

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/BM/RK/2024-25/30907]**

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995

In respect of

Name of the Entity	Registration Number	PAN
RUDRA SHARES & STOCK BROKERS LTD	INZ000004937	AADCG1458J

In the matter of

Inspection of Rudra Shares & Stock Brokers Ltd

Background

- 1) Securities and Exchange Board of India (“**SEBI**”) and exchanges viz, National Stock Exchange of India Limited (“**NSE**”), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) had conducted an on-site inspection of books of accounts and other documents of Rudra Shares & Stock Brokers Ltd, registered with SEBI as a Stock Broker since June 12, 2020 bearing Registration No. INZ000004937 (hereinafter referred to as the “**Noticee/Rudra**”) on August 17 & 18, 2023 to look into various compliance requirements adhered to by the Noticee, with respect to provisions of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “**SEBI Act**”), SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as the “**Stock Brokers Regulations**”) and applicable Circulars issued thereunder. The inspection was

conducted for the period beginning April 01, 2022 to June 30, 2023 (hereinafter referred to as “**inspection period/IP**”).

- 2) The inspection findings were communicated to the Noticee vide SEBI letter dated October 31, 2023. After examining the reply submitted by the Noticee vide letter dated November 10, 2023, it had been alleged that the Noticee contravened various provisions of the securities law in respect of the activities carried out by it. The summary of the violations alleged to have been committed by the Noticee and corresponding provisions of the securities law are given in the table 1 below :-

Table 1:

Sr No.	Alleged Violations (Summarized)	Regulatory Provisions
1.	Discrepancy w.r.t users operating terminal & Certifications of users	Not in accordance with NEAT-(Regulation 2.2.1 of Regulations (F&O Segment) and Regulation 2.2.1 of Part A of the Capital Market Regulations of the Exchange, Currency Derivative Circular dated Aug 26, 2008, NSE/INSP/11184), CTCL -(Exchange's circular no. NSE/MEMB/3574 dated 29-Aug-02 and NSE/MEMB/3635 dated 25-Sep-02 read with Regulation 9 (b) and Regulation 9 (f), clause A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Broker) Regulations 1992.
2.	Irregularities w.r.t settlement of client accounts.	Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009. Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/5 dated June 16, 2021. SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2022/10 dated July 27, 2022.

- 3) In view of the above, adjudication proceedings was initiated against the Noticee.

APPOINTMENT OF ADJUDICATING OFFICER

- 4) SEBI, vide order dated July 15, 2024, communicated vide communiqué dated July 18, 2024, appointed undersigned as the Adjudicating Officer (AO) under Section 19 of the SEBI Act read with Sub-Section (1) of Section 15I of the SEBI Act and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**SEBI Adjudication Rules**') to inquire into and adjudge under the provisions of Section 15HB of the SEBI for the aforesaid violation alleged to have been committed by the Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

- 5) A Show Cause Notice ("**SCN**") No SEBI/HO/EAD/EAD3/P/OW/2024/24917/1 dated August 02, 2024 was issued to the Noticee in terms Rule 4(1) of SEBI Adjudication Rules to show cause as to why an inquiry should not be initiated against it and why penalty, if any, be not imposed upon it under Section 15HB of the SEBI Act for the aforesaid violations alleged to have been committed by it.
- 6) The said SCN was sent to the Noticee through Speed Post AD and via digitally signed email dated August 02, 2024, which was duly delivered on the same day. The proof of service is on record. Noticee vide letter dated August 16, 2024 sought more time to file reply in the matter. Accordingly, vide email dated August 22, 2024, Noticee was advised to submit reply to the SCN in the matter latest by August 31, 2024. In response, Noticee vide email dated August 28, 2024 sought activity log w.r.t alleged violation of discrepancy w.r.t users operating terminal & Certifications of users. Vide the said email, it made the following submission and sought further extension of time to file reply in the matter.:

6.1 It submitted that it had already submitted its reply w.r.t change in software service provider and the technical bug faced in the first cycle of new software for quarterly settlement for January 2023 and that the process and data were inspected and verified on site by inspecting authority and the same was accepted.

6.2 It is trying to fetch the complete history of unsettled clients to justify its past conduct.

- 7) Vide email dated September 03, 2024, Noticee was informed of the unavailability of any activity log on records in the matter and was advised to submit reply in the matter latest by September 17, 2024. Noticee, vide email dated September 17, 2024 submitted its reply to the SCN in the matter. The submissions made by the Noticee are summarized hereunder:

7.1 Noticee submitted that out of 4 terminals of NSE, 2 terminals were of NEAT ID for Cash segment and F&O segment provided by NSE, other 2 CTCL terminals were 'VIEW ONLY' terminals for risk management system (RMS), 1 terminal was a VIEW ONLY terminal of BSE and no trades were punched using the View only terminals.

