminals operated by Junjharji
- iv. Policies and declarations on settlement and data submitted,
- v. Data related to settlement of client accounts,
- vi. Back-office holdings,
- vii. Enhanced Supervision as of December 20, 2019, and
- viii. Acknowledgment/ reply to the preliminary observation sheet

b. Limited purpose inspection

- i. Based on an offsite alert as of May 14, 2021 - The Exchange, vide emails dated July 5, 2021, July 14, 2021, July 20, 2021, July 27, 2021, August 3, 2021, August 11, 2021, and August 17, 2021, sought Junjharji's response to the observed violation pertaining to incorrect reporting of the margin collected from its clients. However, Junjharji failed to submit instance-wise response along with the documentary evidence for all 9 instances.
- ii. Based on the offsite alerts as of 6 dates from May 28, 2021, to July 2, 2021 - The Exchange, vide emails dated August 4, 2021, August 11, 2021, August 17, 2021, August 27, 2021, September 1, 2021, and September 7, 2021, sought Junjharji's response to the observed violation pertaining to incorrect reporting of the margin collected from

its clients. However, Junjharji failed to submit an instance-wise response along with documentary evidence for all 92 instances.

- iii. Based on the offsite alerts as of July 9, 2021, and July 16, 2021 – The Exchange, vide emails dated August 27, 2021, September 2, 2021, September 7, 2021, and September 9, 2021, sought Junjharji's response to the observed violation pertaining to incorrect reporting of the margin collected from its clients. However, Junjharji failed to submit an instance-wise response along with documentary evidence in all 8 instances.
- iv. Based on the offsite alerts as of July 23, 2021, and July 30, 2021 - The Exchange, vide emails dated August 27, 2021, September 2, 2021, September 7, 2021, and September 9, 2021, sought Junjharji's response to the observed violation pertaining to incorrect reporting of the margin collected from its clients. However, Junjharji failed to submit instance-wise response along with documentary evidence for all 4 instances.

c. In reply to the SCN-2, Junjharji submitted as under:

- i. Junjharji could not co-operate with the Exchange for submission of the data required for inspection due to a lack of staff during the Covid times and inaccessibility of its system from home.
- ii. Most of its staff were infected by the pandemic or working from home. It did not have the facilities to carry on its operations and reply to the Exchange queries.
- iii. Junjharji has maintained its position for want of additional time to submit the required data through several emails and telecons.

d. The Committee finds as under:

- i. Junjharji claimed that its staff was unavailable due to medical issues on account of the COVID-19 pandemic. However, they have tried to provide the details and data whenever they could.
- ii. Junjharji has also contended that they have no client complaints against them.
- iii. Regulation 7.3.1 of Exchange Regulations (CM and F&O Segments) makes it mandatory for the Trading Members to produce to the inspecting authority such books, accounts and other documents in custody or control or arrange to produce where such books, accounts and other documents when they are in any other person's custody or control and furnish him such statements and information within such time as the said inspection authority may require. Further, Byelaw (2) (h) of Chapter V of Exchange Byelaws requires the Trading members to extend full co-operation and furnish such information and explanation as may be required for inspection.

- iv. Therefore, Junjharji's contention that they were affected by the pandemic and hence could not provide the details for inspection is not acceptable.
 - v. Failure on the part of Junjharji to provide complete data/documents inspite of multiple email reminders and facilitate the conduct of inspections resulted in inordinate delays in initiating enforcement proceedings against Junjharji for these regular and offsite inspections.
- e. Junjharji failed to submit the documents enumerated at para 11.2 para (A) and (B) above, including the workings related to net worth. The Committee finds that in the absence of these workings, the Exchange was unable to verify the veracity of the net worth reported to the Exchange by Junjharji. The Committee, however, finds that no adverse observations related to misuse of client funds or shortfall of net worth was reported in the subsequent inspection conducted by the Exchange covering a period from April 2020 to March 2021.
- f. The Committee noted that due to COVID situation Junjharji would have limited staff to operate. However, the Committee also observed that though multiple weeks were granted to Junjharji to submit the information/data, the same was delayed and in some cases part information was shared.
- g. The Committee expressed displeasure at the casual approach of Junjharji to co-operating with the Exchange for conducting inspections.
- h. In view of the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,00,000/- for the observed violation in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

