QJA/MN/MIRSD/MIRSD-SEC-1/31821/2025-26

SECURITIES AND EXCHANGE BOARD OF INDIA

ENQUIRY ORDER

Under Section 12(3) of Securities and Exchange Board of India Act, 1992 read with Regulation 23 and Regulation 27 of Securities and Exchange Board of India (Intermediaries) Regulations, 2008

IN RESPECT OF:

NOTICEE	SEBI Registration No.	PAN
PRABHUDAS LILLADHER PRIVATE LIMITED	**INZ000196637**	**AAACP2733Q**

In the matter of Prabhudas Lilladher Private Limited

Background:

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") along with the Exchanges viz., NSE, BSE and MCX carried out a comprehensive joint inspection of Prabhudas Lilladher Private Limited (hereinafter also referred to as "**Noticee**"/ "**Prabhudas**"/ "**PL**"/ "**Member**"/ "**TM**") from November 02, 2022 to November 08, 2022 for the Inspection period of April 01, 2021 to October 31, 2022 ("**Inspection Period**"/ "**IP**").

2. Upon analysis of the inspection findings vis-à-vis the reply of the Noticee, *prima-facie* following violations relevant to this proceedings, were observed:
   2.1. Section 23D of SC(R) Act, 1956 read with Clause 1 of SEBI Circular SMD/SED/CIR/93/23321 dated November 18, 1993; and Clause 3 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 for misuse of clients funds.
   2.2. Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021; Clause 8.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and

clause 12 (e) and 12 (g) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 5.1 of SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022 for non-settlement traded and non-traded clients' accounts.

2.3. Clause 5 & 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2 of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 July 31, 2020 for incorrect reporting and short collection of margins.

2.4. Clause A(5) of Schedule II read with Regulation 9(f) of SEBI (Stock Brokers) Regulations, 1992 read with Question no. 15 in Annexure A to NSE circular NSE/INSP/45191 dated July 31, 2020 , NSE/INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022 for passing of penalty on short reporting of margin to clients.

2.5. Clause 1(i) of SEBI Circular no. MIRSD/Cir-26/2011dated December 23, 2011 for delay in uploading documents to KRA.

2.6. Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017 for not correctly uploading details of all clients' funds lying with them on stock exchange system.

2.7. Clause 6.1.1(j) of Annexure to SEBI Circular SEBI/HO/MIRSD/MIRSD2 /CIR/P/2016/95 dated September 26, 2016 for incorrect reporting of Clear Ledger Balance and Peak Ledger Balance in cash & cash equivalent.

2.8. Clause 4.1 of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 for transferring securities of Credit balance client to "Client unpaid securities account.

2.9. Clause 19 of SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017, SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020 for incorrect reporting of exposure given to the clients.

2.10. Clause 18 of Annexure 4 of SEBI Circular ref no. CIR/MIRSD/16/2011 dated August 22, 2011 and SEBI Circular dated February 04, 1991 on Contract Notes and Brokerage for collecting excess brokerage from 4 clients.

2.11. Clause 6 (b) of SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 read with Clause 1 of SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019 for not closing two Demat accounts within due dates.

3. Accordingly, SEBI initiated enquiry proceedings under Regulation 23 of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as "**Intermediaries Regulations**") read with section 12(3) of the SEBI Act, 1992, and appointed a Designated Authority (DA) vide order dated December 28, 2023 to conduct an enquiry in terms of Chapter V of the Intermediaries Regulations for the alleged violations of the provisions of the SEBI (Stock Brokers) Regulations, 1992 hereinafter referred to as "**Brokers Regulations**"), the Securities Contracts (Regulation) Act, 1956 hereinafter referred to as "**SCRA**"), and various SEBI and NSE circulars.

4. The DA issued a show-cause notice (hereinafter referred to as **"SCN"**) dated June 19, 2024 to the Noticee under Regulation 25(1) of the Intermediaries Regulations to show cause as to why appropriate recommendation should not be made against the Noticee as prescribed under Regulation 26 of the SEBI (Intermediaries) Regulations, 2008, for the alleged violations as mentioned above.

5. After taking into consideration the facts and circumstances of the case, material available on record and submissions made by the Noticee, the DA, submitted the Enquiry Report dated July 16, 2025 with the recommendation that:

"the Noticee i.e., Prabhudas Lilladher Private Limited, SEBI Registration No: INZ000196637, be prohibited from taking up any new assignment or contract or launching a new scheme, in so far as may be applicable to the Noticee as

a SEBI registered Stock Broker, for a period of 15 days in terms of Regulation 26(1)(iv) of SEBI (Intermediaries) Regulations, 2008."

Post Enquiry Proceedings:

6. Thereafter, a Post-Enquiry Show Cause Notice dated August 08, 2025 (hereinafter referred to as "**Post Enquiry SCN**") was issued to the Noticee enclosing a copy of the Enquiry Report dated July 16, 2025, and calling upon him to show cause in terms of Regulation 27 of the Intermediaries Regulations as to why actions as recommended by the DA or any other action should not be taken against the Noticee in terms of the said Regulations.

   I note that the said Post Enquiry SCN dated August 08, 2025 was issued and served to the Noticee through SPAD as well as through email. Vide letter dated August 26, 2025, Noticee sought inspection of certain documents which was denied, with reasons communicated vide mail dated October 03, 2025. Thereafter, Noticee submitted its reply vide email dated October 17, 2025.

   Subsequently, following principle of natural justice, the Noticee was granted an opportunity of personal hearing on November 19, 2025, vide hearing notice dated November 10, 2025, served to it by email. The Authorized Representative (AR) of the Noticee along with officials of the Noticee attended the said hearing. The Noticee made the additional submissions vide email dated November 24, 2025.

7. The summary of the replies of the Noticee dated October 17, 2025 and November 24, 2025 are as under:

   General replies:

   7.1. The purpose of inspection is compliance enhancement, not punishment. Minor irregularities do not call for initiation of penalty or disciplinary action.

   7.2. Adjudication proceedings on the same set of facts have already concluded with a penalty of ₹11,00,000, imposed vide Adjudication Order dated July 16, 2025.

7.3. *Restraining Noticee from accepting new assignments for 15 days would cause disproportionate and lasting harm to the organisation, long-standing client trust, cause irreversible harm to business, fundraising plans, employee morale, and institutional relationships along with unfair competitive disadvantage.*

7.4. *Noticee cited SEBI precedents where proceedings were disposed of with warning or no adverse action.*

7.5. *Other mitigating factors:*

- *Alleged lapses are technical and procedural, not intentional.*
- *No investor complaints or harm to market integrity.*
- *Full corrective measures have been implemented.*
- *No unfair gain or advantage to Noticee.*
- *Violations, if any, are non-repetitive and rectified.*

Allegation-wise replies:

7.6. *Misuse of Clients' Funds*

- *The word "may" in the Master Circular signifies only a possibility and serves as an alert to the Stock Exchanges, not a definitive finding of breach. No material on record to demonstrate that any amount corresponding to the negative "G" value was actually used to meet settlement obligations of debit balance clients or for our own purposes.*
- *The isolated instances of negative "G" were solely the result of temporary procedural disruptions during the COVID-19 delta phase, when restrictions and reduced staffing affected the monitoring of receipts and payments.*
- *Only 3 out of 44 instances*

7.7. *Non-Settlement of Clients' Accounts*

- *No non-settlement; only temporary delay due to software error.*
- *All accounts settled before inspection, and no client complaints received.*
- *Total unsettled amount insignificant compared to the overall business volume.*

7.8. Incorrect Reporting / Short Collection of Margin

- *Errors were clerical, not deliberate; cheques received in time but reflected later in bank statements.*
- *DA relied on bank screenshots instead of client ledgers, leading to misinterpretation.*
- *Exchange circulars allow margin to be reported on receipt date if cleared within prescribed time.*

7.9. Not uploading documents to KRA

- *In 10 instances, a software bug prevented certain files from being generated, which in turn led to delays in uploading the KRA records.*
- *In 2 instances, the clients' KYC was already completed through CKYC by another intermediary, which prevented us from updating the records independently.*
- *In 2 instances, the client accounts were registered in the PMS category on November 21, 2020, while our KRA was already registered on January 30, 2007, with no change in KYC details. Hence, no update was required at the time of account opening.*
- *In 1 instance, the delay occurred because the KRA status remained "under modification" for a prolonged period due to action by another intermediary, which was beyond our control.*

7.10. Incorrect reporting of clients' funds

- *too insignificant to constitute non-compliance*
- *Inclusion of base capital deposits as part of the reported balances was done in good faith, based on understanding of the reporting requirements*
- *no intention to misrepresent or conceal information*
- *After clarification from CC, promptly changed its method of calculation*
- *no investor complaints regarding this matter and corrective steps have already been taken*

7.11. Incorrect reporting of Clear Ledger Balance and Peak Ledger Balance in cash & cash equivalent

- *Allegation w.r.t. Peak Reporting Balance is based on NSE Clearing Limited Circular No. NCL/CMPL/64088 dated September 23, 2024 which was issued long after the inspection period of 2021–22*
- *nominal difference of INR 78.65 arose only due to a bill being re-generated for a minor rectification, which cannot be treated as a regulatory breach*
- *The remaining difference was solely due to an inadvertent clerical error involving carry forward of balances between the MTF ledger and the normal ledger.*
- *no investor complaints regarding this matter and corrective steps have already been taken*

7.12. Transferring securities of credit balance clients to "Client unpaid securities account"

- *In all the alleged 91 instances, if the securities had been released to the clients, their margin requirements in the F&O segment would have been breached, thereby exposing us and potentially the market at large to significant credit risk.*
- *All the 91 clients have given letters to us to allow considering surplus balance of one exchange segment against another.*

7.13. Incorrect reporting of exposure given to the clients

- *Occurred only in few instances because of manual and clerical errors, entirely beyond control*
- *Not due to any intentional act or negligence*
- *No investor complaints regarding this issue and corrective steps have already been taken*

7.14. Collected excess brokerage from clients

- *The difference arose solely due to a clerical error, wherein the brokerage slab was mistakenly entered as 50 paise per share instead of 25 paise per share as the minimum brokerage*
- *Immediately upon discovering the error, rectified the entry and refunded the excess amounts to the affected clients*
- *The total amount involved was less than INR 5,000, a sum that is minuscule in the context of overall operations*

7.15. Not closing Demat accounts within due dates

- *lapse was an isolated and inadvertent error rather than any wilful or deliberate non-compliance. Already paid the penalty of 5,000/-*
- *arose due to an oversight, and immediately upon becoming aware of it, took corrective steps and closed the concerned accounts without delay*

8. I am of the view that opportunities were granted to the Noticee for replying to the SCN and of being heard and the replies are also on record. Hence, the principles of natural justice were complied with respect to the Noticee and I shall now proceed to deal with the key issues involved in the instant matter.

Consideration and Findings:

9. Considering the factual findings from the inspection, the allegations levelled against the Noticee in the Post Enquiry SCN dated August 08, 2025 including the Enquiry Report dated July 16, 2025, and the submissions made by the Noticee through oral hearing and written replies in the matter, I find that the following issue requires consideration;

Issue A: Whether the Noticee has violated the provisions of Securities Contracts (Regulation) Act, 1956, SEBI (Stock Brokers) Regulations, 1992, SEBI Circulars and NSE Circulars, as alleged?

10. Before proceeding to deal with the aforesaid issues in the context of allegation made / charges levelled in the SCN/DA Report, I find it appropriate to deal with the preliminary objections / issues raised by the Noticee.

11. The Noticee has contended that the purpose of SEBI's inspection is corrective rather than punitive. I note that while it is correct that inspections are primarily intended to identify deficiencies and promote compliance, the regulatory framework does not preclude SEBI from initiating enforcement action where serious or substantive lapses are detected. When violations relate to core obligations, client asset protection, or other safeguards fundamental to market integrity, SEBI is obliged to adopt an appropriate enforcement response to ensure accountability, deter recurrence, and uphold investor protection. Accordingly, the fact that inspections have a supervisory character does not diminish SEBI's authority to pursue enforcement measures where warranted by the gravity of the findings.

12. I note that the Hon'ble SAT in **Religare Securities Limited v. SEBI (Appeal No. 23 of 2011, decided on June 16, 2011)**, held that:

> *"It must be remembered that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements in regard to the maintenance of records. We also cannot lose sight of the fact that every minor discrepancy/irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant."*

13. However, the Tribunal in the same judgment added the following important qualification:

> *"This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent."*

14. The aforesaid was reaffirmed in **UPSE Securities Limited v. SEBI (Appeal No. 109 of 2011)**, where the Hon'ble SAT observed:

> *"Before concluding we cannot resist observing that the object of carrying out inspection of the books of accounts and records of any intermediary is to ensure that the Stock Brokers are following the rules and regulations and complying with the statutory requirements… For serious lapses, it would always be open to SEBI to take penal action in accordance with law."*

15. From the above observations, I note that when serious or substantive lapses come to light, particularly those that touch upon investor protection or core regulatory obligations, an appropriate enforcement measure needs to be deployed.

16. The Noticee has submitted that for the same set of allegations, adjudication proceedings were also initiated by SEBI which were concluded with passing of Adjudication Order imposing a penalty on them. In this regard, I note that the adjudication proceedings and the present enquiry proceedings are distinct both in nature and in statutory purpose. The adjudication proceedings are confined to the imposition of monetary penalty under Section 15-I of the SEBI Act. However, the present enquiry has been instituted under the SEBI (Intermediaries) Regulations, 2008, which may result in the imposition of directional and supervisory measures under Regulation 26, including suspension or prohibition from undertaking intermediary activities.