7.2 W.r.t 1 CTCL terminal of MCX, it submitted that the same was for facilitation of its Authorized Person (AP).

7.3 That the working hours of MCX last from early morning to late night. The long lasting trade timings cause problems in its office and the staff is required to work in shift and the terminal is not allocated to terminal operator working in shift.

7.4 W.r.t allegation of irregularities on settlements of clients' accounts, Noticee submitted that it is having thousands of active clients and 9 instances and the amount of non-settlement in such instances is materially insignificant.

7.5 That there existed partially settled and unsettled accounts due to technical bug in the software.

7.6 W.r.t Client Codes GS01, KA1550, KA945 and VA4578, Noticee submitted that there was a software bug related to the calculation of VAR Margin / EOD Margin.

7.7 That as a result of the said technical bug, a minor portion of margin amount of Rs 3,75,915.23 remained unsettled out of the total settlement amount of Rs 34,19,062.40/-, which was subsequently settled and thereby corrective measures were taken.

7.8 That it is not a case of not settling the accounts as 90% of the amount payable was paid and 10% remained unpaid due to technical error.

7.9 W.r.t client codes, QSI100, QSI116, QSI230, QSI107, Noticee submitted that it was not the case of non-settling the accounts since client codes were falling for settlement scheduled on April 06, 2023 but were settled on April 11, 2023 with outstanding amount as on April 11, 2023 for Rs 8,71,827.90/- and the delay of 5 days was caused on account of the said client code accounts flagged in computer system, owing to which the same was not considered for settlement. However, it came to notice on April 10, 2023, the same were settled on April 10, 2023.

7.10 In case of client code GHC150, Noticee submitted that the said client being a corporate client was infrequently trading in commodity market and did corresponding hedging in large amount keeps credit balance with a request to not settle the account quarterly and keep the credit balance money as margin money.

7.11 As regards client code MUMV001, Noticee submitted that the said client code was erroneously selected in isolation of understanding its ledger and trading activity. It submitted that the outstanding ledger balance of Rs 6596.58/- was settled on February 24, 2023 and ledger balance was zeroed and subsequently, client had credited the same amount on February 27, 2023 and this pattern of redeposit by clients is available on ledger and the same was inspected by the inspecting team too, despite this such clients are classified as inactive clients.

7.12 W.r.t client codes PA005, BRL79, Noticee submitted that the clients PA005 and BRL79 had infused funds on February 01, 2023 and February 08, 2023 by Rs 1000/- and Rs 920 respectively and the said deposited amounts were less than Rs 10000/-, the same was not mapped by its software. However, the said accounts were settled by 90 days set off on April 06, 2023.

7.13 W.r.t client code CP85, Noticee submitted that outstanding of Rs 1,50, 000/- was there as the clients had credited the ledger with the said amount on February 09, 2023 and instructed not to return the amount until the further instructions. However, it had settled the said account on April 06, 2023.

7.14 That there has been not complaint from any of its clients.

7.15 That the clarification of each charges and allegation and corresponding immediate and corrected measure undertaken by it in itself establishes the technical and venial breach on account of software migration process and the same was absolutely inadvertent and unintentional.

8) In the interest of natural justice and in order to conduct inquiry in terms of Rule 4(3) of the SEBI Adjudication Rules, an opportunity of hearing was granted to the Noticee on October 18, 2024 vide hearing Notice dated October 04, 2024. The said hearing was attended to by the Authorized Representative (AR) of the Noticee who reiterated the submissions made by the Noticee vide its letter dated August 28, 2024 and September 17, 2024. During the course of hearing, Noticee was advised to provide documentary evidence in support of the following:

- a) Having made application to the exchange w.r.t 6 terminals and approval given by the exchange for use by approved users.*
- b) Names of the approved users w.r.t operation of the 6 terminals.*
- c) Employees/ Persons who were sitting before 6 terminals during the inspection.*