11.3. Misuse of clients' funds and securities

11.3.1 Misuse of clients' funds

A. SCN-2

- a. Upon verification of the details submitted by Junjharji under the Enhanced Supervision of Stockbrokers, along with the supporting documents/reports for the week ended December 20, 2019, it was observed that Junjharji had utilized the funds of credit balance clients for the margin obligations of debit balance clients or for proprietary trading purposes involving Rs.1.70 crores, thereby violating Principle 3 of the Enhanced Supervision of Stockbrokers.
- b. In reply to the SCN-2, Junjharji submitted as under:

- i. There is no misuse of clients' funds.
- ii. Most of its clients are its own promoters and directors, and no outsider clients have had the credit balance with Junjharji for over 2 days.
- iii. Further, the observation is based on the submissions made under Circular for Enhanced Supervision, which was new for the members at that time, and Junjharji did not have the clarification for uploading the said details.

B. LO-1, LO-2, LO-3, and LO-6

- a. Upon verification of the details submitted by Junjharji under Enhanced Supervision of Stockbrokers along with the supporting documents/reports provided by it, it was observed that-
 - i. LO-1 - Junjharji has utilized the funds of credit balance clients for the margin obligations of debit balance clients or for proprietary trading purposes involving Rs.19.92 lakhs, Rs.1.41 crores, Rs. 1.11 crores and Rs. 1.20 crores as of May 07, 2021, May 28, 2021, June 04, 2021, and June 11, 2021, respectively, violating Principle 3 of the Enhanced Supervision of Stockbrokers.
 - ii. LO-1- Funds available in the bank account and with the Clearing Corporation / Clearing Member were insufficient to meet the clients' payables as of May 28, 2021, to the extent of Rs. 8.91 lakhs, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers.
 - iii. LO-2- Funds available in the bank account and with the Clearing Corporation / Clearing Member were insufficient to meet the clients' payables to the extent of Rs. 1.22 lakh and Rs. 2.69 lakhs, as of August 13, 2021, and August 17, 2021, respectively, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers.
 - iv. LO-3- Funds available in the bank account and with the Clearing Corporation / Clearing Member were insufficient to meet the clients' payables to the extent of Rs. 28.18 lakhs, Rs. 14.52 lakhs and Rs. 6.61 lakhs, as of November 12, 2021, November 15, 2021, and November 16, 2021, respectively, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers.
 - v. LO-6- Funds available in the bank account and with the Clearing Corporation / Clearing Member were insufficient to meet the clients' payables ranging from Rs. 1.36 crores to Rs. 7.44 lakhs, on 14 dates from December 06, 2021, to December 24, 2021, thereby violating Principle 1 of the Enhanced Supervision of Stockbrokers.
- b. In reply to the LO-1, LO-2, LO-3, and LO-6, Junjharji submitted as under:

- i. The credit balance belongs to the Directors who are registered as clients. There is no misuse after excluding the credit balances of these directors from the client payables.
- ii. All clients were self-funded, and therefore, there is no shortfall.

C. The Committee finds as under:

- i. Junjharji's claim that there is no shortfall/misuse of clients' funds in case the amount payable to directors is excluded from client payables was verified for sample 5 dates wherein the amount of misuse was the highest. Upon verification of Junjharji's contention for 5 sample dates (where the misuse was highest), it was observed that the misuse of client funds continued on one date i.e., December 20, 2019, involving Rs. 15.83 lakhs.
- ii. Junjharji had used the funds of credit balance clients for the margin obligations of debit balance clients on December 20, 2019, involving Rs. 15.83 lakhs, thereby violating Principle 3 of the Enhanced Supervision of Stockbrokers.
- iii. The Exchange verified the trial balance, reports issued by clearing member/clearing corporation and records of the Exchange pertaining to margin requirement and securities pledged as of January 28, 2022. Upon verification, it was observed that Junjharji had recouped the misuse of client funds [Value of 'G' (availability of client funds) was positive to the extent of Rs 2.20 crores, and the value of 'J' (client funds utilised for margin obligation of debit balance clients / proprietary trading) was negative Rs. 0.04 lakhs] as of January 28, 2022, post excluding the payables to directors/promoters indicating that there is no misuse. Post-inspection compliance, however, does not absolve Junjharji from the liability of penalty that becomes due for the irregularity observed for the noted dates.
- iv. Regulation 4.5.3 (e) of NSEIL Regulations (CM and F&O Segments) prohibits the Trading Members from making improper use of client funds and securities. The said principle has been reiterated in Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, which requires the Trading Members to ensure that funds of credit balance clients are not used for margin obligations of debit balance clients and proprietary margin obligations.
- v. Thus, by misusing the clients' funds amounting to Rs.15.83 lakhs, Junjharji has violated Regulation 4.5.3 (e) of NSEIL Regulations (CM and F&O Segments) and Exchange Circular No. NSE/INSP/33276 dated September 27, 2016.

