

SECURITIES AND EXCHANGE BOARD OF INDIA
FINAL ORDER

UNDER SECTION 12 (3) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH REGULATION 27 OF SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008.

IN RESPECT OF:

NOTICEE	SEBI Registration No.	PAN
Stockholding Services Limited (Formerly SHCIL Services Limited)	INZ000199936	AAJCS5661H

In the matter of Stockholding Services Limited (Formerly SHCIL Services Limited)

A. BACKGROUND

1. The present matter emanates from post enquiry show cause notice dated January 09, 2025 (hereinafter referred to as the “**SCN**”) issued to **Stockholding Services Limited** (formerly SHCIL Services Limited) (hereinafter referred to as “**Company**”/ “**Noticee**”) under regulation 27(1) of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as “**Intermediaries Regulations**”). The Noticee is registered with Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) as a Stock Broker with SEBI registration no. INZ000199936.
2. SEBI conducted comprehensive inspection jointly with the stock exchanges, of the Noticee from November 29, 2022 to December 08, 2022 concerning various compliance requirements under provisions of SEBI (Stock Brokers) Regulations, 1992

(hereinafter referred to as “**Stock Brokers Regulations**”) and applicable SEBI Circulars and circulars of stock exchanges. The inspection was conducted for the period beginning April 01, 2021 to October 31, 2022 (hereinafter referred to as “**inspection period**”). These findings/ observations of the inspection were communicated to the Noticee by SEBI vide letter dated January 17, 2023 and the Noticee response to the observations were received vide letter dated February 01, 2023.

B. PROCEEDINGS BEFORE THE DESIGNATED AUTHORITY

3. Pursuant to findings/observations made in the course of the inspection and after examining the response of the Noticee to the same, SEBI initiated Enquiry proceedings under Chapter V of the Intermediaries Regulation against the Noticee by appointing a Designated Authority (hereinafter referred to as “**DA**”) in the matter on March 13, 2024 to enquire into the alleged violations by the Noticee and make recommendations in compliance with the Intermediaries Regulation.
4. The DA issued a show cause notice (hereinafter referred to as the “**pre- Enquiry SCN**”) dated May 31, 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 it in terms of Regulations 26 of the Intermediaries Regulations for the alleged violations.
5. In the meantime, the Noticee had filed a settlement application because of which the enquiry proceedings were kept in abeyance until the completion of settlement proceedings. The enquiry proceedings were resumed after the Noticee had withdrawn the settlement application and vide notice dated October 25, 2024 the Noticee was advised to submit its reply and appear for a personal hearing on November 13, 2024. In response to the said notice, the Noticee filed its reply vide letter dated November 04,

2024 and availed the opportunity of personal hearing through its authorized representatives on November 13, 2024. Further, the Noticee filed additional submissions vide letter dated November 19, 2024. Thereafter, based on the allegations levelled against the Noticee in the pre-Enquiry SCN, replies filed by the Noticee, submission made during the personal hearing and the material available on record, the DA concluded the Enquiry Proceedings and submitted the Enquiry Report ("**Enquiry Report**") dated December 23, 2024 in terms of regulation 26 of the Intermediaries Regulations.

6. In the Enquiry Report, the DA has made the following observations:

- i. The Noticee failed to generate and send retention statement/ statement of accounts to the clients, retained excess margin of clients and failed to settle inactive clients in accordance with the applicable provisions.
- ii. The Noticee failed to reconcile the records pertaining to back office holdings of client's securities with the actual securities lying in Demat account of clients. Therefore, there was a mismatch in the reporting made to the exchanges and the actual data.
- iii. The Noticee failed to retain adequate EOD Margin and Peak Margin in certain instances and the same was incorrectly reported to the Exchange.
- iv. Several discrepancies were observed in the reporting of Client level Cash & Cash Equivalent Balances, Daily Margin Statement (DMS) sent to the clients, enhanced supervision data, risk based supervision data, margin-trading facilities and mapping of email addresses/mobile numbers to the UCC.

v. The Noticee wrongfully passed on the penalties (levied by the clearing corporation) to the clients for short collection of upfront margin.

vi. The Noticee failed to maintain complete and accurate records of KYC of its Clients.

vii. The Noticee failed to appoint Chief Information Security Officer (CISO) and intimate the details to CERT-In as required under the Cyber security and Cyber resilience framework for Stock Brokers.

viii. The Noticee had failed to provide data in time to the inspecting authorities and had provided incomplete data on certain instances. However, considering the circumstance, it was absolved of the said charges.