- d) *Documents for settlement of accounts of all 9 active clients and 4 inactive clients as submitted during the course of hearing.*
- 9) In response to the above, Noticee made following additional submissions vide email dated October 23, 2023 and submitted screenshots pertaining to approved user details authorized to operate the CTCL terminals, details of persons who were operating the said terminals during inspection and ledger statement of the client accounts.:
- a) *That the circular NSE/MEMB/3635 dated 25-Sep-02 is for file format for reporting location of CTCL terminals, NSE Exchange's circular no. NSE/MEMB/3574 dated 29-Aug-02 provides for guidelines on location of CTCL terminals and usage thereof and Currency Derivative Circular dated Aug 26, 2008 provides for amendments to Bye-laws and F & O Regulations of the Exchange and constituent registration documents in Currency Derivatives Segment and are not applicable to it as these circulars do not include the word "TERMINAL " in them*
- b) *That circular no. SEBI/HO/MIRSD/DOP/P/CIR/2022/10 dated June 16, 2021 has no bearing w.r.t settlement of accounts since the said circular was ambiguous whereas Circular of July 2022 was in the nature of clarification and it was this circular that had removed the ambiguity in respect of 90/30 days settlement of clients' accounts.*
- c) *That inspection was conducted on August 17 & 18, 2023 and at that time the circular of July 2022 was in force and not the circular of June 2021 and therefore, all the 13 accounts were settled in conformity with the July 2022 circular.*
- 10) It is noted that inspection findings are based on analysis of samples and test checking of various books and other records maintained by the Noticee, as well as written/oral submissions of the Noticee & its officials to the inspection team.

Consequently, the instances of irregularities/observations pointed out in inspection report are illustrative in nature and are not all-inclusive.

CONSIDERATION OF ISSUES, EVIDENCE AND FINDINGS

11) The charges levelled against the Noticee, its reply and the documents/ material available on record have been carefully perused. The issues that arise for consideration in the present case are:

ISSUE I- Whether Noticee has violated provisions of Stock Brokers Regulations, SEBI Circulars and Exchange circulars as mentioned at table 1 above?

ISSUE II- Does the violation, if any, on the part of the Noticee attract monetary penalty under Section 15HB of the SEBI Act?

ISSUE III- If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of the SEBI Act?

12) Before proceeding further, the relevant provisions of law are as under:

Relevant provisions of Stock-Brokers Regulations, 1992

Conditions of registration

9. Any registration granted by the Board under Regulation 6 shall be subject to the following conditions, namely;-

(b) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;.

(f) he shall at all times abide by the Code of Conduct as specified in Schedule II;

SCHEDULE III

Securities and Exchange Board of India

(Stock Brokers, 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.

Relevant provisions of NSE Regulations

Regulation 2.2.1 of National Stock Exchange (Futures & Options Segment) Trading Regulations

<https://nsearchives.nseindia.com/global/content/regulations/NSEFOregulations.pdf>

Regulation 2.2.1 of Part A of the Capital Market Regulations of the Exchange

<https://nsearchives.nseindia.com/global/content/regulations/NSECMregulations.pdf>

National Stock Exchange (Futures & Options Segment) Trading Regulations

2.2 TRADING MEMBERS AND APPROVED USERS

2.2.1 Trading Members and participants shall be entitled to appoint, with the approval of the F&O Segment of the Exchange,

(a) Authorised persons subject to such terms and conditions as may be specified by the Relevant Authority from time to time.

(b) Approved users to operate the Trading Workstation(s) approved by the F&O Segment of the Exchange subject to payment of such approval fee as may be specified by the Relevant Authority from time to time.

National Stock Exchange of India Limited Regulations – Part A (Capital Market Segment)

2.2.1 Trading Members and participants shall be entitled to appoint, subject to such terms and conditions as may be specified by the Relevant Authority from time to time-

(a) Authorised Persons;

(b) Approved Users

Relevant Provisions of SEBI Circulars

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.

SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/57 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.

SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2022/10 dated July 27, 2022

<https://www.sebi.gov.in/legal/circulars/jul-2022/settlement-of-running-account-of-client-s-funds-lying-with-trading-member-tm- 61222.html>

Relevant Provisions of Exchange Circulars

Currency Derivative Circular dated Aug 26, 2008, NSE/INSP/11184
<https://nsearchives.nseindia.com/content/circulars/insp11184.htm>

NSE circular no. NSE/MEMB/3574 dated 29-Aug-02

MEMBERSHIP DEPARTMENT

Circular No. 282

Ref: NSE/MEM/3574

August 29, 2002

Dear Members,

Sub: Guidelines for location of CTCL terminals and usage thereof.

Trading Members availing of the CTCL facility for trading on the Capital Market and / or Futures and Options Segment of the Exchange are hereby advised to be guided by the following requirements while installing and using CTCL terminals:

1. CTCL facility has been provided to the Trading Members to facilitate their business expansion needs.
2. The persons who handle each CTCL terminal of the Trading Member are known as Approved Persons (refer to para (c) of the CTCL agreement). Necessary prior approval of the Exchange is required to be obtained before any CTCL terminal is entrusted to an Approved Person (refer point 1 of the CTCL agreement) failing which it shall be treated as a violation.
3. CTCL terminals need to be located only in the office of the Trading Member or in the office of their registered sub-brokers.
4. If it is found that the CTCL terminal is at a place which is not the office of their registered sub-broker, such a place shall be deemed to be the office of the Trading Member.
5. The provisions of Circular 163 (NSE/MEM/1591) dated April 20, 2000 relating to placing of a Notice Board are applicable to every place where one of the CTCL terminals is located.
6. Trading Members shall not entrust the CTCL terminals to their clients or to any unregistered intermediary (refer points 1 and 5 of Circular 163) other than Approved Persons. Approved Person may be an employee of the Trading Member, a registered sub-broker, an Approved User or an Authorised Person who has been approved by the Exchange.