11.3.2 Shortfall of clients' securities

A. SCN-2

- a. Upon verification of the register of securities of Junjharji along with the weekly holdings statement submitted to the Exchange vis-à-vis the de-mat statement as of December 31, 2019, it was observed that the clients' securities amounting to Rs. 3,46,975/-, in 9 instances were not available in Junjharji's de-mat account.
- b. In reply to the SCN-2, Junjharji submitted as under:
 - i. Junjharji does not upload securities of any client if it has been transferred and not used for margin.
 - ii. The observations pertain to securities that may have stopped trading, or the securities must have been re-listed due to some corporate action.
 - iii. The re-listed securities were available in the beneficiary account.
 - iv. One instance is a duplicate record.
- c. The Committee finds as under:
 - i. Junjharji's contention that they do not record the securities which are not used for margin or are not traded due to corporate action is not acceptable as the Members are required to record all securities belonging to the clients.
 - ii. Junjharji's reply is not germane to the observation as the observed securities were recorded in its back-office records but were not available in the de-mat accounts. The Exchange, vide email dated February 24, 2022, informed the inconsistency to Junjharji.
 - iii. In response, Junjharji claimed that the differences in 5 instances were on account of pay-in and payout date mismatch; in 2 instances, the ISINs were not traded on NSE and in 1 instance, corporate action was in process due to which the scrip was not being traded. The claim of Junjharji that one instance was a duplicate record was verified and found to be correct. After considering Junjharji's submission, the irregularity continues in 8 instances involving Rs. 2.38 lakhs. However, the said response by Junjharji is vague as even though the securities were not available for trading, they were still not available in the demat account. The claim of Junjharji pertaining to date mismatch was not supported by any documentary evidence.
 - iv. In the absence of a proper reply, it is concluded that the violation persists.
 - v. Thus, by misusing the clients' securities amounting to Rs.3.46 lakhs, Junjharji has violated Regulation 4.5.3 (e) of NSEIL Regulations

(CM and F&O Segments) and the Exchange Circular No. NSE/INSP/10605 dated April 21, 2008.

- d. The total amount involved in the misuse of client funds and securities is Rs. 18.21 lakhs (Rs.15.83 lakhs as of December 20, 2019, and Rs. Rs.2.38 lakhs as of December 31, 2019). The prescribed penalty for the said non-compliance is 1% of the amount involved or Rs.1 lakh, whichever is higher.
- e. In view of the findings mentioned above, the Committee decided that a monetary penalty of Rs.1,00,000/- be levied for the observed violation in terms of the Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

11.4. Non-reconciliation of securities in beneficiary account with the back-office records

SCN-2

- a. Upon verification of the register of securities of vis-à-vis the securities recorded in the de-mat account as of December 31, 2019, it was observed that Junjharji has failed to reconcile securities in the beneficiary account with the back-office records as of December 31, 2019, for 16 ISINs involving Rs.1,87,943/-.
- b. In reply to the SCN-2, Junjharji submitted as under-
 - i. The observed instances may have occurred for reasons viz; securities stopped to be traded and due to some corporate action, the securities must have been re-listed subsequently.
 - ii. The shares belong to the director in 2 instances involving Rs.1.64 lakhs.
 - iii. In 13 instances, the mismatches are on account of shares that are not trading on NSE, suspended shares and corporate actions.
- c. The Committee finds as under:
 - i. The submission made by Junjharji for not carrying out the reconciliation on the grounds that the shares belonged to the Director in case of 2 instances involving Rs.1.64 is not tenable. Trading Members are required to carry out periodic reconciliation of records as prescribed by the Exchange Circular dated March 11, 2015.
 - ii. For 1 instance involving Rs. 0.18 Lakhs, no response was submitted by Junjharji.
 - iii. For the remaining 13 instances, Junjharji has attributed the differences to corporate actions, delisted and suspended securities.