17. Given that the two proceedings operate within different regulatory frameworks, and pursue distinct remedial objectives, I note the SCN issued in the current proceeding cannot be held bad in law.

18. For the purpose of ease and clarity, issue “A” has been divided into eleven (11) sub issues. Each sub issue will be discussed below in separate headings.

Issue A (i): Whether Noticee has mis-utilized client’s funds?

19. The inspection examined the Noticee’s compliance with the enhanced supervision framework relating to monitoring of client funds. For this purpose, the inspecting team verified the computation of the parameter “G”, which represents whether the aggregate available client funds and cash-equivalent collateral are sufficient to cover the total credit balances of clients. The computation was examined for 44 sample dates during the inspection period.

20. From this verification, the inspection noted that on three dates, 12/07/2021, 13/07/2021 and 15/07/2021, the G-value was negative. In aggregate, the Noticee had a shortfall of ₹2,70,27,914 on these dates. The inspection accordingly recorded that on the aforesaid three dates funds and cash-equivalent collateral available in the client bank accounts and with the clearing corporation were insufficient to match the total credit balances of clients on those days. Inspection further recorded that this indicates the misuse of client funds

21. Based on these findings, it was alleged that the Noticee had mis-utilised client funds to the extent of the negative G-values observed on 12/07/2021, 13/07/2021 and 15/07/2021, aggregating to ₹2.70 crore. This was alleged to be in violation of Section 23D of the Securities Contracts (Regulation) Act, 1956, read with Clause 1 of SEBI Circular dated November 18, 1993, and Clause 3 of the Annexure to SEBI Circular dated September 26, 2016.

22. Based on the perusal of the records before me including the reply of the Noticee dated., I note that the Noticee has not disputed that the G-value was negative on the three dates 12/07/2021, 13/07/2021 and 15/07/2021. I find that on 3 out of 44 sample dates, the value of G was negative for a total amount of Rs.2,70,27,914 as shown in the following table:

Sr. No.	Date	Total of end of the day balance in all Client Bank Account s including the settlement account)	Collateral deposited with clearing corporation/ clearing member in form of Cash and Cash Equivalents	Total Credit Balance of all clients (after adjusting for open bills and uncleared cheques	A+B-C	P-(G+E+F)	If G is negative: B-(MC+MF), If G is positive : (C-A)-(MC+MF)
		A	B	C	G	I	J
1	12/07/2021	38,03,67,283	2,95,27,52,580	3,35,20,48,666	**-1,89,28,803**	-61,26,66,045	-2,80,03,93,362
2	13/07/2021	47,47,61,919	2,94,19,12,193	3,42,08,55,128	**-41,81,015**	-59,44,60,730	-2,65,26,81,146
3	15/07/2021	54,70,54,440	3,02,99,43,107	3,58,09,15,644	**-39,18,096**	-58,24,25,391	-3,32,69,87,393

23. As seen in the above table, on 12.07.2021 the G was negative to tune of Rs.1,89,28,803, on 13.07.2021 the negative G value was Rs.41,81,015 and on 15.07.2021, the negative G value was of Rs.39,18,096, aggregating to Rs.2,70,27,914.

24. However, the Noticee has submitted that the negative figures in themselves, do not establish any misuse of client funds. According to the Noticee, the circular uses the expression “may indicate”, which implies that a negative G-value is not a conclusive indicator of mis-utilisation but only a trigger for further examination. The Noticee has stated that the instances occurred during the COVID-19 phase when operations were significantly disrupted due to lockdown restrictions, reduced staffing, which affected the monitoring of receipts and payments.

The Noticee has further submitted that the negative G-value occurred only on three isolated dates out of the entire period and represents less than one percent of the overall credit balance of clients. The Noticee has also submitted that it is

well-capitalized intermediary with a liquid net worth exceeding INR 70 crore, ensuring that all client obligations are fully protected at all times.

The core submission of the Noticee is that a negative G value "may indicate" misuse and not "necessarily indicate" misuse, and therefore, without independent demonstration of diversion, the negative values cannot be treated as conclusive.

25. In this regard, I note that the enhanced supervision framework introduced by SEBI defines the G-value as the primary mechanism to ensure that at all times, the aggregate of available client funds and cash-equivalent collateral (A+B) must match or exceed the aggregate client credit balances (C).

26. The circular dated September 26, 2016 essentially mandates that stockbrokers to submit detailed clients fund information to the stock exchanges so that an effective mechanism is put in place for continuous monitoring of client funds lying with the broker. This reporting requirement is not simply procedural, it is designed to detect, at the earliest possible stage, whether the credit balances of some clients are being utilised to meet the settlement obligations of debit-balance clients or for the broker's own purposes. Clause 3 of the circular clearly captures this intent. A negative "G value" is specifically identified as an indicator of misutilisation. The circular categorically records that a negative G value suggests that the broker may be using the funds of credit-balance clients either for (i) meeting settlement liabilities of debit-balance clients, or (ii) meeting the broker's own proprietary requirements. The circular goes further to state that a negative G value acts as an alert for the stock exchanges.

27. I further note that Clause 3.4 of the circular reinforces this interpretation. It states that once such alerts are generated, the stock exchanges shall, *inter alia*, seek clarifications, carry out inspections, and, if necessary, initiate appropriate actions to ensure that client funds are not misused. The very architecture of the circular therefore establishes a two-step principle, (1) the generation of an alert upon a

negative G value, and (2) the seeking of an explanation from the broker before the inspection team arrives at a conclusive finding of misutilisation.

28. At this stage, a question may arise as to whether treating a negative G-value as an alert can constitute as evidence of misuse. I note that the characterisation of the G-value as an "alert" pertains only to the operational design of the supervisory framework and not to the nature of the underlying data. An alert is generated only because the underlying financial data indicates a shortfall. The fact that the circular labels the outcome as an alert does not convert the underlying deficit into a hypothetical or potential scenario.

29. Further, the inputs to G-value, namely, (A) the actual cash in client bank accounts, (B) the actual cash-equivalent collateral placed with the Clearing Corporation, and (C) the client-wise credit balances as declared by the Noticee are themselves evidences. "A" and "B" is supported by actual data, reflecting the real availability of client funds whereas "C" evidences the broker's own statutory reporting of client obligations given by the Noticee itself. The Noticee has not disputed any of these underlying figures. Therefore, once it is established that A+B is less than "C", the shortfall reflects a real deficit in client funds. The alert only indicates that the system has detected this deficit. It is the deficit itself that carries evidentiary value.

30. Once such an alert is generated, clause 3.4 of the circular dated September 26, 2016 permits an opportunity to provide an explanation by the broker. This is more so as the Stock Exchange is empowered to impose supervisory actions as mentioned in the said clause. The explanation requirement acts as the procedural safeguard before any adverse action. Therefore, unless the Noticee furnishes a credible, contemporaneous, evidence-based explanation, the pre-existing evidence in the form of data reflecting its own bank balances, CC collateral and ledger-declared client obligations, remains unrebutted and necessarily leads to the conclusion that the shortfall amounts to misutilisation of client funds.

31. In the present case, a joint inspection was carried out by SEBI and the stock exchanges. Most importantly, before finalizing the inspection findings, an opportunity was given to the Noticee to explain the negative G value recorded during the inspection period. The said opportunity was also available with the Noticee before the DA. Further, even in the instant proceeding, opportunity to explain the reason of negative G value was given twice more. However, in any of the aforementioned instances, the broker did not dispute that a negative G value existed. His only defense was that the negative value was caused due to an "error" in COVID situation. However, the explanation stopped there. He did not explain what the alleged error was, how it arose, what entries or operations led to it, or how such an error could have mathematically resulted in a sustained negative G value. No documentary reconciliation or system-level clarification was provided. In effect, the broker admitted the negative G but did not provide any substantive explanation to rebut the conclusion of misuse that flows from the circular.

32. Given this factual matrix, I find that the negative G value in this case does lead to misutilisation of client funds, exactly in the manner contemplated under the circular. In other words, the broker has failed to satisfactorily demonstrate that the negative G arose not because of the utilisation of credit-balance client funds for purposes other than those of the concerned client. In fact, there is no case from the Noticee that funds were not used for meeting obligations of debit-balance clients or for proprietary purposes.

33. However, I note that, what remains open is whether the misutilisation to the extent of the negative G value was deployed for proprietary trading, or for meeting the settlement obligations of debit-balance clients. I note that, this is a separate question of apportionment which the subsequent examination would bring out. However, that aspect pertains to apportionment and end-use of the misused funds. But the factum of misuse itself stands established because the Noticee has not provided any credible rebuttal to the conclusion of misuse of clients funds.

34. In addition to that, securities law violations are to be determined on the preponderance of probabilities. The instant circular, through the G-value mechanism, puts in a mechanism which on the preponderance of probability leads to the misutilisation of client funds. Therefore, I note when a shortfall is detected, the very existence of that shortfall, on a preponderance of probability basis, supports the conclusion that client funds have been withdrawn or utilised for non-permitted purposes unless the Noticee explains, with cogent and credible evidence, the justification for the shortfall.

35. Further, the Noticee's submission that the negative G-value occurred only on three dates out of 44 sample dates cannot be accepted as a mitigating explanation at the stage of assessing the existence of a violation.

36. I also note that the claim that shortfall represents less than one percent of the client credit balances does not address the underlying violation. The framework is built on the principle that client funds must be fully protected and kept available for that specific client at all times and in full measure. The size of the shortfall does not determine whether a violation has occurred.

37. The Noticee has further stated that the shortfall was temporary and was immediately corrected. However, rectification after the event does not erase the fact that on the relevant dates, the funds available were insufficient to meet client liabilities. The framework does not envisage retrospective compliance. The requirement is prospective and continuous. Therefore, the occurrence of a negative G-value on the three dates cannot be neutralised by subsequent correction.

38. Accordingly, I find that the shortfall and consequent use of client funds for unauthorised purposes stand established.

39. Clause 1 of the SEBI Circular dated November 18, 1993 clearly mandates that money lying in the client account can be withdrawn only in the limited situations specified in sub-clause (D). These situations are:

    39.1. withdrawal of money properly required for payment to or on behalf of the client, or for discharge of a debt legitimately due from the client, or money drawn strictly on the client's authority, provided such withdrawal does not exceed the money actually held for that client at that time;

    39.2. withdrawal of the Member's own money that may have been paid into the client account under para 1(C)(ii) or 1(C)(iv); and

    39.3. withdrawal of money that may have been deposited into the client account by mistake or accident in contravention of para (C).

40. In the present case, the shortfall identified in the client account necessarily represents a withdrawal of client funds. The Noticee has not demonstrated that such withdrawal falls within any of the three permissible exceptions. It is relevant to note funds cannot be withdrawn from the client account for the purpose of meeting the settlement obligations of debit-balance clients or for meeting the proprietary obligations arising out of the Member's own trading activity. Therefore, the shortfall constitutes a clear breach of Clause 1 of the SEBI Circular dated November 18, 1993. Consequently, I also find that Clause 3 of the Annexure to the SEBI Circular dated September 26, 2016 stands violated. I note that Section 23D of the SC(R) Act, 1956 is not attracted in the facts of the present proceedings.

Issue A (ii): Whether Noticee has not settled non-traded clients' accounts (Quarterly), non-traded clients' accounts (Monthly) and traded clients' (Quarterly)?

41. During the inspection, it was observed that:

    41.1. Non-settlement of non-traded clients' accounts (Quarterly): Funds of 1283 clients were not settled for the total amount of Rs.36,09,213.20.

41.2. Non-settlement of non-traded clients' accounts (Monthly): Funds in 677 instances were not settled within the stipulated time for the total amount of Rs.2,85,33,272.12.

41.3. Non-settlement of traded clients' accounts (Quarterly): Funds in 3 instances were not settled for the total amount of Rs.39,00,618.17.

42. In view of the above observations, it was *inter alia* alleged that Noticee had violated the provisions of Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021; Clause 8.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clause 12 (e) and 12 (g) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009 and Clause 5.1 of SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022.

43. I note that the DA Report noted the submissions of the Noticee and has observed that the Noticee has not demonstrated with sufficient details and documents that the accounts were settled within the stipulated time during the inspection period.

44. Before proceeding further, I bring out the regulatory provisions relevant for the issue. The timeline within which a broker is required to settle the running account has been prescribed through successive SEBI circulars. The position mandated by SEBI Circular dated December 03, 2009, wherein Clause 12(e) of Annexure-A permitted a running account only on the basis of a client's written authorisation and required the broker to actually settle the funds and securities at least once in every calendar quarter or every month, depending on the preference expressed by the client. This framework mandated that, at the time of such settlement, a statement of accounts explaining the retention of funds, securities and pledges had to be issued to the client.

45. Subsequently, SEBI, through Clause 8.1.1 of Circular dated September 26, 2016, introduced a more precise outer limit by stipulating that the gap between any two settlements cannot exceed 90 days or 30 days, thereby codifying the maximum permissible interval within which settlement must necessarily occur. This ensured that the earlier quarterly/monthly settlement concept was now backed by a defined mandatory gap which the broker could not breach.

46. Thereafter, SEBI introduced an additional, settlement requirement through Clause 5.4 of Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, which mandated that where a client holds a credit balance and has not executed any transaction for 30 calendar days, the broker is required to return such credit balance within the next three working days, irrespective of when the previous running account settlement took place. This provision ensured that idle client funds cannot be retained merely because the periodic settlement date had not yet arisen.