The following time limits may be followed while seeking approval for 'Approved Persons':

Sr. No.	Category of Approved Persons	Data to be submitted at the time of seeking approval	Time Limit within which the data should be sent to the Exchange
1.	In case of all existing 'Approved Persons' to whom CTCL terminals have been allotted.	Annexure 1 and Annexure 2	The manner and the time for submitting this information in electronic form would be intimated by September 16, 2002.
2.	In case of any CTCL terminal that is proposed to be allotted to an 'Approved Person' in future.	Annexure 2	Prior approval to be sought.
3.	Withdrawal of any existing CTCL terminal or any Approved Person.	Annexure 2	Within 10 calendar days of effecting withdrawal.

7. Annexure 1 shall contain the location of the CTCL server and the details of the user id allotted by the Exchange which is being used to connect the CTCL server to the Exchange.
8. Annexure 2 shall contain the details of the CTCL network i.e., details of the location of each CTCL terminal, mode of connectivity as well as details of each Approved Person handling the terminals.
9. It may be noted that the manner and the time limit within which the submission of data in an electronic form about all the existing CTCL terminals allotted prior to August 30, 2002 would be intimated to the Trading Members by September 16, 2002.
10. Trading Members may once again note that no CTCL terminal(s) shall be allotted by them hereafter without the prior approval of the Exchange and if not sought, such use of terminal(s) shall be treated as Unauthorised and in violation of the requirements. Such violation by any Trading Member shall render the concerned Trading Member liable for such disciplinary action as the Exchange may deem fit including forthwith withdrawal of the User ID that is granted to the CTCL server from which the Trading Member has extended the CTCL trading facility to such locations, without notice and / or reference.

This circular shall come into effect w.e.f. August 30, 2002.

For National Stock Exchange of India Ltd.

Joseph H Bosco
Asst. Vice President

NSE Circular No- NSE/MEMB/3635 dated 25-Sep-02

MEMBERSHIP DEPARTMENT

Circular No. 292

Ref NSE/MEM/3635

September 25, 2002

Dear Members,

Sub: File format for reporting location of CTCL terminals

This is further to circular no. 282 (NSE/MEM/3574) dated August 29, 2002 whereby Trading Members availing of CTCL facility were informed that the file format which would enable them to communicate details of their terminals on the CTCL network would be made available to them shortly.

The Exchange has finalised the file structure and the methodology for reporting the details of the location of the CTCL terminals. The general instructions and the file format are enclosed as Annexure 1 and Annexure 2 respectively.

Trading Members who are using the CTCL facility shall submit all the relevant information in respect of their existing CTCL terminals to the Exchange latest by October 31, 2002 in the prescribed file format. This file shall be uploaded by the Trading Members on the extranet in the folder titled <Member code>/MEMCTCL/UPLD. A hard copy of this same form, duly signed (as prescribed vide our circular No. 282) should also be submitted to the Exchange immediately thereof.

Henceforth, prior to allotment of any CTCL terminal by a Trading Member to an 'Approved Person' or the withdrawal of any existing CTCL terminal / 'Approved Person' status by a Trading Member shall be communicated to the Exchange in the same file format. Simultaneously, application in the physical format as prescribed in circular no. 282 should also be submitted.

All Trading Members availing of the CTCL facility are requested to take note of the above and ensure compliance by October 31, 2002 so as to avoid any disciplinary action.

For National Stock Exchange of India Ltd.

Joseph H Bosco
Asst. Vice President

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FINDINGS

On perusal of the material available on record and giving regard to the facts and submission of the Noticee and circumstances of the case, the findings are recorded hereunder:

ISSUE I: Whether Noticee has violated provisions of Stock Brokers Regulations, SEBI Circulars and Exchange circulars as mentioned at table 1 above?