- iv. Exchange Circular NSE/INSP/10605 dated April 21, 2008, and Exchange Circular No. NSE/INSP/29096 dated March 11, 2015, requires the Trading Members to reconcile client beneficiary account/s and the register of securities and maintain a complete audit trail and documentation of such reconciliation.
 - v. By not reconciling the client securities, Junjharji has violated the provisions of Exchange Circular No. NSE/INSP/10605 dated April 21, 2008, and Exchange Circular No. NSE/INSP/29096 dated March 11, 2015.
- d. In view of the findings above, the Committee decided to levy a monetary penalty of Rs.25,000/- on Junjharji for the observed violation in terms of the Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

11.5. Non-settlement of clients' funds and securities

SCN-2

- a. Upon verification of the settlement declaration, clients' ledgers, trial balance and register of securities of Junjharji, it was observed that Junjharji failed to settle the clients' funds and securities in 32 instances of 16 clients out of 90 instances of 30 clients, involving Rs.7.89 crores, constituting 36% of the total instances verified.
- b. In reply to the SCN-2, Junjharji has submitted as under-
 - i. In 21 instances involving Rs. 6.45 crores, the accounts pertain to their promoter/directors and their relatives.
 - ii. In 4 instances involving Rs. 0.87 crore, the clients had carried forward the F&O positions.
 - iii. In 6 instances involving Rs. 2.27 Lakhs, Junjharji has settled the clients' accounts.
 - iv. In the remaining 1 instance involving Rs. 0.55 crores, the balance was Rs. 0.37 Lakhs (due to dividend credit).
- c. The Committee finds as under:
 - i. Upon verification of Junjharji's contentions, it was observed that 15 instances amounting to Rs.4.92 crores out of the observed 32 instances pertain to directors / shareholders. The amount involved in these instances pertains to the related entities of the brokers and therefore can be considered as settled for the purpose of settlement.
 - ii. Junjharji's contention that the few clients who were maintaining a running account were not required to be settled is not acceptable as the clients who have executed a running account declaration are

- required to be settled at least once in a month/quarter as consented by the client, in terms with Exchange Circular No.NSE/INSP/13606 dated December 3, 2009.
- iii. After considering Junjharji's submissions, the irregularity stands revised to 17 instances of 11 clients out of 90 instances of 30 clients, amounting to Rs. 2.97 crores (19%)
 - iv. Further, the Exchange vide email dated February 15, 2022, and February 24, 2022, requested Junjharji to provide the documentary evidence for the settlement of client accounts carried out post-inspection, in the form of client ledgers, retention statements along with the proof of dispatch and the extract of bank/demat statement for payout of funds/securities made at the time of settlement.
 - v. In response, Junjharji submitted that the balance was carried forward or there were no trades in the next year. The date of settlement was provided only in case of 4 instances. Further, Junjharji did not submit the client ledgers, retention statements, proof of dispatch, extract of bank or demat statement for payout of funds or shares made to the clients. In absence of any documentary evidence, it cannot be concluded that the accounts of the said clients were settled post inspection.
 - vi. No adverse observations pertaining to non-settlement of client accounts was observed in the subsequent inspection conducted by the Exchange from April 2020 to March 2021.
 - vii. Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, requires the Trading Members to settle the accounts of their clients (both active and inactive) at least once in a calendar quarter or month, depending on the client's preference.
 - viii. In the instant case, Junjharji did not settle the client accounts in 17 out of 90 instances (17%) involving Rs.4.92 crores.
 - ix. Repeat violator- A similar observation was made in the previous inspection conducted by the Exchange for inspection year F.Y.2018-19, and a monetary penalty was levied.
- d. In view of the findings above, the Committee decided that a monetary penalty of Rs.1,12,500/- (Rs.75,000/- plus Rs.37,500/- being escalation @ 50% for repeat violation) be levied on Junjharji in terms of Exchange Circular No. NSE/INSP/36248 dated November 6, 2017, for the observed violations.