7. Based on the aforesaid findings, the DA recommended the following:

“Given the above, it is recommended that in terms of Regulation 26 of the SEBI (Intermediaries) Regulations, 2008, regulatory censure may be issued to the Noticee (Stockholding Services Limited (Formerly SHCIL Services Limited) – SEBI Registration No. INZ000199936)”

C. SHOW CAUSE NOTICE, REPLY AND HEARING

8. Pursuant to the submission of the Enquiry Report, SCN dated January 09, 2025 in the matter was issued to the Noticee. Vide the above-mentioned SCN, Noticee was called upon to show cause as to why action as recommended by the DA or any other directions as deemed fit should not be issued/imposed on it in terms of Intermediaries' Regulation. The issued SCN enclosed therewith the Enquiry Report of the DA dated December 23, 2024 made with respect to the Noticee. Therefore, any reference in this

Order to the allegations made in the SCN must also be read to include the conclusions arrived at in the Enquiry Report.

9. In response to the SCN, the Noticee submitted its reply vide letter dated January 29, 2025 enclosing therein its earlier replies dated November 04, 2024 and November 19, 2024 which it had filed before the DA. Thereafter, the Noticee was granted an opportunity of personal hearing on March 04, 2025. On the said date, the Authorized Representatives of Noticee reiterated their earlier submissions made vide letter dated January 29, 2025. The Noticee also made further additional submissions on August 26, 2025.
10. The contentions raised in the Noticee's written submissions dated January 29, 2025 and August 26, 2025 and those made during the personal hearings are summarised below:

Submissions pertaining to settlement of funds and securities

10.1. With respect to allegation that the Noticee had failed to provided quarterly retention statement/statement of accounts in 162 instances against SEBI's requisition of 310 instances pertaining to 100 accounts, the Noticee has submitted the following:

- i. 103 instances of 62 client accounts pertain to accounts with zero balance. The Noticee stated that its erstwhile back-office software vendor Apex Softcell (India) Pvt Ltd. (**Old Software**) did not have the facility / feature to generate statements for zero balance clients and there was no scope for actual human intervention, therefore, it was not possible to generate the statements of said accounts. It further stated that the said issue was identified prior to commencement of inspection and has been rectified by migrating to a new back-office system

developed by Tata Consultancy Services (“TCS”) and all the observations pertain to the period before implementation of TCS back office system.

ii. 103 instances constitute only about 33% of the sample date. It has also contended that the entire idea of generation of retention statement is to keep the client abreast of their ledger balance and since the instances pertain to zero balance accounts, no settlement or communication was required and no prejudice was caused to such clients.

iii. On 45 instances of 38 clients, the data was subsequently provided as reply to the inspection findings. It further submitted that necessary supporting documents were indeed provided on time to the clients. It contended that during the inspection process, data was provided to SEBI on a best effort basis and due to certain exigent circumstances, the said data pertaining to 45 instances could not be provided.

iv. On 2 out of 162 instances, the client account was duly settled on 1 instance and in the remaining 1 instance, no settlement was warranted.

10.2. With respect to allegations of retention of excess margin, the Noticee submitted that the old software was also considering MTM margin for calculation of margin retention. It has stated that this issue has also been resolved upon migration to TCS and no undue benefit has accrued to it as the excess margin constituted part of the trading allocation of the respective client.

10.3. With respect to the allegation of failure to settle 42 clients as of October 07, 2022, the Noticee has submitted the following:

i. 31 instances pertain to such clients who have NIL or zero balance in their accounts and therefore there is no balance amount required to be settled.

ii. 3 instances pertain to NRI clients where payout was settled after receipt of CA Certificate. SEBI has accepted this rationale in respect of accounts having UCCs VY49218, PI270895 and CS516822, and the same are not alleged to be instances of violation in the SCN. The Noticee also provided bank statement and CA certificate in support of its submissions with respect to 3 instances pertaining to NRI clients.

iii. The remaining 8 instances pertain to such clients who were debit balance clients. SEBI had originally identified 18 accounts and the above explanation of been accepted for 10 accounts which are not alleged to be instances of violation in the SCN.