47. The same circular also reiterated the periodic settlement requirement through Clause 5.1, which required the broker to carry out the settlement of the running account at least once within the chosen 30-day or 90-day cycle, after considering the end-of-day obligation across all exchanges on the date of settlement.

48. Thereafter, through Clause 4.1 of Circular SEBI/HO/MIRSD/DOP/P/ CIR/2022/101 dated July 27, 2022, a uniform settlement date applicable to all clients, was prescribed, requiring running-account settlement to be done on the first Friday of every quarter, and, where such Friday is a trading holiday, on the immediately preceding trading day. This circular consolidated the earlier regime and eliminated discretion in choosing the settlement date, thereby ensuring standardisation and timely return of client funds. Pursuant to SEBI Circular dated July 7, 2022, the settlement shall be done on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan–Mar) for all the clients i.e., the running account of

funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on for all the clients.

49. In this regard, the provisions alleged against the Noticee are as below:

Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021:

'….

5.4. For the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days irrespective of the date when the running account was previously settled.

…'

Clause 8.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016:

'….

8.Running Account Settlement

8.1.In partial modification of circular on running account settlement, the stock broker shall ensure that;

8.1.1.There must be a gap of maximum 90/30 days (as per the choice of client viz. Quarterly/Monthly) between two running account settlements.

8.1.2.For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.

8.1.3.The required bank details for initiating electronic fund transfers shall be obtained from new clients and shall be updated for existing clients. Only in cases where electronic payment instructions have failed or have been rejected by the bank, then the stock broker may issue a physical payment instrument.

8.1.4.Statement of accounts containing an extract from client ledger for funds & securities along with a statement explaining the retention of funds/securities shall be sent within five days from the date when the account is considered to be settled

…'

Clause 12 (e) and 12 (g) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009:

'….

Running Account Authorization

12.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 stock broker to maintain a running account subject to the following conditions:

…

e.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 to 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.

….

g.Such periodic settlement of running account may not be necessary:

i.for clients availing margin trading facility as per SEBI circular

ii.for funds received from the clients towards collaterals/margin in the form of bank guarantee (BG)/Fixed Deposit receipts (FDR).

…'

Clause 5.1 of SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021:

'….

5.1. The settlement of running account of funds of the client shall be done by the TM after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges, at least once within a gap of 30 / 90 days between two settlements of running account as per the preference of the client.

…'

Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022:

'….

4. Pursuant to extensive consultation with Stock Exchanges, in partial modification to the aforementioned circular dated June 16, 2021 and to ensure uniformity in settlement of running account, following has been decided:

4.1. The settlement of running account of funds of the client shall be done by the TM after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan–Mar) for all the clients i.e., the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on for all the clients. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

…'

50. I note that it is not the argument of the Noticee that the settlements in the aforementioned incidents were done within the stipulated timeline as per the regulatory requirement.

51. Based on the materials available on record, I find that there was non-settlement of non-traded clients' accounts (Quarterly) by the Noticee wherein funds of 1283 clients were not settled within stipulated time for the total amount of Rs.36,09,213.20 and the amount of non-settlement ranged between Rs.500 to Rs.4,39,017.94. Further, it had not settled funds of non-traded clients' accounts (Monthly) wherein funds in 677 instances were not settled within the stipulated time for the total amount of Rs.2,85,33,272.12 and the amount of non-settlement ranged between Rs.500 to Rs.16,82,179.70, and it had also not settled funds of traded clients' accounts (Quarterly) wherein funds in 3 instances were not settled within stipulated time for the total amount of Rs.39,00,618.17 and the amount of non-settlement ranged between Rs.34,905 to Rs.21,70,761.48.

52. However, I note that the Noticee has contended that the non-settlement of clients' accounts was because of delay in settlement due to some software error and that all such accounts were subsequently settled before inspection. The Noticee has also contended that the amount involved is insignificant in proportion to the overall size of operation.

53. With regards to the same, I note that the Noticee's contentions that the non-settlement arose due to a 'software/back office error', that all accounts were 'subsequently settled before inspection', and that the amounts are 'insignificant' are not sustainable in law. In this regard, I note that neither Noticee has demonstrated by submitting any detail or documentary evidence regarding such software error and how it impacted the settlement process nor it has submitted any internal email trail or any such communication which must have been recorded in the course of the claimed software error. I note that timely settlement of client accounts is not merely an accounting formality, as the objective behind the mandatory settlement is to eliminate the risk of clients funds misutilisation Consequently, non-settlement needs to be seen in the context of the objective behind the stipulation, irrespective of the amounts involved or the absence of complaints or subsequent rectification for determination on whether the alleged violation is established.

54. The contention of the Noticee that the alleged delay related to a limited number of 1,278 client accounts, while during the same period it successfully settled transactions amounting to hundreds of crores of rupees for other clients does not support that the same was inadvertent and not deliberate. Noticee's submission that there was no intention to misutilize funds or gain any undue advantage is also not relevant for determination of whether the breach has occurred. Similarly, the element of intention is not relevant for determination of these violations. The substantial amount of non-compliance contradicts the case of the Noticee as submitted in the reply dated June 19, 2024 that there is demonstrable substantial compliance.

55. In view of the aforesaid, I agree with the findings of the DA and hold that the Noticee had violated the provisions of Clause 5.1 and 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021; Clause 8.1 of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016; clause 12 (e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated

December 03, 2009; and Clause 4.1 of SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022.

Issue A (iii): Whether Noticee has incorrectly reported and short collected margins?

56. I note that inspection has found instances of incorrect margin reporting by the Noticee. The inspection found incorrect reporting of EOD Margin in respect of four clients across four instances and incorrect reporting of Peak Margin in respect of five clients across five instances. Inspection further recorded short-collection of Peak Margin of ₹55,46,864/- in respect of one client in one instance.

57. Accordingly, it was alleged that the Noticee had failed to correctly collect and report margins and had thereby violated the provisions of Clause 5 and 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2 of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019, and Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020.

58. I note that the Designated Authority (DA) has rendered an adverse finding on the allegation. DA has observed that the Noticee's submissions are, in material aspects, in the nature of admissions in respect of two client codes relating to EOD margin and three client codes relating to Peak Margin. DA has further held that the Noticee's explanation with respect to another client code is devoid of merit, and that the allegation of short-collection of Peak Margin has been neither denied nor disputed. DA has, therefore, concluded that the allegation stands established.

59. I note that the Noticee has submitted that the instances of mismatch in EOD Margin and Peak Margin reporting arose due to inadvertent manual and clerical errors occurring during internal processing, which, according to the Noticee, were beyond its control. The Noticee has further submitted that, in respect of certain clients, the relevant cheques were received on the same day of the alleged

mismatch such as the cheques of ₹21 lakh on 01-Dec-2021 and ₹6 lakh on 27-Jul-2022, but the corresponding ledger entries were made only upon clearance, as per the Noticee's internal process. With respect to the instance of short-collection of Peak Margin, the Noticee has submitted that the difference arose due to an unintended system or posting lapse. The Noticee has contended that all discrepancies were unintentional and attributable to operational constraints rather than non-compliance with margin collection obligations.

60. Before examining the data and the defence, I consider it necessary to deal with the regulatory position that governs the collection and reporting of margins. The margin framework under SEBI circulars operates on the premise that the stockbroker must collect margins upfront, must maintain such collection in a verifiable and recorded manner, and must report the same accurately and without deviation. The framework expressly provides that any non-reporting or false reporting amounts to short-collection, attracting stringent consequences. The broker is therefore required to ensure that the margin available in the client's account are correctly reported to the Stock Exchange and Clearing Corporation.

61. In this regard, Clause 5 and 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 provide that all instances of non-reporting shall amount to 100% short-collection and that if, during inspection, it is found that a member has falsely reported the margin collected from clients, the member shall be liable to penalty equivalent to 100% of the falsely reported amount along with suspension of trading for one day in that segment. These clauses expressly recognise that the obligation is serious and any deviation from the actual margin position constitutes a violation.

62. I further note that Clause 4.1.2 of SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 mandates that, in the cash segment, brokers are required to collect VaR margins and ELM upfront, while other margins must be collected immediately when calls are made. The circular makes it clear

that the T+2 for collection of such margin is only for the purpose of penalty computation and cannot be interpreted to permit delayed collection. The regulatory emphasis is on ensuring that the margin is actually available with the broker.

63. Therefore, these provisions impose a clear obligation on the Noticee to collect margins correctly and report them exactly as collected. It is in the context of these regulatory obligations that the conduct of the Noticee is required to be evaluated. I have examined the inspection data placed on record. From the client-wise figures extracted during inspection, it is evident that the Noticee had incorrectly reported EOD Margin in four instances and incorrectly reported Peak Margin in five instances. The figures for collected margin, ledger balances, free balances and peak ledger balances do not correspond to the amounts reported by the Noticee to the Stock Exchange. The following table illustrates the same.

Sr. No.	Segment	Date	Client Code	EOD Margin all segment (Rs.)	Collected EOD Margin (Rs.)	Peak Margin all segment (Rs.)	Collected Peak Margin (Rs.)	Short Collection (Rs.)	Ledger Balance (Rs.)	Peak Ledger Balance (Rs.)	Free Balance (Funds + Collaterals) (Rs.)	Peak Free Balance (Funds + Collaterals) (Rs.)	Wrong Reporting EOD Margin (Rs.)	Wrong Reporting Peak Margin (Rs.)
1	FO	23/09/2021	**02**33	1,18,01,863.03	1,18,01,863.03	5,25,73,513.28	4,70,26,649.45	55,46,864	2,52,546.03	2,52,546.03	4,69,73,945.87	4,69,73,945.87	-	52,703.58
2	FO	24/08/2021	**3E*02	8,37,59,667.57	8,37,59,667.57	9,65,25,426.20	9,87,59,667.57	-	8,37,59,667.57	8,37,59,667.57	8,37,59,667.57	8,37,59,667.57	-	1,27,65,758.63
3	FO	11/06/2021	**4*08	1,23,65,203.14	1,23,65,203.14	1,54,23,710.58	2,05,64,947.44	-	5,49,001.12	1,39,48,689.45	86,63,213.08	2,20,62,901.41	37,01,990.06	-
4	CM	05/05/2021	**I1**05	65,68,623.53	65,68,623.53	23,06,039.18	23,06,039.18	-	-2,27,42,765.44	-2,12,38,177.96	6,92,245.56	21,96,833.04	58,76,377.97	1,09,206.14
5	CD	01/12/2021	*5**78	2,76,05,282.41	2,76,05,282.41	2,83,47,375.48	2,83,47,375.48	-	2,63,23,876.97	2,63,23,876.97	2,63,23,876.97	2,63,23,876.97	12,81,405.44	20,23,498.51
6	CD	27/07/2022	**7E**6	5,53,812.50	5,53,812.50	5,46,325.50	5,46,325.50	-	-	-	-	-	5,53,812.50	5,46,325.50
	Total							**55,46,864**					**1,14,13,585.97**	**1,54,97,492.36**

64. I note that on 11.06.2021, 05.05.2021, 01.12.2021, and 27.07.2022, the Noticee reported EOD margins aggregating to ₹1,14,13,585.97, although the actual margin available on these dates was lower and did not match the figures furnished

to the exchange. The reporting, therefore, did not accurately reflect the collected EOD margin.

65. I further note that on 23.09.2021, 24.08.2021, 05.05.2021, 01.12.2021, and 27.07.2022, the Noticee reported Peak Margin of ₹1,54,97,492.36, whereas the collected peak margin recorded in the system was different. In some cases, the Noticee reported a higher collected peak margin than what was actually collected, and in others, the value reported bore no correspondence with the records.

66. I further note that in respect of client code 02**33 on 23.09.2021, a short-collection of Peak Margin was observed, amounting to ₹55,46,864/-. The short-collection stands established from the difference between the peak margin required on the day and the actual margin collected. The Noticee has not disputed this finding.

67. These facts demonstrate that the Noticee's reporting was not a result of minor reconciliation issues but represents incorrect and inconsistent reporting of margins across multiple dates and multiple clients. Reported figures of Margin must match the actual collected margin reflected in records. The figures in the inspection table clearly establish that the Noticee reported margins that were neither collected nor available. The short-collection in one instance further confirms that the Noticee had not complied with the mandatory margin requirements.

68. In view of these findings, I conclude that the inspection data establishes that the Noticee's reporting of EOD Margin and Peak Margin was incorrect, inaccurate, and inconsistent with the actual margin collected, and that there was a clear short-collection of peak margin in one instance, as found above.

69. I have carefully considered the defence advanced by the Noticee. The Noticee has primarily attributed the mismatches in EOD and Peak Margin reporting to

"inadvertent manual and clerical errors". The Noticee has also stated that the short-collection of peak margin was unintentional. I note that the Noticee has not produced any documentary evidence to demonstrate that the errors were genuine and beyond its control. Mere assertion of "manual error" without corroboration cannot rebut the factual findings recorded in inspection. In view of the above, the explanation that the mismatches arose from "manual and clerical error" cannot be accepted.

70. Further, I note that in respect of client codes *5**78 and **7E**6 for EOD and peak margin, Noticee has contended that it received the Cheques from client on the specific day of mismatch i.e. Rs.21 Lakh on 01-Dec-21 and Rs.6 Lakh on 27-Jul-22 respectively and the same was not entered in their ledger as it is their internal process that the amount is entered in the ledger once the cheque is cleared.