11.6. Incorrect submission towards weekly holding statement

SCN-2

- a. Upon verification of the weekly holding statement submitted by Junjharji vis-à-vis the holdings as per the demat account as of December 31, 2019, it was observed that Junjharji had under-reported the securities available

in the demat account in 16 instances involving Rs.47,279/-; thereby uploading incorrect data towards the weekly holding statement.

- b. In reply to the SCN-2, Junjharji did not submit any reply.
- c. The Committee finds as under:
 - i. Junjharji was granted an opportunity to submit its reply vide Exchange, vide email dated February 15, 2022, and February 24, 2022.
 - ii. While Junjharji did not submit any reply to the email dated February 15, 2022, in response to February 24, 2022, Junjharji mentioned that in 1 instance involving Rs. 0.25 lakhs, shares pertain to corporate action shares, in 3 instances involving Rs. 0.22 lakhs, the violation was observed on account of a human error and 11 instances involving Rs. 456/- were non-trading scrips.
 - iii. None of the reasons for the observed violations submitted are tenable as it is the responsibility of the trading member to ensure that appropriate controls are put in place to ensure the correctness of the data maintained and submitted.
 - iv. Further, the Exchange Circular No. NSE/INSP/39855 dated January 3, 2019, advised all Trading Members to upload the holding statement data electronically for all calendar days of the reporting week on or before the next four trading days of the subsequent week through the inspection module in the Member portal. Trading Members must ensure to verify the data before submission to the Exchange. Thus, by submitting incorrect data in the weekly holding statement, Junjharji has violated the regulatory provisions mentioned above.
 - v. As per Exchange Circular No. NSE/INSP/45899 dated September 30, 2020, the disciplinary action for incorrect weekly holding statement is applicable for the submissions starting from the week ending October 3, 2020. Since the violation was observed on December 31, 2019, the mentioned circular for disciplinary action is not applicable.
- d. In view of the above findings, the Committee decided to warn Junjharji for the observed violation.

11.7. Operating trading terminals in the CM segment without a valid certification**SCN-2**

- a. Upon verification of the terminal details uploaded by Junjharji in the Exchange database, it was observed that the corporate manager terminal with used ID 7391 belonging to a dealer, Mr. Rajesh Kumar Agarwal was valid until April 27, 2015, whereas the date of last trade executed from the said terminal was December 31, 2019. Thus, the trading terminal was operated without a valid certificate from April 28, 2015, to December 31, 2019.
- b. In reply to the SCN-2, Junjharji submitted as under:
 - i. Junjharji possesses all the certificates required to operate the trading terminal.
 - ii. Junjharji uploaded certificate bearing Mr. Aditya Karwa's name on the Exchange database due to oversight.
 - iii. Junjharji has submitted the certificate to the Exchange.
- c. The Committee finds as under:
 - i. On verification, it was observed that the certificate was issued on February 16, 2022, i.e., post inspection. Post-inspection compliance does not absolve Junjharji from the violations committed.
 - ii. Therefore, Junjharji is found to have not complied with the certification requirement for operating the trading terminal in the CM segment as prescribed by the Exchange Circular No. NSE/MA/22732 dated February 13, 2013.
 - iii. The Committee, considering a single instance of non-compliance, decided to take a lenient view.
- d. In view of the above findings, the Committee decided to advice Junjharji to ensure non-recurrence of the observed violation in terms of the Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

11.8. Non-issuance of the statements of accounts and retention statements at the time of settlement of clients' accounts**SCN-2**

- a. Upon verification of the settlement of clients' funds and securities in Junjharji's clients' accounts, it was observed that Junjharji did not issue the statement of account and retention statement in 23 instances of 14

clients out of 90 instances of 30 clients, constituting 26% of the total instances verified.