Alleged Violation 1: Discrepancy w.r.t users operating terminal & Certifications of users

- 13) In terms of Regulation 2.2.1 of Regulations (F&O Segment) and Regulation 2.2.1 of Part A of the Capital Market Regulations of the Exchange, trading members and participants are entitled to appoint Authorised Persons (APs) and approved users who operate the CTCL terminals in its offices, however, it was observed during the inspection that 6 terminals located at Kanpur office of the Noticee were being operated by person other than the approved user appointed by the Noticee, which was in contradiction to the provisions of aforesaid Regulations w.r.t operation of the terminals.
- 14) Accordingly, in view of the above, it is alleged that the Noticee has violated the Regulation 2.2.1 of Regulations (F&O Segment) and Regulation 2.2.1 of Part A of the Capital Market Regulations of the Exchange, Currency Derivative Circular dated Aug 26, 2008, NSE/INSP/11184), CTCL -(Exchange's circular no. NSE/MEMB/3574 dated 29-Aug-02 and NSE/MEMB/3635 dated 25-Sep-02 read with Regulation 9 (b) and Regulation 9 (f), Clause A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Broker) Regulations 1992.
- 15) Noticee submitted that out of 4 terminals of NSE, 2 terminals were of NEAT ID for Cash segment and F&O segment provided by NSE, other 2 CTCL terminals were 'VIEW ONLY' terminals for risk management system (RMS) only, 1 terminal was a

VIEW ONLY terminal of BSE and no trade was punched using the View only terminals and 1 terminal of MCX was for facilitation of its AP.

16)The said view only terminals are for auto-squaring off all the transactions which are open without margin and therefore, the same being an auto trade activity, the question of terminal operator did not arise.

17)At the time of hearing, Noticee was advised to provide the documentary evidence in support of having made application to the exchange w.r.t 6 terminals and corresponding approval accorded to it for use by the approved users, names of the approved users w.r.t operation of the 6 terminals and employees/terminals who were sitting before the said 6 terminals during the inspection. In this regard, Noticee submitted screenshots pertaining to approved user details authorized to operate the CTCL terminals and following information as tabulated in table 2 below:.

Table 2:

	A	B	C	D	E	F	G	H
1								Annexure 1
2	NAME OF EMPLOYEES							
3	S. no	Terminal type	User Id	CTCL ID No/location ID	Exchange	Approved Person (REPORTED TO EXCHANGE) AT THE TIME OF INSPECTION CONDUCTED	User operating the terminal at the location found at the location	Approved Person (REPORTED TO EXCHANGE) AT PRESENT
4	3	CTCL	30128	208001301028	NSE	MR. RAMAN PANDEY	Vikas rawat	VINAY MISHRA
5	4	CTCL	30128	208001301028	NSE	MR. RAMAN PANDEY	Vikas rawat	VINAY MISHRA
6	1	CTCL	42699	208001301028	MCX	VINAY MISHRA	Vikas rawat	VINAY MISHRA
7	2	CTCL	2	2080010002002099	BSE	KISHORE SINGH	ayush singh	KISHORE SINGH
8	5	Neat	24185	NA as NEAT ID	NSE	SATYENDRA NATH TIWARI	Prashant kumar gupta	VISHAK SAILAN
9	6	Neat	32584	NA as NEAT ID	NSE	PANKAJ AGARWAL	Prashant kumar gupta	NISHANT PANDEY

18)From the table 2 above, it is observed that Mr Raman Pandey, Mr Vinay Mishra, Mr Kishore Singh, Mr Satyendra Nath Tiwari and Mr Pankaj Agarwal were the exchange approved persons to operate the 2 terminals of NSE,1 MCX terminal, 1 BSE terminal and 2 NSE NEAT ID terminals respectively. However, it is observed the entities who were operating the terminals as given in column G were not the

approved users during the inspection period. In this regard, it is pertinent to refer to points 2, 6 and 10 of NSE Circular NSE/MEM/3574 dated August 29, 2002, which read as mentioned below:

NSE Circular NSE/MEM/3574 dated August 29, 2002

2. The persons who handle each CTCL terminal of the Trading Member are known as Approved Persons (refer to para (c) of the CTCL agreement). Necessary prior approval of the Exchange is required to be obtained before any CTCL terminal is entrusted to an Approved Person (refer point 1 of the CTCL agreement) failing which it shall be treated as a violation

6. Trading Members shall not entrust the CTCL terminals to their clients or to any unregistered intermediary other than Approved Persons. Approved Person may be an employee of the Trading Member, a registered sub-broker, an Approved User or an Authorised Person who has been approved by the Exchange.

10 Trading Members may once again note that no CTCL terminal(s) shall be allotted by them hereafter without the prior approval of the Exchange and if not sought, such use of terminal(s) shall be treated as Unauthorised and in violation of the requirements. Such violation by any Trading Member shall render the concerned Trading Member liable for such disciplinary action as the Exchange may deem fit including forthwith withdrawal of the User ID that is granted to the CTCL server from which the Trading Member has extended the CTCL trading facility to such locations, without notice and / or reference.