71. In this regard, I note that the Noticee has not produced any verifiable record evidencing the actual date on which the cheques were received. Even if the cheques were indeed received on the date as claimed, then same should have also been entered in the ledger entries. I note that though the said cheques were considered for margin on the date of receipt of the same but was only entered in the ledger in realization. If the cheque was actually received, the ledger must reflect it and if the ledger does not reflect it then the margin was not collected. A broker cannot simultaneously claim the benefit of collection while failing to discharge the mandatory recording obligation. I note that the amount covered in the cheque, unless the cheque is reflected in entry in the books, cannot be treated as margin collected. Thus, the Noticee's explanation cannot be accepted.

72. It is equally relevant to note that the margin framework under the above mentioned circulars is precisely intended to prevent the kind of incorrect, inflated, reporting seen in this case. Clause 5 of the 2011 circular treats non-reporting as 100% short-collection and Clause 6 treats false reporting as 100% short-collection coupled with suspension. These provisions give emphasis to the fact that any discrepancy between the actual collected margin and the reported margin is a

serious regulatory violation because incorrect reporting undermines the integrity of the risk management framework.

73. In the present case, the discrepancies in the inspection table demonstrate that the Noticee reported margins that were not actually collected, the Noticee misreported peak margin figures inconsistent with time-stamped system snapshots, and the Noticee failed to collect the required peak margin in one instance. These acts fall squarely within the mischief sought to be prevented by Clause 5 and 6 of the 2011 circular, and are also contrary to the mandatory upfront margin requirements under the 2019 and 2020 circulars.

74. In view of the aforesaid, I agree with the findings of the DA that there was incorrect reporting of EOD Margin and peak margin of Rs.1,14,13,585.97 with respect to 4 clients in 4 instances and Rs.1,54,97,492.36 with respect to 5 clients in 5 instances respectively and that there was short collection of peak margin of Rs.55,46,865/- by the Noticee. Therefore, I hold that Noticee had violated the provisions of Clause 5 & 6 of SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011, Clause 4.1.2 of SEBI/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 & Clause 2.1 of SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020.

Issue A (iv): Whether Noticee passed the penalty on short reporting of margin to clients?

75. It was observed during the inspection that the Noticee had passed on penalty to clients for short-collection of upfront margin during inspection period as detailed below:

CM- 18 clients (Amount of penalty passed on to clients- Rs.2.93 lakhs)

FO- 20 clients (Amount of penalty passed on to clients-Rs.12.28 lakhs)

CD- 4 clients (Amount of penalty passed on to clients-Rs.0.43 lakhs)

76. Further, in terms of NSE circular no. NSE/INSP/53525 dated September 02, 2022, with effect from October 11, 2021, Noticee was required to refund the penalty passed on to clients for short collection of upfront margin. However, it was observed that in the following instances the same had not been refunded.

CM- 9 clients (Amount of penalty passed on to clients- Rs.0.10 lakhs)

FO- 20 clients (Amount of penalty passed on to clients-Rs.12.28 lakhs)

CD- 4 clients (Amount of penalty passed on to clients-Rs.0.43 lakhs)

77. In view of the same, it was alleged that Noticee had violated the provisions of Clause A(5) of Regulation 9 of Schedule II for Code of Conduct of SEBI (Stock Brokers) Regulations, 1992 read with NSE circular NSE/INSP/45191 dated July 31, 2020 , NSE/INSP/49929 dated October 12, 2021 and NSE/INSP/53525 dated September 02, 2022. I note that the DA has hold that Noticee has violated the aforesaid allegations.

78. The Noticee has contended that the penalties passed on to clients pertain not to “upfront margins” but to margin shortfalls arising after trade execution, such as MTM losses, Peak Margin Shortage and increase in SPAN. According to the Noticee, they had collected full upfront margin at the time of trade, the subsequent shortfalls arose only because of post-trade changes in MTM, Peak Margin and SPAN and therefore such penalties were rightly passed on to clients in accordance with NSE Circular No. NSE/INSP/45191 (31 July 2020) and NSE/INSP/49929 (12 October 2021), which permit passing on non-upfront margin penalties if the client is responsible. Further, Noticee has submitted that for 5 instances, Noticee has refunded the penalty to the clients in terms of NSE Circular NSE/INSP/53525 dated September 02, 2022.

79. The provisions alleged to have been violated are produced as below:

Clause A(5) of Regulation 9 of Schedule II for Code of Conduct of SEBI (Stock Brokers) Regulations, 1992:

'…

SCHEDULE II

Securities and Exchange Board of India (Stock Brokers 105[***]) Regulations, 1992

CODE OF CONDUCT FOR STOCK BROKERS

[Regulation 9]

A. General

…

(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him

…'

NSE circular NSE/INSP/45191 dated July 31, 2020:

'…

1. In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, Can member pass on the penalty to the clients?

In case of failure (cheque not cleared or margin requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member for short reporting of client upfront margins/ margin on consolidated crystallized obligation/MTM losses, member may pass on the actual penalty to the client, provided he has evidences to demonstrate the failure on part of the client .Wherever penalty for short reporting of upfront margin/ margin on consolidated crystallized obligation/ MTM losses is being passed on to the client relevant supporting documents for the same should be provided to the client.*

**Member cannot pass on the penalty w.r.t. short collection of upfront margin to client.*

…'

NSE/INSP/49929 dated October 12, 2021:

'…

This has reference to Exchange Circular NSE/INSP/45191 dated July 31, 2020 with respect to "Guidelines/clarifications on Margin collection & reporting" wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margin to client. However, Exchange has observed that certain members are passing on

the penalty levied by clearing corporations on account of "short/non-collection of upfront margins from clients" to respective clients.

In view of the above, it is reiterated that members are not permitted to pass on the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to clients under any circumstances. Further, clarification to Question no. 15 in Annexure A of the Exchange Circular NSE/INSP/45191 dated July 31, 2020, has been partially modified as below:

15. In case of short reporting of margin/margin on consolidated crystallized obligation/MTM, Can member pass on the penalty to the clients?

Member shall not pass on the penalty w.r.t short collection of upfront margins to clients under any circumstances. In case of failure (requirement not met by the client) on part of the client resulting which penalty is levied by the Clearing Corporation on the member for short reporting of margins other than "upfront margins" such as consolidated crystallized obligation, Delivery margins, other margins (Mark-to-market & additional margins), member may pass on the actual penalty to the client, provided he has evidence to demonstrate the failure on part of the client. Wherever penalty for short reporting of margins other than "upfront margins" is being passed on to the client relevant supporting documents for the same should be provided to the client.

…'

NSE/INSP/53525 dated September 02, 2022:

'…

This has reference to Exchange circular NSE/INSP/45191 dated July 31, 2020 wherein it was clarified that the members cannot pass on the penalty w.r.t short collection of upfront margin to client. Further, it has been reiterated again vide Exchange circular NSE/INSP/49929 dated October 12, 2021 that members are not permitted to pass on the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to clients under any circumstances. However, Exchange has observed that certain members are passing on the penalty levied by clearing corporations on account of "short/non-collection of upfront margins from clients" to respective clients. In view of the above, it is once again reiterated that members are not permitted to pass on the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to clients under any circumstances Further, Members are advised to refund the penalty levied by clearing corporations on account of "short/non-collection of upfront margins" to the clients on an immediate basis if same has been passed on to the clients after 11th October, 2021.

…'

80. Inspection has recorded the following 42 instances wherein the Noticee passed on penalty to clients for short-collection of margin during the inspection period out of which in 33 instances, Noticee was required to refund the penalty to the clients:

Sr. No.	Segment	Margin Date	Client Code	Upfornt as well as other margins penlaty passed to clients (Rs.)	Penalty passed on to client with respect to Short collection of Upfront Margin (Rs.)	Remarks by TM
1	CM	11/05/2021	**I1**04	2,51,265.31	2,51,265.31	Passed on to clients

Sr. No.	Segment	Margin Date	Client Code	Upfornt as well as other margins penlaty passed to clients (Rs.)	Penalty passed on to client with respect to Short collection of Upfront Margin (Rs.)	Remarks by TM
2	CM	12/05/2021	**0*67	11,126.56	7,773.32	Passed on to clients
3	CM	28/05/2021	**1*11	9,125.89	5,813.04	Passed on to clients
4	CM	12/05/2021	**7**67	7,994.79	6,269.86	Passed on to clients
5	CM	28/05/2021	**1E*63	5,162.20	4,644.90	Passed on to clients
6	CM	28/05/2021	**1*161	5,033.68	4,035.71	Passed on to clients
7	CM	11/05/2021	**9*E007	1,286.85	1,286.85	Passed on to clients
8	CM	11/05/2021	**8*E062	831.51	831.51	Passed on to clients
9	CM	11/05/2021	**3E*02	807.09	768.29	Passed on to clients
10	CM	16/05/2022	**9*E138	4,555.03	4,285.79	Passed on to clients
11	CM	13/05/2022	**1*045	1,189.57	1,102.74	Passed on to clients
12	CM	13/05/2022	**7*E001	1,165.45	1,165.45	Passed on to clients
13	CM	13/05/2022	**1*1164	1,076.67	1,035.88	Passed on to clients
14	CM	13/05/2022	**0*E005	1,028.43	1,028.43	Passed on to clients
15	CM	16/05/2022	**8*E011	840.77	794.88	Passed on to clients
16	CM	16/05/2022	**9*E132	603.91	556.60	Passed on to clients
17	CM	16/05/2022	**0*M007	171.34	158.03	Passed on to clients
18	CM	16/05/2022	**1*127	303.85	282.65	Passed on to clients
19	FO	25/01/2022	**7*359	96,712.79	96,712.79	Passed on to clients
20	FO	25/01/2022	**0*110	69,983.04	69,983.04	Passed on to clients
21	FO	25/01/2022	**6*112	48,376.54	48,376.54	Passed on to clients
22	FO	25/01/2022	**1*359	46,673.80	46,673.80	Passed on to clients
23	FO	25/01/2022	B*7**1	35,089.40	35,089.40	Passed on to clients
24	FO	11/05/2022	**0*959	8,34,851.78	8,34,851.78	Passed on to clients
25	FO	11/05/2022	**2*2370	31,861.88	31,545.38	Passed on to clients
26	FO	11/05/2022	**6**2	30,347.26	30,347.26	Passed on to clients
27	FO	11/05/2022	**4*E*50	4,686.31	4,686.31	Passed on to clients
28	FO	11/05/2022	**4*E*72	3,958.02	3,958.02	Passed on to clients
29	FO	12/05/2022	**5*101	3,502.65	3,502.65	Passed on to clients
30	FO	12/05/2022	I*0**51	3,227.91	3,227.91	Passed on to clients
31	FO	12/05/2022	**3*1*1	3,213.36	3,213.36	Passed on to clients
32	FO	12/05/2022	**7*E*04	3,011.13	3,011.13	Passed on to clients
33	FO	12/05/2022	L*4**04	2,974.31	1,876.99	Passed on to clients
34	FO	13/05/2022	B**23*0	4,136.24	4,136.24	Passed on to clients
35	FO	13/05/2022	**6*02	2,434.65	2,434.65	Passed on to clients
36	FO	13/05/2022	B**E**8	1,839.47	1,839.47	Passed on to clients
37	FO	13/05/2022	**1**41	1,551.30	1,551.30	Passed on to clients
38	FO	13/05/2022	M**E*22	1,344.66	1,344.66	Passed on to clients
39	CD	27/10/2021	**11**7	12,065.30	12,065.30	Passed on to clients
40	CD	27/12/2021	**6*14	25,675.21	19,175.21	Passed on to clients
41	CD	11/05/2022	*5**78	8,560.42	8,560.42	Passed on to clients
42	CD	31/12/2021	**6**5	4,819.35	4,069.35	Passed on to clients

81. From the submissions of the Noticee, I note that the Noticee admitted that in 5 instances, it passed on the penalty levied by clearing corporations on account of “short/non-collection of upfront margins” to clients which it refunded back to the clients.

82. For 18 instances, the Noticee has contended that the penalty was levied for MTM obligation on positions carried forward from the previous day, where no fresh exposure was created. Therefore, any shortfall should be categorized as “other margin shortfall”, not as upfront margin shortfall and passing such a penalty to the client is permissible. In this regard, I note the allegation is that the 18 instances

pertain to the “upfront” margin. However, Noticee substantiated that the short fall is on MTM which arises only on a carried-forward position and that the shortfall does NOT fall under upfront margin collection. Accordingly, the first leg of the allegation that these 18 instances are upfront margin does not stand. Therefore, the allegation of SEBI on this 18 instances regarding penalty passing stands not established.

83. I note that the Noticee has further contended that in 9 instances, penalties arose solely due to peak margin shortfall (while end-of-day margins were fully collected) and therefore should not be treated as upfront margin shortfall. Hence, the Noticee contended that such penalties can be passed on to clients. In this regard, I note that based on the peak-margin framework, Peak Margin is an integral component of upfront margin, which is evident from the SEBI Circular SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 on ‘Framework to Enable Verification of Upfront Collection of Margins from Clients in Cash and Derivatives segments’, wherein Peak Margin was categorically treated as Upfront Margin. Therefore, even if end-of-day (EOD) margin is fully collected, a shortfall during intra-day peak snapshot constitutes upfront margin shortfall. Accordingly, the penalty arising from peak margin shortage is unambiguously categorized as upfront margin shortfall. In view of the above, I note that penalties arising from peak margin shortages fall squarely within the ambit of upfront margin shortfalls, and the Noticee cannot pass such penalties to clients and any passing of such penalty constitutes a regulatory violation. Therefore, I note that the Noticee’s contention with regards to the same cannot be accepted.