- b. In reply to the SCN-2, Junjharji submitted as under:
- i. Most of the observed instances pertain to the promoters and director of Junjharji, who do not require the statement of account and retention statement.
 - ii. All other clients having running balances are duly informed, and physical copies of the quarterly settlement statement are also sent to such clients.
- c. The Committee finds as under:
- i. Upon verification of Junjharji's claim, it was observed that none of the observed 23 instances pertain to the Directors/Promoters of Junjharji.
 - ii. The Exchange, vide email dated February 24, 2022, sought retention statements along with proof of dispatch from Junjharji. In response, Junjharji submitted 5 sample retention statements and claimed that it had sent the physical copies to the clients. Further, Junjharji claimed to have updated their systems to send the statements weekly.
 - iii. On verification of the sample documents, it was observed that Junjharji did not submit any proof of delivery to support its contention. Also, the statements were not date-acknowledged by the clients, and the printing date is observed to be of March 2022, i.e., post the date on which the settlement was to be done. This, therefore, indicates that the said statements were issued at the time of settlement of client accounts.
 - iv. In view of the above, the irregularity continues in 23 instances of 14 clients out of 90 instances of 30 clients, constituting 26% of the total instances verified.
 - v. Exchange Circular NSE/INSP/13606 dated December 3, 2009, requires to be Trading Members to send a statement of accounts containing an extract from the client ledger for funds and securities and a statement explaining the retention of funds/securities within five days from the date of settlement.
 - vi. Therefore, by not issuing the statements of accounts and retention statements at the time of settlement of clients' accounts, Junjharji has violated the provisions of the Exchange Circular No. NSE/INSP/13606 dated December 3, 2009.
- d. Accordingly, the Committee decided to levy a monetary penalty of Rs.60,000/- on Junjharji for the observed violation in terms of the Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

11.9. Funding of clients' transactions

SCN-2

- a. Upon verification of the financial ledgers of clients submitted by Junjharji, it was observed that Junjharji granted further exposure to 1 client beyond 5 days from pay-in date, without recovering the debit balance, involving Rs.7,09,235/-, out of 17 clients, constituting 6% of the total instances verified.
- b. In reply to the SCN-2, Junjharji submitted as under:
 - i. The observed instance pertains to the director's son. Junjharji had granted the exposure due to oversight.
 - ii. Junjharji rectified the error post-inspection.
- c. The Committee finds as under:
 - i. Junjharji attributed the inspection observation to oversight.
 - ii. Exchange Circular No. NSE/INSP/35184 dated June 23, 2017, prohibits the Trading Members from granting 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.
 - iii. Therefore, Junjharji has violated the provisions of Exchange Circular No. NSE/INSP/35184 dated June 23, 2017, mentioned above.
 - iv. Considering the single instance and the non-materiality of the amount involved, the Committee decided not to levy a monetary penalty.
- d. In view of the above findings, the Committee decided to advice Junjharji for the observed violation in terms of the Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

11.10. Incorrect submission towards weekly monitoring of clients' funds under Enhanced Supervision of Stockbrokers

I. SCN-2

- a. Upon verification of the data submitted by Junjharji towards weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers for the week ended December 20, 2019, it was observed that Junjharji submitted incorrect amounts in 6 areas with differences observed in the range of Rs. 1.56 crores and (-ve) Rs. 0.01 crores
- b. In reply to the SCN-2, Junjharji has submitted as under:

- i. Junjharji did not report incorrect data to the Exchange intentionally.
 - ii. The observed instances might have arisen due to misinterpretation of the new system and processes.
 - iii. Further, it has made the submissions as per the back-office records, and while uploading the data on the Exchange portal, the same was found to be in order.
- c. The Committee finds as under-
- i. Junjharji has attributed the inspection observation to interpretation issues.
 - ii. Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, advised the stock exchanges to put in place a mechanism for monitoring clients' funds lying with the stockbrokers to generate alerts on any misuse of clients' funds by stockbrokers. The Exchange monitors the details submitted by the Trading Members as a part of its regulatory supervision, and any incorrect submission, therefore, defeats the purpose of regulation. As such, any incorrect reporting for reasons whatsoever is neither permissible nor acceptable.
 - iii. Thus, Junjharji has violated Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, by uploading incorrect data towards the weekly monitoring of clients' funds.

II. LO-1

- a. Upon verification of the data submitted by Junjharji towards weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of May 07, 2021, May 28, 2021, June 04, 2021, and June 11, 2021, it is observed that Junjharji has incorrectly reported data to the Exchange under 5 areas with differences observed in the range of Rs. 1.88 crores and (-ve) Rs. 1.28 crores.
- b. In reply to the LO-1, Junjharji has submitted that the violation was observed due to a back-office error, which has now been rectified.
- c. The Committee finds that Junjharji has accepted the violation and attributed the same to an error in its back office.