19) From the above provisions, it is noted that the Noticee was required to appoint approved users to operate the CTCL terminals in its office and no person other than the approved users can operate the terminals without exchange approval. It is observed that the approved users as reported to exchange mentioned at column F of table 2 were not the users operating the terminals as mentioned at column G.

20) Further, from the documents submitted by the Noticee, it is observed that there was no evidence to show that the 2 terminals were VIEW ONLY. Further, with regard to its submission that 2 VIEW ONLY NSE Terminals were for auto squaring off the trades, it is noted that a terminal, which is for VIEW ONLY purpose cannot auto-square off trades as it would defeat the logic of such systems being VIEW ONLY. Also, it is noted that 2 NSE NEAT terminals were for trading purpose, which were operated by other than the approved users. Noticee has thus not complied with the NSE Circulars as stated above. Thus, submission of the Noticee is bereft of merits.

21) As regards Noticee's submission on non-applicability of circulars, it is noted that the NSE Circular NSE/MEMB/3635 dated 25-Sep-02 dated September 25, 2002 provides for communication to exchange in case there is a change in the status of the approved person operating the CTCL terminal, which is in addition to file format for reporting location of terminals. Similarly, NSE Circular NSE/MEMB/3574 dated August 29, 2002 apart from guidelines for location of CTCL terminals and usage thereof also provides to not entrust the CTCL terminals other than the approved users in addition to treating of terminals as Unauthorized in case of operation of terminals by person other than the approved user. Thus, from the above, it is noted that the Noticee has misconstrued the provisions of the said circulars.

22) In view of the foregoing, it stands established that the Noticee has violated NEAT- (Regulation 2.2.1 of Regulations (F&O Segment) and Regulation 2.2.1 of Part A of the Capital Market Regulations of the Exchange), CTCL -(Exchange's circular no. NSE/MEMB/3574 dated 29-Aug-02 and NSE/MEMB/3635 dated 25-Sep-02 read with Regulation 9 (b) and Regulation 9 (f), clause A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Broker) Regulations 1992.

Alleged Violation 2: Irregularities w.r.t Settlement of Client Accounts

23) It is observed that in 9 instances, Noticee had allegedly not settled the active client funds amounting to Rs 1,22,34,249.11/- and in 4 instances, Noticee had allegedly not settled the funds of inactive clients to the tune of Rs 1,58,516.58, who had not traded for 30 days.

- 24) In view of the above irregularities, it is alleged that the Noticee has violated Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009, Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16, 2021 and provisions of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2022/10 dated July 27, 2022 by having failed to settle the client accounts.
- 25) Noticee submitted that it is having thousands of active clients and in 9 instances the amount of non-settlement in such instances is materially insignificant. It submitted that there was a software bug related to the calculation of VAR Margin / EOD Margin. In respect of Client codes GS01, KA1550, KA945 and VA4578 and owing to the technical bug, a minor portion of margin amount of Rs 3,75,915.23 remained unsettled out of the total settlement amount of Rs 34,19,062.40/-, which was subsequently settled and thereby corrective measures were taken.
- 26) W.r.t client codes QSI100, QSI116, QSI230, QSI107, Noticee submitted that client codes were falling for settlement scheduled on April 06, 2023 but were settled on April 11, 2023 with outstanding amount as on April 11, 2023 for Rs 8,71,827.90/- and the delay of 5 days was caused on account of the said client code accounts flagged in computer system, owing to which the same was not considered for settlement. However, it came to notice on April 10, 2023, the same were settled for amount lying free credit on April 10, 2023.
- 27) Noticee further submitted that the client code GHC150 had requested to not settle the account quarterly and keep the credit balance as margin money and for client code MUMV001, it submitted that the said client account was settled on February 24, 2023 and the ledger balance was zeroed but the client redeposited the same amount of Rs 6596.58/- on February 27, 2023. Similarly, w.r.t the client code, CP85, Noticee submitted that the client had credited the ledger with Rs 1,50,000 on February 09, 2023 and instructed not to return the amount until the further instructions. However, it had settled the said account on April 06, 2023.

28) Noticee w.r.t client codes PAO05, BRL79 submitted that the said clients had infused funds on February 01, 2023 and February 08, 2023 by Rs 1000/- and Rs 920 respectively and the said deposited amounts were less than Rs 10000/- , the same was not mapped by its software. However, the said accounts were settled by 90 days set off on April 06, 2023.