84. Further, with regards to the remaining one instance, the Noticee has contended that the shortfall was due to increase in SPAN Margin of previous day trade and no fresh exposure was taken by the client on that day and it should not be treated as upfront margin shortfall. Therefore, passing of penalty to the client was correct. In this regard, I note that the SPAN Margin is a part of upfront margin, irrespective of whether exposure is fresh or carried forward. When SPAN increases the enhanced requirement becomes the upfront margin requirement for the day.

Accordingly, any shortfall in meeting this becomes an upfront margin shortfall. Therefore, even if exposure is unchanged, SPAN Margin is still upfront margin, and a shortfall therein is treated as upfront margin shortfall. In view of the above, I note that the penalties arising from increase in SPAN constitute upfront margin shortfall, and therefore cannot be passed on to clients. Therefore, the Noticee's contention in this regard is not acceptable.

85. I note that the regulatory position became clear after NSE circular NSE/INSP/45191 dated July 31, 2020 which was subsequently reiterated by NSE circular NSE/INSP/53525 dated 2 September 2022, mentioning that "members are not permitted to pass on the penalty levied for short/non-collection of upfront margin under any circumstances", and all such penalties passed on after 11 October 2021 must be refunded immediately. Even the Noticee has itself admitted that refund was made only in 5 out of 33 cases, implying that the remaining penalties passed on were not refunded.

86. However, for Peak Margin and SPAN Margin shortfalls, the Noticee's justification is untenable, as these are mandatorily treated as upfront margin requirements under the margin framework. Therefore, I find that to the extent penalties were passed on to clients for Peak Margin and SPAN margin shortfalls and non-refund of such penalties despite explicit regulatory instructions, the allegation stands established.

87. In view of the above, I find that the Noticee has violated the provisions of Clause A(5) of Regulation 9 of Schedule II for Code of Conduct of SEBI (Stock Brokers) Regulations, 1992 read with NSE circular NSE/INSP/45191 dated July 31, 2020 and NSE/INSP/49929 dated October 12, 2021.

Issue A (v): Whether the Noticee had not uploaded documents to KRA on 15 instances within 10 days?

88. I note that inspection has found that the Noticee had not uploaded the KYC documents to the KRA within the prescribed timeline of 10 working days in 15 instances. In view of the same, an SCN was issued alleging violation of Clause 1(i) of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011. I also note that the Designated Authority has recorded an adverse finding, concluding that the allegation stands established.

89. The Noticee has submitted that, in ten of the instances, the delay occurred due to a software bug that prevented timely uploading, and in other instances the KRA was handled by another intermediary through CKYC, or was already registered with no changes required, or the KRA status remained under modification due to actions of third parties. The Noticee has defended the delays as unavoidable and unintentional.

90. Before evaluating the defence, I note the regulatory position applicable. Clause 1(i) of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 imposes a time-bound obligation on intermediaries to upload the KYC information to the KRA system forthwith, and to send the KYC documents within 10 working days from execution of the KYC documents.

91. The relevant clause provides:

> "…After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA and send the KYC documents… within 10 working days from the date of execution of documents by the client and maintain proof of dispatch."

92. I have examined the material on record. I note that the Noticee had not uploaded documents to KRA in 15 instances within 10 days, which are detailed as below:

Sr. No.	Client code	Category	Account Opening Date	KRA done date	Observation KRA Updated within 10 days
1	**3**6	Individual	25/06/2021	20/08/2022	After 10 Days Updated
2	**3*38	Individual	30/07/2021	27/04/2022	After 10 Days Updated
3	**30*5	Individual	11/07/2021	22/06/2018	Not Updated
4	**7**17	Individual	16/10/2021	26/05/2022	After 10 Days Updated
5	**17	Bco	21/11/2020	09/08/2022	After 10 Days Updated
6	**18	Bco	03/06/2021	09/08/2022	After 10 Days Updated
7	**0*7	Bco	30/06/2022	12/09/2022	After 10 Days Updated
8	**2**25	Bco	13/08/2022	06/09/2022	After 10 Days Updated
9	**32*13	PF	23/05/2022	Not Available	Not Available
10	*2**40	LLP	07/10/2021	10/01/2022	After 10 Day Updated
11	**02**99	LLP	05/04/2021	01/06/2022	After 10 Day Updated
12	**2**03	HUF	27/11/2021	01/06/2022	After 10 Days Updated
13	A**1*05	HUF	17/02/2022	17/08/2022	After 10 Days Updated
14	**2**14	HUF	30/04/2022	02/09/2022	After 10 Days Updated
15	**3**94	HUF	10/05/2022	02/09/2022	After 10 Days Updated

93. The table extracted in the inspection report clearly shows that, in 15 instances, the KRA upload was either done well beyond the 10-day period, or not done at all, or the KRA done date is not available. The Noticee has not disputed the correctness of the dates recorded.

94. I have considered the Noticee's contention that a "software bug" caused the delay in ten instances. This explanation cannot be accepted. I note that the Noticee has not shown any contemporaneous material, for instance, copies of internal email which would generally be there as soon as software malfunction was identified, reported, documented, escalated, or rectified, nor has it produced system logs or any other similar material evidencing that such a failure indeed occurred at the relevant time. In the absence of such material, the contention remains unsubstantiated.

95. Noticee has further contended that for client codes **3**6 and **3*38, the KRA was done through CKYC by some other intermediary, hence they could not update and for client codes **17 and **18, the KRA was already registered and there was no change in the KYC details, hence no update was required. The Noticee has also contended that for client code **30*5, delay occurred because the KRA status remained "under modification" for an extended period owing to action by another intermediary.

96. In this regard, I note that the Noticee has not provided any documentary evidence or supporting material to substantiate these assertions like no CKYC acknowledgement, no records from the KRA portal, no screenshots evidencing the "under modification" status, nor any correspondence with the relevant KRA/intermediary in support of these claims. In the absence of such materials these explanations remain unsubstantiated and cannot be accepted.

97. I note that clause 1(i) of the 2011 circular places mandatory obligation on the intermediary to upload the KYC information forthwith and dispatch documents

within 10 working days. The burden to demonstrate the Noticee's assertions rests with the Noticee, which it has not discharged. The requirement is time bound and foundational to the KYC framework, since during the delay period, the status of KYC of the client in KRA would not be usable for any other intermediary which ultimately prevents quicker account activation by other intermediaries of the same clients in different capacities for accessing the market, for timely regulatory use of the KYC details from KRA.

98. In view of the above, I find that the Noticee had not uploaded the KYC documents to the KRA within the prescribed period of 10 working days in 15 instances, as established from the records. Accordingly, the Noticee has violated Clause 1(i) of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011, as correctly concluded by the Designated Authority.

Issue A (vi): Whether the Noticee had not correctly uploaded details of all clients' funds lying with them on stock exchange system?

99. The inspection observed that the Noticee had not correctly uploaded details of all clients' funds lying with them on stock exchange system for three dates i.e. 30/07/2021, 25/03/2022 and 30/09/2022. In view of the same, it was alleged that the Noticee had violated the provisions of SEBI Circular - Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, CIR/HO/MIRSD/MIRSD2/CIR/PB/2017/107 dated September 25, 2017.

100. The alleged provisions are produced below:

Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

'…

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

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

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

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

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

E - Aggregate value of proprietary non-cash collaterals i.e. securities which have been deposited with the clearing corporations and/or clearing member (across Stock Exchanges)

F - Aggregate value of Non-funded part of the BG across Stock Exchanges

P - Aggregate value of Proprietary Margin Obligation across Stock Exchanges

MC -Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges

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

…'

101. I note that the Noticee had not correctly uploaded details of all clients' funds lying with them on stock exchange system for three dates i.e. 30/07/2021, 25/03/2022 and 30/09/2022, as detailed below:

Sr. No.	Date	Principal	Particulars	Values as per calculation	Actual Submission by Member	Difference
1	25.03.2022	B	Aggregate value of collateral deposited with Exchange (in cases where the trades are settled through clearing member) in form of Cash and Cash Equivalents (Fixed deposit (FD), Bank guarantee (BG), etc.)	97,13,99,969.00	98,40,49,969.00	1,26,50,000.00

2	30.07.2021		(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 while submitting this amount	69,60,38,354.00	70,86,88,354.00	1,26,50,000.00
3	30.09.2022			60,05,99,988.00	61,32,49,988.00	1,26,50,000.00

102. From the above figures, I note that on all the three reporting dates, namely, 30.07.2021, 25.03.2022, and 30.09.2022, an amount of ₹1.26 crore was included under the head “funded collateral deposited with the Exchange”. The Noticee has not disputed these calculations and has, in fact, accepted that this amount was wrongly factored because its reporting team had considered the base capital deposit given to the clearing corporation as part of the funded collateral. Therefore, I note that this clearly establishes that the reporting uploaded to the Stock Exchange system was inaccurate.

103. The Noticee has argued that the error creped in good faith and it was an interpretational issue and that corrective steps were taken once the clearing corporation issued instructions. In this regard, I note that the regulatory framework governing the weekly Enhanced Supervision reporting is clear. The objective of monitoring clients with the stock broker and the one with the clearing corporation cannot be achieved if the brokers base capital is also included in the “B” portion as has been done in the instant case. Therefore, I find these submissions untenable. The reporting parameters under Clause 3.2 leave no scope for interpretational ambiguity. The non- compliance element cannot be regarded as a bona fide or technical slip, as wrong reporting directly distorts the risk monitoring architecture designed to detect misutilisation of client funds.

104. Further, the argument that the discrepancy was only on three dates is irrelevant because Enhanced Supervision reporting is event date specific and the regulator relies on the accuracy of each individual submission. Even a single reporting day with incorrect figures undermines the reliability of client funds

protection architecture. The statement that "G remained positive" is also equally misplaced. The fact that in the instant instance, G-value is positive does not cure a wrong input, nor can it sanitise incorrect reporting of the underlying components.

105. The Noticee's contention that it rectified the practice after communication from the clearing corporation also does not absolve past non-compliance. Timely and accurate reporting is a core statutory obligation, and intermediaries are expected to be vigilant in making correct reporting. I note, compliance cannot be deferred until detection during inspection.

106. In view of the above, I hold that the Noticee had incorrectly uploaded the details of client funds and collateral on all the three reporting dates, namely 30.07.2021, 25.03.2022 and 30.09.2022. The conduct constitutes a clear breach of Clause 3.2 of SEBI Circular No. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clarificatory circulars dated June 22, 2017 and September 25, 2017. I therefore agree with the findings of the DA on this issue.

Issue A (vii): Whether Noticee has incorrectly reported Clear Ledger Balance and Peak Ledger Balance in cash and cash equivalent?

107. I note that the inspection observed incorrect reporting of Clear Ledger Balance and Peak Ledger Balance in cash & cash equivalent for 3 clients in 3 instances and 53 clients in 53 instances respectively. In view of the same, it was alleged that Noticee had violated the provisions of Clause 6.1.1 (j) SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016. I note that pursuant to examination of the issue, DA held that the Noticee has violated the said allegation.

108. I note that the Noticee, with respect to allegation of incorrect reporting of Clear Ledger Balance has contended that out of three clients, for two clients (E**1*30

and **12**1), the discrepancy occurred because the bills were re-generated due to rectification of minor errors, resulting in a nominal difference that remained uncorrected before reporting and for client **6**2, the difference arose due to an erroneous transfer of closing balance into the MTF ledger at the time of data migration. Further, with regards to allegation of incorrect reporting of Peak Ledger Balance, the Noticee has contended that there was "no concept of Peak Ledger Balance" in the circulars referred, namely NSE/INSP/43486 (Feb 2020) and NSE/INSP/44478 (May 2020), which deal only with Financial Ledger Balance A and Clear Financial Ledger Balance B and that DA has relied on NSE Clearing Limited Circular No. NCL/CMPL/64088 dated September 23, 2024 which was issued long after the inspection period.

109. I note that inspection observed that on following three instances for three clients, Noticee incorrectly reported Clear Ledger Balance in cash & cash equivalent:

Sr. No.	Date	Client Code	Clear Ledger Balance (Rs.)	Clear Ledger Balance as per Cash & Cash Equivalent (Rs.)	Difference (Rs.)
1	21/05/2021	E**1*30	42,23,722.14	42,23,643.49	78.65
2	21/05/2021	**12**1	76,811.36	76,795.98	15.38
3	09/09/2021	**6**2	-47,20,523.00	-36,32,068.70	-10,88,454.30

110. I note that the Noticee has not disputed the above differences and accepted that the values reported to the exchange were not the correct clear ledger balances. However, the Noticee has stated that the discrepancies were inadvertent and caused by operational lapses. In this regard, I note that accurate reporting of client balances is an important regulatory obligation. Firstly, Noticee has not substantiated his defense of error with any evidence. Since the differences in serial no. 1 and 2 are very minimal, a lenient view is taken in respect of those entries. However, Serial No. 3 cannot fall in that category of minimal difference. Therefore, I consider that the allegation of incorrect reporting of clear ledger balances stands established in respect of serial no. 3

111. As regards the peak ledger balance, the Noticee has nowhere taken the case that there was no reporting requirement of Peak Ledger Balance during the inspection period. Instead, its argument is that reliance on NSE Clearing Limited Circular No. NCL/CMPL/64088 dated September 23, 2024 amounts to a retrospective application of a later circular for the purpose of concluding "incorrect reporting" of Peak Ledger Balance. Further Noticee had argued that circulars NSE/INSP/43486 dated February 10, 2020 and NSE/INSP/44478 dated May 27, 2020 only refers to client-wise financial ledger balances and clear ledger balances across all exchanges and segments and there is no reference to Peak Ledger Balance.