III. LO-3 and LO-6

- a. Upon verification of the data submitted by Junjharji towards weekly monitoring of clients' funds under the Enhanced Supervision for the week ended on November 12, 2021, it was observed that Junjharji has incorrectly reported data to the Exchange under 7 areas with differences observed in the range of Rs. 1.31 crores and (-ve) Rs. 3.05 crores.

- b. Upon verification of the data submitted by Junjharji towards weekly monitoring of clients' funds under the Enhanced Supervision for the week ended on December 10, 2021, December 17, 2021, and December 24, 2021, it was observed that Junjharji has incorrectly reported data to the Exchange under 6 areas with differences observed in the range of Rs. 1.33 crores and (-ve) Rs. 4.04 crores.
- c. In reply to the LO-3 and LO-6, Junjharji has submitted that there are no instances which pertain to incorrect reporting. The creditors are mainly its directors who are also registered as clients.
- d. The Committee finds as under:
- i. Junjharji has not provided any specific comments for the differences observed in its response to LO-3 and LO-6.
 - ii. The Exchange, vide email dated February 24, 2022, requested Junjharji to provide their working files with supporting documents to support the claim of improper working done by the inspection team. In response to the said email, Junjharji submitted that they were unaware of the exact definition of cash equivalents and that they had included the stock and liquid assets as cash equivalents. Further, Junjharji had claimed to have correctly considered director's securities and funds. However, Junjharji did not provide any documents in support of its claim. Therefore, the violation continues for all the observed instances.
 - iii. Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, advised the stock exchanges to put in place a mechanism for monitoring clients' funds lying with the stockbrokers to generate alerts on any misuse of clients' funds by stockbrokers. Hence, the Trading Members must verify the data before submission to the Exchange. Thus, by uploading incorrect data toward the weekly monitoring of clients' funds, Junjharji violated Exchange Circular No. NSE/INSP/33276 dated September 27, 2016.
- e. In view of the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,00,000/- on Junjharji for the observed violation in terms of the Exchange Circular No. NSE/INSP/36248 dated November 6, 2017, and NSE/INSP/47457 dated February 25, 2021.

11.11. Incorrect submission towards monthly monitoring of clients' funds and securities under Enhanced Supervision of Stockbrokers

SCN-2

- i. Upon verification of the data submitted by Junjharji towards monthly clients' funds and securities balances under the Enhanced Supervision of Stockbrokers for the month ended December 31, 2019, it was observed that Junjharji has incorrectly reported the clients' funds balances to the Exchange in 50 instances involving Rs.46.89 lakhs.
- ii. In reply to the SCN-2, Junjharji has submitted as under-
 - a. Mismatches in 8 instances pertain to director/promoter or their relatives.
 - b. Mismatches in 20 instances are due to non-consideration of margin deposits recorded separately.
 - c. For mismatches in 21 instances, Junjharji had reported the correct balances. For 1 instance, Junjharji has not provided any comments.
- iii. The Committee finds as under-
 - a. Mismatches in 8 instances pertain to director/promoter or their relatives. However, there is no exemption for incorrect reporting of the balances of director/promoter. Hence the contention of Junjharji is not acceptable.
 - b. Mismatches in 20 instances are due to non-consideration of margin deposits recorded separately. On verification of 5 sample clients, Junjharji's claim was found to be in order in 2 instances.
 - c. For mismatches in 21 instances, Junjharji had reported the correct balances. Upon verification of sample clients, Junjharji's claim was found to be in order in 1 instance only. Hence, the violation will persist.
 - d. For 1 instance, Junjharji has not provided any comments.
 - e. After considering Junjharji's submission, irregularity continues in 47 instances involving Rs. 44.64 lakhs.
- iv. Exchange Circular No. NSE/INSP/33276 dated September 27, 2016, advised the stock exchanges to put in place a mechanism to ensure that stockbrokers upload the data such as day-end funds and securities balances, securities pledged, if any and funds raised from pledging such securities monthly for every client onto each stock exchange system where the stockbroker is a member. Each stock exchange shall, in turn forward this information to the clients via email and/or SMS on email id and mobile number uploaded by the stockbrokers to the Exchange for their clients. Hence, the Trading Members must verify the data before submission to the Exchange.