29) During the course of hearing, Noticee was advised to provide documents for settlement of accounts of all 9 active clients and 4 inactive clients. It is noted that the Noticee provided the ledger statement of the client's accounts. The following details as tabulated in table 3 below are noted from the said ledger accounts in respect of 9 active clients bearing client codes viz, GHC150, GS01, KA1550, KA945, VA4578, QSI100, QSI116, QSI230 and QSI107:

Table 3:

Client CodeS	Date by which the accounts were to be settled	Quarter not settled	Client Funds to be returned (i.e. client fund balance if available after adjusting maximum funds that can be retained)	Payout done by the Member as checked from Ledger	Status of settlement
GHC150	06/04/2023	Q1 FY 2022	66,81,582.86	NIL	Not settled on due date
GS01	06/04/2023	Q4-FY2022	9,60,007.29	8,80,699.04	Not settled on due date. VAR Margin considered for Cash Market Transactions

KA1550	06/04/2023	Q4-FY2022	16,85,662.99	15,52,029.05	Not settled on due date. VAR Margin considered for Cash Market Transactions
KA945	06/04/2023	Q4-FY2022	7,30,660.78	5,68,018.13	Not settled on due date. VAR Margin considered for Cash Market Transactions
VA4578	06/04/2023	Q4-FY2022	42,731.35	42,400.95	Not settled. VAR Margin considered for Cash Market Transactions
QSI100	06/04/2023	Q4-FY2022	36,359.73	Payout of 36359.73 was done on 11-04-2023	Not settled on due date
QSI116	06/04/2023	Q4-FY2022	14,18,459.89	Payout of 640583.05 was done on 11-04-2023	Not settled on due date
QSI230	06/04/2023	Q4-FY2022	4,52,032.58	Payout of 77337.38 on 11-04-2023	Not settled on due date
QSI107	06/04/2023	Q4-FY2022	2,26,751.65	Payout of 117547.74 on 11-04-2023	Not settled on due date
TOTAL			Rs 1,22,34,249.11		

30) Similarly, settlement details of the 4 inactive clients is mentioned in table 4 below:

Table 4:

Client Codes	Credit Clos.Bal 22-02-2023	Credit Clos.Bal 25-03-2023	Date by which settlement should have been done	Date of Previous settlement	Status of settlement
MUMV001	6,596.58	6,596.58	06/04/2023	06/01/2023	Not settled
PAO05	1,000.00	1,000.00	06/04/2023	06/01/2023	Not settled
BRL79	920.00	920.00	06/04/2023	06/01/2023	Not settled
CP85	1,50,000.00	1,50,000.00	06/04/2023	06/01/2023	Not settled
TOTAL		Rs 1,58,516.58/-			

31) From the table 3 above, it is noted that the clients' funds required to be returned by the Noticee i.e. after adjusting the maximum funds that could have been retained by it was Rs 1,22,34,249.11, whereas pay-out done by the Noticee was Rs 39,14,975.07/- as on the due date of settlement i.e. April 06, 2023. Thus, from the above, it is noted that all the 9 active client accounts and 4 inactive clients were not

settled by the due date and the total non-settled amount by the Noticee as on April 06, 2023 (due date) was Rs 1,22,34,249.11/- and Rs 1,58,516.58/- respectively.

32) With respect to claim of the Noticee that client code GHC150 had requested for retaining the amount, no documentary evidence was provided by the Noticee.

33) It is noted that in terms of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2022/10 dated July 27, 2022, Noticee was duty bound to settle the clients' accounts on a quarterly/ monthly basis depending upon the preference given by the clients, which it failed to do. In case of quarterly settlement, Noticee was required to settle the clients' accounts on first Friday of the quarter, in the instant case by April 06, 2023 and in case of monthly settlement, the clients' accounts were to be settled on first Friday of every month. The said provisions are mentioned below:

SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2022/10 dated July 27, 2022

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.*

4.2. *For clients, who have opted for Monthly settlement, running account shall be settled on first Friday of every month. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.*

34) As regards its submission that there is no bearing of circular no. SEBI/HO/MIRSD/DOP/P/CIR/2022/10 dated June 16, 2021 w.r.t non-settlement of clients' accounts since the ambiguity related to the said circular was cleared by circular of July 2022, it is noted that Noticee has misplaced the provisions of the June 16, 2021 circular wherein clause 5.1 clearly provided for the settlement of running account of funds of the client after considering the End of the day (EOD)

obligation of funds as on the date of settlement and the same was to be done atleast once within a gap of 30 / 90 days between two settlements of running account as per the preference of the client. The said Clause 5.1 reads as mentioned below:

SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/57 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.

35) Further, June 2022 circular also provided for settlement on the first Friday in respect of quarterly and monthly settlements. It is also noted that Clause 4.3 of the July 2022, circular clearly specifies that Clause 5.1 of the June 16, 2021 circular is modified to the extent mentioned above. Thus, there was only partial modification of June 16, 2021 circular and there was no ambiguity as contended by the Noticee. Thus, submission of the Noticee is not tenable

36) In view of the above, it stands established that the Noticee has violated Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009, Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16, 2021 and provisions of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2022/10 dated July 27, 2022.