112. Therefore, the first question that arises is whether the reporting requirement for Peak Ledger Balance already existed during the inspection period.

113. A bare reading of Circular No. NCL/CMPL/64088 dated September 23, 2024 makes it evident that the circular is only a clarification circular. Serial No. 1 of the circular expressly clarifies the pre-existing obligation to report Peak Ledger Balance. It is relevant to note that the requirement to report Peak Ledger Balance was already embedded in SEBI Circular SEBI/HO/MRD2/DCAP/ CIR/P/2020/127 dated July 20, 2020, which was squarely in force during the inspection period. Para (iii)(b) read with Para (iv) of Annexure of the said circular mandates that the Trading Member shall report peak margin collected, peak margin obligation, and peak margin balance in its ledger. Further, Para (iv) of Annexure of the said circular dated July 20, 2020 makes it explicit that the verification of availability of peak margin is required to be carried out by the stock exchange/ clearing corporation on a weekly basis from the peak margin balance as reflected in the ledger of the broker. This clearly presupposes mandatory reporting of the peak ledger balance. Therefore, I find that the reporting requirement of peak ledger balance existed during inspection period.

114. In view of the above discussion, I note the inspection findings relevant to the issue which is as follows: -

Date	Client Code	Ledger Balance as on T Day (Rs.)	Payments / Bill (Rs.)	Debit JV (Rs.)	Peak Free Balance (Rs.)	Peak Ledger Balance as per Cash & Cash Equivalent (Rs.)	Difference (Rs.)
21/10/2021	**3*93	-54486092.88	384615628.8	-	330129535.9	412593803.3	82464267.42
18/06/2021	**0*71	-18135743.37	-	106730.25	-18029013.12	-15676706.21	2352306.91
13/10/2021	**2*57	-166259.75	-	-	-166259.75	5594997.75	5761257.5
27/09/2021	**4**02	50442427.28	-	-	50442427.28	51216588.63	774161.35
18/01/2022	**0**9	-106249.21	985910.92	-	879661.71	1259647.56	379985.85
13/07/2022	**6*01	-	12979968.27	-	12979968.27	13703795.37	723827.1
15/09/2022	**4**0	46527272.53	160	-	46527432.53	46528363.28	930.75
09/09/2021	**6**2	-4720537.19	-	-	-4720537.19	-3262744.39	-1457792.8
11/11/2021	**3E**3	45939118.34	-		45939118.34	51414393.34	5475275
05/05/2022	**2**33	-53429.59	-	-	-53429.59	1515.06	54944.65
01/06/2021	*6**07	2605335	-	-	2605335	2705425.63	100090.63
21/05/2021	**6*1	6915.28			6915.28	8682.9	1767.62
21/05/2021	**1*54	-629711.46	-	-	-629711.46	84215.99	713927.45
25/06/2021	**2*90	3365487.05	-		3365487.05	3643822.05	278335
21/05/2021	**3*86	-14409.3	16626.37	-	2217.07	306948	304730.93
21/05/2021	**1**00	-1336347.89	803889.01		-532458.88	-532438.84	20.04
21/05/2021	6**4*5	-186022.36	-		-186022.36	-31643.71	154378.65
24/08/2021	**3E*02	68759667.57	-	-	68759667.57	69590753.66	831086.09
22/04/2021	**5E*24	1003942.86	-	-	1003942.86	1097572.16	93629.3
21/05/2021	E**1*30	4223722.14	42067.26	42067.26	4307856.66	4307778.01	-78.65
21/05/2021	**7*1*1	-370649.1	97040.29	-	-273608.81	-90340.06	183268.75
21/05/2021	**7*1*2	-213423.5	97040.29	-	-116383.21	66885.54	183268.75
21/05/2021	**4*1*3	-	26733299.13		26733299.13	27533694.87	800395.74
22/04/2021	**5*3*9	2335692.49	-	-	2335692.49	2425163.12	89470.63
21/05/2021	**3*1*1	5529025.4	1000000	-	6529025.4	6533435.4	4410
21/05/2021	**6*1*7	373664.09	-	-	373664.09	552964.09	179300
21/05/2021	**2*1*2	-4968069.01	15		-4968054.01	-4501216.28	466837.73
28/09/2021	**2*5*5	12077249.97	-	15	12077264.97	12105651.22	28386.25
11/06/2021	**3*4D*1*3	20000000			20000000	40000000	20000000
20/10/2021	**2*8*0	-107791.9	3080323.04	20	2972551.14	3258993.87	286442.73
23/08/2022	**0*1*3*7	-20.9			-20.9	-	20.9
16/09/2022	**N*0*1	-			-	17.69	17.69
17/02/2022	**5*3*5	1698484.48	-		1698484.48	1723232.24	24747.76
17/02/2022	**5*6*2	2401317.41	-		2401317.41	2448821.4	47503.99

Date	Client Code	Ledger Balance as on T Day (Rs.)	Payments / Bill (Rs.)	Debit JV (Rs.)	Peak Free Balance (Rs.)	Peak Ledger Balance as per Cash & Cash Equivalent (Rs.)	Difference (Rs.)
21/10/2022	**8*3*3	77474.35	-		77474.35	77880.27	405.92
07/04/2021	**9*6*2*	-39094.98	40274.56		1179.58	7909.99	6730.41
22/09/2022	**9*6*2*	62945.1	-		62945.1	83345.1	20400
07/04/2021	**9*0*4	294592.9	-		294592.9	305172.9	10580
25/01/2022	**1*1*0*	83103.14	-		83103.14	83425.38	322.24
22/06/2021	**1*0*6	3630610.39	-		3630610.39	3633089.35	2478.96
25/10/2022	**1*1*5	12443944.22	-		12443944.22	12596935.77	152991.55
11/10/2021	**8*3*	10349747.42	-	-	10349747.42	10406849.37	57101.95
22/04/2021	**6*2*	32311654.36	-	-	32311654.36	33133500.03	821845.67
21/05/2021	**1*2*4	-194779.28	-	-	-194779.28	-143779.28	51000
21/05/2021	**3*5*	308970.8	-	-	308970.8	365445.66	56474.86
28/06/2022	**6*1*4	4000588.58	-	-	4000588.58	4118371.27	117782.69
25/03/2022	**2*3*1	920228.67	15000		935228.67	1058307.5	123078.83
26/05/2022	**1*0*8	1017032.97	-	-	1017032.97	1017207.4	174.43
18/02/2022	**5*0*3	975867.99	-	-	975867.99	989617.99	13750
20/07/2021	**0*1*1	1437572	-	-	1437572	1759419.77	321847.77
21/05/2021	**6*0*3	-283860.26	169457.15		-114403.11	-108028.11	6375
20/10/2021	**2*4*1	468694.61	-		468694.61	475278.09	6583.48
07/04/2021	**4*0*4	1315846.22	-	-	1315846.22	1330262.38	14416.16
21/10/2021	**3*93	-54486092.88	384615628.8	-	330129535.9	412593803.3	82464267.42
18/06/2021	**0*71	-18135743.37	-	106730.25	-18029013.12	-15676706.21	2352306.91
13/10/2021	**2*57	-166259.75	-	-	-166259.75	5594997.75	5761257.5
27/09/2021	**4**02	50442427.28	-	-	50442427.28	51216588.63	774161.35
18/01/2022	**0**9	-106249.21	985910.92	-	879661.71	1259647.56	379985.85
13/07/2022	**6*01	-	12979968.27	-	12979968.27	13703795.37	723827.1
15/09/2022	**4**0	46527272.53	160	-	46527432.53	46528363.28	930.75
09/09/2021	**6**2	-4720537.19	-	-	-4720537.19	-3262744.39	-1457792.8
11/11/2021	**3E**3	45939118.34	-		45939118.34	51414393.34	5475275
05/05/2022	**2**33	-53429.59	-	-	-53429.59	1515.06	54944.65
01/06/2021	*6**07	2605335	-	-	2605335	2705425.63	100090.63
21/05/2021	**6*1	6915.28			6915.28	8682.9	1767.62
21/05/2021	**1*54	-629711.46	-	-	-629711.46	84215.99	713927.45
25/06/2021	**2*90	3365487.05	-		3365487.05	3643822.05	278335
21/05/2021	**3*86	-14409.3	16626.37	-	2217.07	306948	304730.93
21/05/2021	**1**00	-1336347.89	803889.01		-532458.88	-532438.84	20.04
21/05/2021	6**4*5	-186022.36	-		-186022.36	-31643.71	154378.65

Date	Client Code	Ledger Balance as on T Day (Rs.)	Payments / Bill (Rs.)	Debit JV (Rs.)	Peak Free Balance (Rs.)	Peak Ledger Balance as per Cash & Cash Equivalent (Rs.)	Difference (Rs.)
24/08/2021	**3E*02	68759667.57	-	-	68759667.57	69590753.66	831086.09
22/04/2021	**5E*24	1003942.86	-	-	1003942.86	1097572.16	93629.3
21/05/2021	E**1*30	4223722.14	42067.26	42067.26	4307856.66	4307778.01	-78.65
21/05/2021	**7*1*1	-370649.1	97040.29	-	-273608.81	-90340.06	183268.75
21/05/2021	**7*1*2	-213423.5	97040.29	-	-116383.21	66885.54	183268.75
21/05/2021	**4*1*3	-	26733299.13		26733299.13	27533694.87	800395.74
22/04/2021	**5*3*9	2335692.49	-	-	2335692.49	2425163.12	89470.63
21/05/2021	**3*1*1	5529025.4	1000000	-	6529025.4	6533435.4	4410
21/05/2021	**6*1*7	373664.09	-	-	373664.09	552964.09	179300
21/05/2021	**2*1*2	-4968069.01	15		-4968054.01	-4501216.28	466837.73
28/09/2021	**2*5*5	12077249.97	-	15	12077264.97	12105651.22	28386.25
11/06/2021	**3*4D*1*3	20000000			20000000	40000000	20000000
20/10/2021	**2*8*0	-107791.9	3080323.04	20	2972551.14	3258993.87	286442.73
23/08/2022	**0*1*3*7	-20.9			-20.9	-	20.9
16/09/2022	**N*0*1	-			-	17.69	17.69
17/02/2022	**5*3*5	1698484.48	-		1698484.48	1723232.24	24747.76
17/02/2022	**5*6*2	2401317.41	-		2401317.41	2448821.4	47503.99
21/10/2022	**8*3*3	77474.35	-		77474.35	77880.27	405.92
07/04/2021	**9*6*2*	-39094.98	40274.56		1179.58	7909.99	6730.41
22/09/2022	**9*6*2*	62945.1	-		62945.1	83345.1	20400
07/04/2021	**9*0*4	294592.9	-		294592.9	305172.9	10580
25/01/2022	**1*1*0*	83103.14	-		83103.14	83425.38	322.24
22/06/2021	**1*0*6	3630610.39	-		3630610.39	3633089.35	2478.96
25/10/2022	**1*1*5	12443944.22	-		12443944.22	12596935.77	152991.55
11/10/2021	**8*3*	10349747.42	-	-	10349747.42	10406849.37	57101.95
22/04/2021	**6*2*	32311654.36	-	-	32311654.36	33133500.03	821845.67
21/05/2021	**1*2*4	-194779.28	-	-	-194779.28	-143779.28	51000
21/05/2021	**3*5*	308970.8	-	-	308970.8	365445.66	56474.86
28/06/2022	**6*1*4	4000588.58	-	-	4000588.58	4118371.27	117782.69
25/03/2022	**2*3*1	920228.67	15000		935228.67	1058307.5	123078.83
26/05/2022	**1*0*8	1017032.97	-	-	1017032.97	1017207.4	174.43
18/02/2022	**5*0*3	975867.99	-	-	975867.99	989617.99	13750
20/07/2021	**0*1*1	1437572	-	-	1437572	1759419.77	321847.77
21/05/2021	**6*0*3	-283860.26	169457.15		-114403.11	-108028.11	6375
20/10/2021	**2*4*1	468694.61	-		468694.61	475278.09	6583.48
07/04/2021	**4*0*4	1315846.22	-	-	1315846.22	1330262.38	14416.16

115. From the above table, I note that there are certain instances where the difference is below Rs.1000/-. In respect of those entries a lenient view is taken and for the remaining entries, I find that the Noticee has incorrectly reported the peak ledger balance.

116. I note that Clause 6.1.1 (j) SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/ 2016/95 dated September 26, 2016 deals with sharing of incomplete/wrong data or failing to submit data on time as one of the monitoring criteria for stock brokers. The provision reads as below:

> '…
> *6.1.1. Monitoring criteria for Stock Brokers*
> …
> *j. In case stock broker shares incomplete/wrong data or fails to submit data on time.*
> …'

117. Clause 6.1.3 of the circular dated September 26, 2016 makes the above parameter actionable with penal consequence in view of the underlying requirement to provide complete and correct data on time. In view of my findings above, I hold that Noticee is liable for reporting incorrect Clear Ledger Balance and Peak Ledger Balance required to be correctly reported by virtue of Clause 6.1.1 (j) of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

Issue A (viii): Whether Noticee has transferred securities of Credit balance client to Client unpaid securities account?

118. I note that the inspection has observed that securities valued at about ₹1.30 crore, belonging to ninety-one clients who were in credit balance in the cash segment, were transferred by the Noticee to the Client Unpaid Securities Account (CUSA) instead of being transferred to their respective demat accounts. Since these clients had already made full payment for the securities, the broker was mandatorily required to transfer them within one working day of the pay-out. On this basis, the allegation of violation of Clause 4.1 of SEBI

Circular dated June 20, 2019 was made. The Designated Authority has examined the material and has returned a categorical finding that the allegation stands established.