- v. Error in reporting data to the Exchange for any reasons are therefore unacceptable.
- vi. Thus, by submitting the incorrect data to the Exchange, Junjharji violated the provisions of Exchange Circular No. NSE/INSP/33276 dated September 27, 2016.
- vii. In view of the findings mentioned above, the Committee decided to levy a monetary penalty of Rs. 25,000/- in accordance with the Exchange Circular No. NSE/INSP/36248 dated November 6, 2017.

DECISION

12. In view of the above, the Committee levied the following penalties as indicated against each of the violations.

Sr. No.	Committee's Findings	Prescribed penalty prescribed as per Exchange Circular No. NSE/INSP/36248 dated November 6, 2017, Exchange Circular No. NSE/INSP/42919 dated December 16, 2019, and NSE/INSP/47457 dated February 25, 2021	Penalty Levied
1	Junjharji had falsely reported the margin collected from its clients to the Exchange.	Refer para 11.1 (D)	<u>SCN 1</u> Monetary Penalty of Rs.15,00,000/- and suspension of one trading day in the CM and F&O segment after giving three weeks' notice <u>SCN 2</u> Monetary Penalty of Rs.15,00,000/- and suspension of one trading day in the CM and F&O segment after giving three weeks' notice <u>L.O. 4 and LO-5</u> Warning considering the

Sr. No.	Committee's Findings	Prescribed penalty prescribed as per Exchange Circular No. NSE/INSP/36248 dated November 6, 2017, Exchange Circular No. NSE/INSP/42919 dated December 16, 2019, and NSE/INSP/47457 dated February 25, 2021	Penalty Levied
			non-materiality of the amount involved <u>LO-7</u> Monetary penalty of Rs.2,42,300/- <u>LO-8</u> Monetary Penalty of Rs.7,14,500/- <u>Total penalty-</u> Rs.39,56,800/- plus suspension for a period of two consecutive days after giving three weeks' notice.
2	Junjharji has not co-operated in providing the data during inspection.	Rs. 1,00,000/-	Monetary penalty of Rs.1,00,000/-
3	Junjharji has misused client funds and securities	1% of the amount misused or Rs. 1,00,000/-, whichever is higher	Monetary penalty of Rs.1,00,000/-
4	Junjharji has failed to reconcile securities in the beneficiary account with the back-office records.	Rs.25,000/-	Monetary Penalty of Rs.25,000/-
5	Junjharji failed to settle the clients' funds and securities.	Rs.75,000/- plus escalation @ 50% on account of repeat violation	Monetary penalty of Rs.1,12,500/- (Rs.75,000/- plus Rs.37,500/- being escalation @ 50% for

Sr. No.	Committee's Findings	Prescribed penalty prescribed as per Exchange Circular No. NSE/INSP/36248 dated November 6, 2017, Exchange Circular No. NSE/INSP/42919 dated December 16, 2019, and NSE/INSP/47457 dated February 25, 2021	Penalty Levied
			repeat violation)
6	Junjharji had submitted incorrect data towards the weekly holding statement.	No prescribed penalty	Warning to ensure non-recurrence of the observed violation.
7	Junjharji operated the trading terminal without a valid certificate.	Advice	Advice to ensure non-recurrence of the observed violation.
8	Junjharji did not issue the statement of account and retention statement to its clients.	Rs.60,000/-	Monetary Penalty of Rs.60,000/-
9	Junjharji granted further exposure to the clients having debit balance beyond T+2+5 days.	Advice	Advice
10	Junjharji submitted incorrect data toward weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers.	Warning to Rs.1 lakh	Monetary Penalty of Rs.1,00,000/-
11	Junjharji submitted incorrect data toward monthly monitoring of clients' funds and securities under Enhanced Supervision of Stockbrokers.	Warning to Rs. 1,00,000/-	Monetary Penalty of Rs.25,000/-
TOTAL			Rs.44,79,300/-

13. Junjharji is directed as under-

- a. Junjharji shall pay a monetary penalty of Rs.44,79,300/- (Rupees Forty-Four Lakhs Seventy-Nine Thousand Three Hundred only)

- b. The trading membership of Junjharji in both CM and F&O segments shall be suspended for a period of two consecutive days after giving three weeks' notice.
- c. Junjharji shall note the non-monetary penalty mentioned above and ensure non-recurrence of the observed violation.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
Anuradha Rao
(Committee Member)

Sd/-
K Narasimha Murthy
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Sd/-
Vikram Limaye
(Committee Member)

Date: August 24, 2022