ISSUE II- Does the violation, if any, on the part of the Noticee attract penalty under Section 15HB of the SEBI Act as applicable?

37) As has been established above that Noticee is in violation of the following provisions of Stock Brokers Regulations, SEBI and Exchange Circulars:

- a) NEAT-(Regulation 2.2.1 of Regulations (F&O Segment) and Regulation 2.2.1 of Part A of the Capital Market Regulations of the Exchange, CTCL -(Exchange's circular no. NSE/MEMB/3574 dated 29-Aug-02 and

NSE/MEMB/3635 dated 25-Sep-02 read with Regulation 9 (b) and Regulation 9 (f), clause A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Broker) Regulations 1992.

- b) Clause 12(e) of Annexure-A of SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009,
Clause 5.4 of SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16, 2021 and
SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2022/10 dated July 27, 2022.

38) In context of the above, it is pertinent to refer to the observations of Hon'ble Supreme Court in the matter of **Chairman, SEBI vs. Shriram Mutual Fund** {[2006] 5 SCC 361} wherein the Hon'ble Court had observed: *"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must be made by the defaulter with guilty intention or not."*

39) Therefore, in view of the foregoing and placing reliance on the above judgement of the Hon'ble Apex Court, the Noticee is liable for monetary penalty under Section 15HB of the SEBI, which is reproduced hereunder:

Penalty for contravention where no separate penalty has been provided

15HB *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

ISSUE III- If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of the SEBI Act?

40) While determining the quantum of penalty under SEBI Act, it is important to consider the factors stipulated in Section 15J of the SEBI Act, which reads as under:

Factors to be taken into account by the adjudicating officer under SEBI Act

15J. While adjudging quantum of penalty under Section 15-I, the adjudicating officer shall have due regard to the following factors, namely:-

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;
- (b) the amount of loss caused to an investor or group of investors as a result of the default;
- (c) the repetitive nature of the default

41) The material available on record has not quantified the amount of disproportionate gain or unfair advantage, if any, made by the Noticee and the loss, if any, suffered by the investors as a result of the Noticee's failure, nor the same has been alleged by SEBI. As regard to the repetitive nature of the default, it is noted that the Noticee has not been penalized by SEBI in the past.

42) The evidence/observations on record against Noticee, ostensibly suggest the discrepancy w.r.t users operating terminal & Certifications of users and Irregularities w.r.t settlement of client accounts cannot be taken leniently and such violations deserve to be adequately penalized. The very purpose of the said provisions is to deter wrongdoing and promote ethical conduct in the securities market. The Noticee being a registered intermediary was under a statutory obligation to abide by the provisions of the Stock Brokers Regulations, SEBI and exchange circulars, which it failed to do and thus, calls for appropriate penalty. Although the Noticee has stated that it had taken various corrective steps viz, settlement of clients' accounts, irregularities were committed by the Noticee during the aforementioned IP.

ORDER

43) Having considered the facts and circumstances of the case, the material available on record, the factors mentioned in 15J of SEBI Act and also taking into account judgment of the ***Hon'ble Supreme Court in SEBI vs. Bhavesh Pabari*** (2019) 5 SCC 90 and in exercise of power conferred under Section 15I of the SEBI Act read with Rule 5 of the SEBI Adjudication Rules, the following penalty is hereby imposed under Section 15HB of the SEBI Act on the Noticee:

Name of the Entity	Penalty Provisions	Penalty (Rs.)
RUDRA SHARES & STOCK BROKERS LTD (Noticee)	Section 15HB of the SEBI Act	Rs 5,00,000/- (Rupees Five Lakhs Only)

44) The said penalty is commensurate with the lapse/omission on the part of the Noticee.

45) The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

ENFORCEMENT → Orders → Orders of AO → PAY NOW.

46) In case of any difficulties in payment of penalties, Noticee may contact the support at portalhelp@sebi.gov.in.

47) The aforesaid Noticee shall forward the details / confirmation of penalty so paid to "The Division Chief (Enforcement Department 1 DRA-3), Securities and Exchange Board of India, SEBI Bhavan II, Plot No. C/7, "G" Block BKC, Bandra Kurla

Complex, Bandra (E), Mumbai – 400 051.” The Noticee shall also provide the following details while forwarding payment information:

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

48) In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

49) In terms of the provisions of Rule 6 of the SEBI Adjudication Rules, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

Date: October 24, 2024

BARNALI MUKHERJEE

Place: Mumbai

ADJUDICATING OFFICER