119. I note that the Noticee, in its reply, has stated that these clients had open F&O positions and that releasing the securities would have resulted in margin shortfalls. The Noticee has argued that such shortfalls could have created credit risk both for itself and for the market, if similar instances were large in number. It has also relied on certain “client letters” which, according to it, permitted the Noticee to adjust surplus balances across segments.

120. I observe that the regulatory framework is clear on this issue. Clause 4.1 of the above circular clearly states that where the client has paid for the securities, the securities must be transferred from the pool account to the client’s demat account within one working day. This requirement is mandatory and does not provide any discretion to the broker to hold such securities for internal reasons. The derivatives margin framework is separate and requires the broker to collect upfront margins and, in case of shortfall, either collect additional margin, report the short collection to the Clearing Corporation, or square off positions. The regulations do not allow the broker to informally hold fully-paid securities in place of margin, except through the approved pledge/re-pledge mechanism with explicit client authorisation.

121. When I examine the inspection data, I find that all ninety-one clients were credit-balance clients and had fully discharged their pay-in obligations. Despite this, their securities were placed in CUSA. CUSA is meant strictly for unpaid or partially paid securities. Fully-paid securities can never be placed in CUSA under any circumstance. This alone indicates that the Noticee acted in a manner entirely contrary to the regulatory requirement. The instances are tabulated below:

Sr. No.	Date	Unique Client Code	Financial Clear Ledger Balance (Rs.)	Value of Securities in CUSA as on 31st October 2022 (Rs.)
1	31/10/2022	**1*127	19,933.07	20,700.45
2	31/10/2022	**6*194	142.20	0.00
3	31/10/2022	**2*105	20,62,812.45	9,94,457.50
4	31/10/2022	**8E*04	33,110.25	84,961.80
5	31/10/2022	**8E*59	4,398.00	0.00
6	31/10/2022	**7*154	3,128.95	8,113.00
7	31/10/2022	**8*196	14,433.74	9,060.00
8	31/10/2022	**1*164	28,614.72	4,034.40
9	31/10/2022	**2*105	62,173.64	2,17,030.00
10	31/10/2022	**3E*13	23,828.74	3,022.25
11	31/10/2022	**6E*35	18,929.25	1,496.70
12	31/10/2022	**3E*14	6,261.07	12,199.00
13	31/10/2022	**0*119	4,837.54	10,850.70
14	31/10/2022	**4910	796.65	1,626.90
15	31/10/2022	**6*101	1,17,97,319.19	15,80,800.00
16	31/10/2022	**5E*23	8,123.45	6,917.65
17	31/10/2022	**9E*16	5,691.32	3,23,700.00
18	31/10/2022	**4E*84	29,313.24	12,687.75
19	31/10/2022	**1E*56	1,214.12	480.00
20	31/10/2022	**3E*07	9,71,794.24	42,600.60
21	31/10/2022	**0*107	5,56,020.92	1,39,792.80
22	31/10/2022	**7*187	2,00,631.58	5,48,341.40
23	31/10/2022	**8*745	2,24,864.77	61,499.75
24	31/10/2022	**5E*05	42,49,930.59	5,85,550.00
25	31/10/2022	**8E*14	20,752.40	6,739.50
26	31/10/2022	**4E*39	41,465.83	1,691.70
27	31/10/2022	**2*666	8,205.83	4,337.34
28	31/10/2022	**0*102	1,445.96	8,706.75
29	31/10/2022	**0E*36	10,424.25	45,600.95
30	31/10/2022	**7E*01	37,233.48	1,334.25
31	31/10/2022	**3*2517	30,793.49	866.70
32	31/10/2022	**8*002	4,241.39	208.00
33	31/10/2022	**1*236	2,39,431.08	1,83,841.55
34	31/10/2022	**4E*23	4,952.71	18,013.60
35	31/10/2022	**8E*06	389.54	0.00
36	31/10/2022	**3*195	133.32	3,749.00
37	31/10/2022	**3E*07	1,10,500.95	2,549.60
38	31/10/2022	**9*666	1,767.21	1,405.30
39	31/10/2022	**3*2051	15,273.41	37,681.95
40	31/10/2022	**5*311	1,34,179.73	1,62,158.05
41	31/10/2022	**7E*25	2,81,701.78	36,445.85
42	31/10/2022	**3*1321	28.36	49.10
43	31/10/2022	**0E*103	49,327.35	40,261.50
44	31/10/2022	**9E*06	15,378.51	5,099.20
45	31/10/2022	**0E*001	633.78	17,549.30
46	31/10/2022	**4E*163	1,15,983.80	4,550.00
47	31/10/2022	**3E*006	79,512.24	1,77,432.80
48	31/10/2022	**6*132	19,986.91	5,38,948.85
49	31/10/2022	**8E*391	63,367.25	40,491.90
50	31/10/2022	**3E*632	12,923.95	43,305.25
51	31/10/2022	**5A298	16,808.31	1,08,773.40
52	31/10/2022	**6*156	18.80	210.75
53	31/10/2022	**3E*126	6,542.07	303.50
54	31/10/2022	**1*138	182.42	189.30

Sr. No.	Date	Unique Client Code	Financial Clear Ledger Balance (Rs.)	Value of Securities in CUSA as on 31st October 2022 (Rs.)
55	31/10/2022	**1*889	41,14,429.60	22,31,680.00
56	31/10/2022	**9*926	38,767.94	15,072.75
57	31/10/2022	**5E*219	159.37	12,935.00
58	31/10/2022	**4E*010	1,839.11	10,141.25
59	31/10/2022	**3*1462	7,40,533.36	2,33,585.00
60	31/10/2022	**3E*321	4,99,531.55	15,172.70
61	31/10/2022	**8E*027	89,300.28	72,878.30
62	31/10/2022	**3E*033	455.30	322.50
63	31/10/2022	**3E*323	18,182.30	39,172.45
64	31/10/2022	**2*191	27,120.01	5,778.50
65	31/10/2022	**5*147	1,99,218.54	39,341.55
66	31/10/2022	**7E*033	1,66,284.54	53,370.00
67	31/10/2022	**9E*005	15,448.75	7,698.45
68	31/10/2022	**9E*006	438.08	62,359.85
69	31/10/2022	**0*250	1,192.46	1,558.20
70	31/10/2022	**4E*018	37,187.00	6,766.80
71	31/10/2022	**1*282	31,20,330.82	9,56,374.20
72	31/10/2022	**0E*306	24,511.89	18,562.50
73	31/10/2022	**8*103	3,243.27	449.40
74	31/10/2022	**3*121	690.63	21,850.95
75	31/10/2022	**8*107	37,87,093.87	11,48,994.55
76	31/10/2022	**5E*002	1,124.94	1,893.80
77	31/10/2022	**2E*001	56,598.11	11,98,750.00
78	31/10/2022	**3E*007	6,243.20	52,863.05
79	31/10/2022	**7*2087	100.53	1,219.90
80	31/10/2022	**1*160	29,258.93	3,193.15
81	31/10/2022	**2E*003	1,258.60	1,015.10
82	31/10/2022	**8*378	11,054.31	18,553.50
83	31/10/2022	**2*251	43,882.40	1,238.25
84	31/10/2022	**2E*1025	2,17,549.03	15,120.00
85	31/10/2022	**2*770	34,213.72	71,441.00
86	31/10/2022	**3*507	72,183.48	19,550.00
87	31/10/2022	**1E*002	1,669.89	4,860.00
88	31/10/2022	**1E*442	42,334.60	48,796.00
89	31/10/2022	**8AE392	510.08	1,325.10
90	31/10/2022	**8E*031	71,491.70	59,010.00
91	31/10/2022	**8*104	5,758.98	3,89,396.75
				1,30,04,708.09

122. I find the Noticee's explanation to be devoid of merit. If there was any margin shortfall, the Noticee was required to follow the procedures laid down, for instance, to collect the margin, report the shortfall, or reduce open positions. Retaining fully-paid securities of clients is not among the permitted options. By doing so, the Noticee bypassed the margin framework and replaced it with its own internal method. This is precisely what the regulations prohibit.

123. I am also unable to accept the reliance on “client letters”. No private arrangement or client consent can override a regulatory safeguard. Clause 4.1 is designed to protect client ownership of securities and to prevent any contractual dilution of this protection. Therefore, such letters do not provide any justification for the Noticee’s conduct.

124. Further, I find that the approach adopted by the Noticee, directly undermines the objectives of the regulatory framework. By parking fully-paid securities in CUSA, the Noticee created a clear risk of misuse, as these securities are reflected as unpaid and can be acted upon without transparency. This also conceals the true margin position of clients, depriving the exchange and Clearing Corporation of accurate and timely information. Such concealment breaks the purpose of real-time supervision. Clients are deprived of timely access to their own securities. If such practices were allowed to continue, the reliability of the entire margining system would be weakened, exposing the market to unnecessary systemic vulnerabilities.

125. In view of the above, I find that the Noticee has failed to comply with the mandatory requirement to transfer fully-paid securities to the clients’ demat accounts within the prescribed timeline and has wrongly placed such securities in an account meant for unpaid securities. The Noticee’s conduct go against the core objectives of the circular, namely, preventing misuse, maintaining transparent and reliable margin reporting. I therefore hold that the Noticee has violated Clause 4.1 of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019.

Issue A (ix): Whether Noticee had incorrectly reported exposure given to clients for Margin Trading Facility (MTF)?

126. I note that the inspection has observed that, on 27 occasions, the Noticee reported incorrectly client exposure to the stock exchange. Inspection report found that the exposure reported by the Noticee was therefore significantly

higher than the exposure that ought to have been reported after considering the eligible collateral lying with the Noticee. On the basis of these findings, it was alleged that the Noticee had failed to comply with the obligations laid down under Clause 19 of SEBI Circular CIR/MRD/DP/54/2017 dated June 13, 2017, read with the reporting requirements under SEBI/HO/MIRSD/DOP/ CIR/P/2020/143 dated July 29, 2020. The Designated Authority has examined the material and has returned an adverse finding on this allegation.

127. I note that the Noticee has, in its reply, stated that the incorrect exposure figures were the result of manual and clerical errors during the reporting process. The Noticee has submitted that there was no intention to misstate exposure and that no client complaint has arisen from these instances. It has further stated that corrective steps have already been taken to address the error and prevent recurrence. The Noticee has therefore attributed the misreporting entirely to inadvertence rather than any deliberate act.

128. I note that Clause 19 of SEBI Circular CIR/MRD/DP/54/2017 dated June 13, 2017, read with the reporting requirements under SEBI/HO/MIRSD/DOP/CIR/P/2020/143 dated July 29, 2020, mandates that stock brokers must report to the stock exchange, the accurate exposure created for each client. This obligation is fundamental to the exchange's risk-management system, as exposure reporting directly feeds into the monitoring of leveraged positions, adequacy of margins, and the early detection of potential build-up of risky positions. The framework is designed to prevent under-margining, excessive leverage and any form of misstatement that could compromise the clearing corporation's assessment of member-level risk.

129. Exposure reporting is therefore not a clerical or operational formality. It is a prudential regulatory function that relies on correctness. When exposure is reported without considering the actual collateral collected from clients, the reported figures do not reflect the true leveraged position. This distorts the risk

picture available to the exchange and weakens the very purpose of the reporting framework, which is to enable oversight of risk, ensure margin sufficiency, and prevent the accumulation of unmonitored exposures.

130. I note that the explanation of manual or clerical error does not mitigate the breach, as the regulatory scheme does not distinguish between intentional and inadvertent misreporting when the outcome is the same, namely, misleading exposure figures submitted to the exchange. I also note that the Noticee has also not submitted any documentary proof on its defense of error. Any such misreporting, even if unintentional, breaks the objective of the circulars by impairing accurate assessment of risk and can lead to systemic vulnerability in the exchange margining framework.

131. From the inspection data, I note that on all 27 occasions, the exposure that ought to have been reported after adjusting for the collected collateral, was different from what the Noticee actually reported. This establishes that the exposure reporting was not in conformity with the prescribed requirements. The instances are tabulated below:

Sr. No.	Date	Exposure Reported by TM to Exchange (Rs.)	Cash Collateral (Rs.)	Exposure required to be reported post considering cash collateral by clients (Rs.)
1	07/07/2022	1,01,95,10,650.10	58,33,74,369.60	43,61,36,280.50
2	08/07/2022	1,04,13,43,564.06	58,57,60,583.34	45,55,82,980.72
3	11/07/2022	1,02,28,99,501.05	58,45,80,976.89	43,83,18,524.16
4	12/07/2022	1,08,22,35,040.92	60,85,40,937.00	47,36,94,103.92
5	01/09/2022	1,07,09,78,373.86	73,86,35,397.73	33,23,42,976.13
6	02/09/2022	1,09,23,55,026.60	40,69,00,929.91	68,54,54,096.69
7	05/09/2022	1,10,36,87,303.95	39,76,49,837.26	70,60,37,466.69
8	06/09/2022	1,12,79,74,142.51	37,95,39,888.35	74,84,34,254.16
9	07/09/2022	1,14,03,61,335.76	38,89,30,284.37	75,14,31,051.39
10	08/09/2022	1,13,11,60,639.55	39,08,89,948.67	74,02,70,690.88
11	09/09/2022	1,10,84,04,769.05	38,50,27,650.35	72,33,77,118.70
12	12/09/2022	1,12,76,28,852.36	38,53,20,740.82	74,23,08,111.54
13	13/09/2022	1,13,24,57,748.23	39,53,88,088.10	73,70,69,660.13
14	14/09/2022	1,14,49,34,271.85	39,54,48,158.47	74,94,86,113.38
15	15/09/2022	1,17,00,81,963.50	40,12,54,951.81	76,88,27,011.69
16	16/09/2022	1,15,52,89,220.40	38,49,12,060.28	77,03,77,160.12
17	03/10/2022	1,16,10,63,152.27	42,90,30,696.26	73,20,32,456.01
18	04/10/2022	1,18,14,06,703.78	44,69,07,669.22	73,44,99,034.56
19	06/10/2022	1,20,01,82,004.63	47,57,62,073.44	72,44,19,931.19
20	07/10/2022	1,22,49,10,846.29	46,99,12,431.39	75,49,98,414.90
21	10/10/2022	1,19,79,20,790.87	47,10,88,056.91	72,68,32,733.96
22	11/10/2022	1,19,41,98,744.51	47,18,63,658.06	72,23,35,086.45
23	12/10/2022	1,17,00,78,160.80	46,79,09,713.34	70,21,68,447.46

24	13/10/2022		1,16,96,70,249.53	47,13,63,595.34	69,83,06,654.19
25	14/10/2022		1,13,92,70,133.71	46,90,66,295.23	67,02,03,838.48

Sr. No.	Date of Exposure	UCC	Exposure Reported by TM to Exchange (Rs.)	Cash Collateral (Rs.)	Exposure required to be reported post cosnsidering cash collateral by clients (Rs.)
1	12/10/2022	**1E**5	13,06,25,816.45	7,65,30,078.63	5,40,95,737.82
2	12/07/2022	**6*01	9,76,51,773.33	6,31,57,089.05	3,44,94,684.28

132. In view of the inspection findings, the Noticee's own admission, and the mandatory nature of the reporting framework, I find that the Noticee did not report client exposure accurately on 27 occasions. The reported exposure figures did not reflect the actual leveraged positions after considering the eligible collateral collected from the clients. Such misreporting directly undermines the core purpose of the exposure reporting mechanism, which is to enable the exchange to monitor risk in a timely and accurate manner, ensure that margins are adequate, and prevent the build-up of unreported exposure.

133. Accordingly, I agree with the finding of the Designated Authority and hold that the Noticee has violated the provisions of Clause 19 of SEBI Circular CIR/MRD/DP/54/2017 dated June 13, 2017.

Issue A (x): Whether Noticee has collected excess brokerage from clients?

134. I note that inspection has found that the Noticee had collected excess brokerage from its clients. The inspection recorded that, in ten instances across four clients, the brokerage charged exceeded the maximum permissible limit, aggregating to ₹4,322.75. Therefore, it was alleged that the same is in violation of Clause 18 of Annexure 4 of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011, read with the SEBI Circular dated February 04, 1991 on Contract Notes and Brokerage. I further note that the Designated Authority has given an adverse finding and has concluded that the allegation stands established based on the inspection material and the Noticee's own submissions.

135. The Noticee has stated that the excess brokerage arose due to a clerical error, submitting that the minimum slab was "wrongly entered" as 50 paise instead of

25 paise per share. The Noticee has also submitted that the excess amount was subsequently refunded, and has further submitted the discrepancy as inadvertent and insignificant in quantum.

136. Before examining the defence, I consider the regulatory obligation applicable for the instant allegation. The circular dated August 22, 2011 mandates that a stockbroker shall not charge brokerage in excess of the ceiling prescribed under the rules, regulations and bye-laws of the stock exchange. This obligation is absolute, among other objectives, for protection of investors, and does not provide for any exceptions. Clause 18 of Annexure 4 of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 provides:

"The stock broker shall not charge brokerage more than the maximum brokerage permissible as per the rules, regulations and bye-laws of the relevant stock exchanges and/or rules and regulations of SEBI."

137. I have examined the inspection data, which records the contract details, brokerage permissible and brokerage actually charged as shown in the following table.

Date	Client Code	Scrip code	Value Brokerage (Rs.)	Amount	Excess Brokerage Charged (Rs.)
07.04.2022	**3E*06	14165	740.50	-20,837.67	(370.25)
07.04.2022	**3*10	32411	500.00	-650.00	(250.00)
07.04.2022	**3*10	33275	140.00	-1,120.00	(70.00)
07.04.2022	**3*10	19307	100.00	-640.00	(50.00)
07.04.2022	**3*10	33275	10.00	-80.00	(5.00)
07.04.2022	**3E*06	14165	9.50	-267.33	(4.75)
07.04.2022	**5**97	30961	15.00	295.00	(2.50)
07.04.2022	**3*10	12048	5.00	-31.20	(2.50)
07.04.2022	**5**97	32667	12.00	470.00	(2.00)
11.03.2022	**0**09	32666	7,131.50	-51,204.17	(3565.75)

138. The figures on record show that the Noticee charged more than the ceiling in ten instances resulting in excess collection of ₹4,322.75. The Noticee has not disputed the correctness of these figures. The excess charged is directly established from the above data.

139. I have considered the Noticee's explanation. The submission that the wrong slab entry was a clerical error cannot be accepted. The obligation to ensure correct brokerage configuration rests entirely with the broker. Any error in manual entry, absence of maker-checker controls or failure of internal supervision is an internal process failure, not a circumstance that absolves regulatory responsibility. The brokerage cap is mandatory limit, and any excess charged constitutes a violation irrespective of intention.

140. I also note that the Noticee has not produced any contemporaneous evidence, such as internal logs to show the existence of error or that that the error was unavoidable or beyond its control. Further, I note that the refund of the excess brokerage claimed to have been made is only after the discrepancy was pointed out during inspection. The claimed refund was not voluntary or prior to detection but was a post-inspection corrective action. A rectification made after detection does not undo the breach. The violation stands committed at the moment excess brokerage is charged.

141. The submission that the amount involved is small is also not relevant for determining breach. Once it is established that brokerage in excess of the cap has been collected, intention and quantum are immaterial for the purpose of determination of violation. However, the amounts are minimal and is considered as mitigating factors.

142. In view of the above, and considering that the Noticee has not disputed the figures, I find that the Noticee collected excess brokerage of ₹4,322.75 across ten instances. This conduct is in violation of Clause 18 of Annexure 4 of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011, as well as the SEBI Circular dated February 04, 1991 governing contract notes and brokerage. The violation therefore stands established.

Issue A (xi): Whether the Noticee failed to close Client Beneficiary Accounts?

143. I note that inspection has found that the Noticee had not closed two demat accounts tagged as "Stock Broker – Client Account" within the prescribed timeline. These accounts, continued to remain open beyond September 30, 2019, which was the extended deadline. This is alleged to be in violation of Clause 6(b) of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 read with Clause 1 of SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019. I also note that the Designated Authority has rendered an adverse finding, holding that the allegation stands established.

144. The Noticee, in its reply, has submitted that the lapse occurred due to oversight and inadvertence, stating that the accounts had no holdings and were later closed or suspended. It was further submitted that corrective steps have been taken and that the penalty for this lapse has already been paid. The Noticee has also contended that the instance was isolated and unintentional.

145. Before considering the reply, I note the regulatory framework applicable. Clause 6(b) of SEBI Circular dated June 20, 2019 mandated that all demat accounts tagged as "Stock Broker – Client Account" were required to be wound up before August 31, 2019. By virtue of Clause 1 of the SEBI Circular dated August 29, 2019, this deadline was extended by one month, thereby prescribing September 30, 2019 as the final date for closure. These requirements are time-bound for its compliance.

146. The relevant clauses read as under:

Circular dated June 20, 2019

"6(b) All the DP accounts tagged as 'Stock Broker – Client Account' are wound up before August 31, 2019."

Circular dated August 29, 2019

"It has been decided that the effective deadline for implementation of guidelines… shall be extended by one month."

147. From the material on record, I note that the two demat accounts remained open beyond September 30, 2019 as shown in the following table.

S. No.	Account No.	Value of Securities Holding as on 31st October, 2022 (Rs.)	Status as per DP Statement
1	1**8**12	0	Suspended for all as on 31st October, 2022
2	0**7**08	0	Closed on 20th December, 2022

148. The DP statements show that one account was suspended for all and the other was closed only on December 20, 2022. The Noticee has not disputed that these accounts were required to be closed by the stipulated deadline.

149. I have considered the Noticee's explanation that the lapse was due to oversight, unintentional, and later rectified. This explanation cannot be accepted. The requirement to wind up all such client-tagged demat accounts by the regulatory deadline is a strict compliance obligation, introduced to ensure transparency, prevent misuse of client securities, and avoid any possibility of holding client securities in broker-controlled accounts. The obligation is not dependent on whether securities were held or whether the lapse was intentional.

150. The subsequent closure or suspension of the accounts long after the deadline and after regulatory detection does not negate the fact of non-compliance. Similarly, the fact that the penalty has already been paid cannot alter the conclusion on violation. It can only be considered at the stage of determining consequence, not culpability.

151. The requirement under Clause 6(b), read with the extended deadline, was clear, i.e., all Stock Broker–Client demat accounts were to be closed on or before

September 30, 2019. The two accounts admittedly remained open well beyond this date. Therefore, the violation stands established. In view of the above, I hold that the Noticee failed to close the two demat accounts within the stipulated deadline and has consequently violated Clause 6(b) of SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/75, read with Clause 1 of SEBI/HO/MIRSD/DOP/CIR/P/2019/95.

152. The Noticee has placed reliance on certain past SEBI orders such as Anand Rathi, Edelweiss, Phillip Capital and Eureka, to argue that either no adverse action was taken or only a warning was issued in those matters. However, I note that the factual matrix and the mitigating circumstances present in those cases are materially different from the present matter. In several of the past matters relied upon, the discrepancies were either one-off instances demonstrated to be inadvertent, allegation dropped because of supporting explanation and evidence, not having similar and comparable allegations (in the matter of Stockholding Services Limited, there was no allegation regarding misuse of client's fund) etc. For example, in the matter of Anand Rathi, as cited by the Noticee, with regards to the allegation of misutilization of client's funds, para 15 captures the explanation accepted in the order that the Noticee had a free fixed deposit of ₹50 crores, which could not be placed with the Clearing Corporation due to COVID-related operational constraints. This fact was accepted as a mitigating circumstance because it demonstrated absence of misutilisation and availability of surplus funds at all times. Further, it was specifically noted that there was no instance of misuse of client funds. Similarly, the Eureka case is also clearly distinguishable as it had only one allegation against the Noticee.

153. In view of the above, none of the cases cited by the Noticee are factually or contextually comparable to the present proceedings and consequently, the Noticee cannot claim parity or rely upon those orders to seek leniency. I note that each regulatory proceeding is required to be assessed on its own facts, gravity of lapses, impact on investor protection, and the obligations breached. Accordingly, I don't find any merit in the said contention of the Noticee.

154. I also note that the Noticee has submitted regarding multiple allegations that no investor complaints were received in relation to defaults pointed out in the inspection. In this regard, I note that many of the violations found in the inspections may not be known to the clients, especially the reporting requirements for the brokers. Therefore, the absence of any investor complaint cannot be taken as a defense for violations which pertain to systemic issues/risks unearthed during inspection.

155. Finally, while assessing the matter in its entirety, I have also taken into account the submissions of the Noticee and the mitigating factors emerging from the record. The material on record also indicates that, in the specific instances of excess brokerage and erroneous reporting of certain ledger balances, the Noticee has in some instances, refunded the excess amount or corrected the entries. Further, there are only three instances of violation established in the first issue. In some instances, Noticee has also paid the penalty as done in case of non-closure of demat accounts. I further note that monetary penalty has also been imposed against the Noticee in the adjudication proceedings for same set of violations. The amounts involved in some of the discrepancies are also relatively small. These factors, along with the Noticee's submission that systems and processes have been strengthened post-inspection to prevent recurrence, have been duly considered.

156. However, while the above factors offer some contextual mitigation, they do not dilute the fact that the violations established in this order concern core regulatory obligations relating to accurate reporting, proper segregation of client funds, and adherence to margin-related requirements. The obligations under the applicable SEBI circulars are fundamental in nature and are designed to ensure transparency, market integrity, and investor protection. An intermediary is expected to be fully conversant with these requirements and ensure robust systems to avoid even inadvertent lapses. Therefore, although the mitigating factors have been taken on record and have been considered while determining the gravity of the matter, they do not, in the facts and circumstances of this case,

warrant exemption from regulatory consequences for the established violations. Keeping these factors in mind, need arises for a suitable regulatory action under Regulation 27 of the SEBI (Intermediaries) Regulations, 2008.

Directions:

157. In view of the foregoing, in exercise of the powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Regulation 23 and 27 of the Intermediaries Regulations, I, hereby issue the following directions to Prabhudas Lilladher Private Limited (PAN: AAACP2733Q), SEBI registered Stock Broker (Reg. No.: INZ000196637):

    The Noticee is prohibited from taking up any new assignment or contract or launching a new scheme, in so far as maybe applicable to it as a SEBI registered Stock Broker, for a period of seven (7) days starting from December 15, 2025 (Monday).

158. This order is signed with physical and digital signature.

159. A copy of this order shall be forwarded to the Noticee.

N. MURUGAN
Digitally signed by N. MURUGAN
Date: 2025.11.28 20:54:56 +05'30'

DATE: November 28, 2025 **N. MURUGAN**

PLACE: MUMBAI **CHIEF GENERAL MANAGER**

SECURITIES AND EXCHANGE BOARD OF INDIA