10.4. With respect to allegation that the Noticee had failed to set aside sufficient funds to settle inactive clients on 7802 instances, it has submitted copies of bank statement to state that it had duly maintained sufficient funds to settle inactive clients at all times. It stated that it had temporarily parked the funds in relation to such inactive clients in a separate account held with Corporation Bank bearing Account No. 510101005903350. Subsequently, it had shifted the funds of the inactive clients from the account held with Corporation Bank to a separate bank account held with HDFC Bank bearing Account No. 57500000519496.

Submissions pertaining to reconciliation of client's securities in back office holdings and the actual securities lying in Demat account

10.5. With respect to the allegation that there were excess shares in Demat accounts of clients in 47 ISINs amounting to Rs. 55.85 Lakhs, the Noticee has produced instance wise response and submitted that the same were due to deficiencies in the old software, which was not capturing instances such as inactive or suspended ISINs or

ISINs under lock-in period. In certain additional instances, the client's Demat account was inactive at the Depository Participant level or the client PAN was debarred by the exchange and such accounts were identified as inactive at the end of Noticee. Therefore, the Noticee has contended that such shares do not form part of its back office holding of client securities.

10.6. The Noticee denied the allegation that there were excess shares in the back office and the Noticee had retained excess amount of Rs. 3901 in respect of two ISINs. It submitted that in case of ISIN – INE419M01027, reporting was done under new ISIN which came into effect from November 1, 2022 (as notified in NSE Circular NSE/CML/54168 dated October 21, 2022). Further, in the other ISIN viz. INE053F01010, the same was in Noticee's NSDL pool account, which was inadvertently reported in Noticee's CDSL principle account.

10.7. The Noticee submitted that issues pertaining to stock reconciliation were caused primarily due to its back-office vendor who has since been replaced. It contended that the present allegation pertain to excess shares which were available in the Demat Account of the client and not available with it. Therefore, there was no possibility of misutilization of fund and cannot be said to be a violation of SEBI Circular dated March 11, 2015 which was primarily issued to curb misutilization/non-settlement of client collateral.

Submissions pertaining to discrepancies in the weekly holding submissions made to the Exchange

10.8. The Noticee provided instance wise submissions pertaining to 107 instances and submitted that the mismatches were because of deficiencies in the back-office software, which was not capturing instances such as inactive or suspended or under lock-in ISINs. In certain additional instances, it submitted that the client's Demat

account was inactive at the Depository Participant level or the client PAN was debarred by the exchange and such accounts were incorrectly identified as inactive at it ends. Consequently, such ISINs also did not form part of the weekly holding reporting of the Noticee.

10.9. The Noticee submitted that out of 105 instances where excess shares amounting to Rs. 2.15 Crores was observed in Demat account of clients, 60 instances pertain to situation where the stocks were erroneously not considered by the old software in the weekly holding submission.

10.10. With respect to excess shares observed in 2 ISINs amounting to Rs. 3901 in the back office holdings, the Noticee submitted that in respect of 1 ISIN i.e. INE419M01027, it was reported under its new ISIN which came into effect from November 1, 2022, (as notified in NSE Circular NSE/CML/54168 dated October 21, 2022). Further, in respect of other ISIN i.e. INE053F01010, the same was in NSDL pool account but was inadvertently reported in CDSL principle account.

Submission pertaining to incorrect reporting and short collection of margin in cash and F&O Segment

10.11. The Noticee provided instance wise responses and submitted that the allegation pertaining to incorrect reporting and short collection of margin in cash and F&O Segment with respect to EOD margin calculation on 4 instances and Peak margin calculation on 8 instances are incorrect. The Noticee denied the allegations in toto and stated that its detailed submissions were not considered adequately. It provided instance wise response in support of its contentions.

Submissions pertaining to incorrect reporting in Daily Margin Statement

10.12. The Noticee submitted that on 2 instances, excess ledger balance and short margin was reported in DMS of SM172426 due to delay in receipt of the MCX trade file and reporting was processed without considering the trades executed on the MCX Exchange. Therefore, there was excess reporting of Rs. 7,259/-.

10.13. On 1 instance, short ledger balance was reported in the DMS of ST316829 due to a technical issue in the back office system resulting in an outdated margin value being considered. The Standard Portfolio Analysis of Risk (SPAN) file was incorrectly uploaded resulting in underreporting of Rs. 1773 /-.

10.14. On 1 instance pertaining to client account TJ14723, the Noticee provided the margin statements of the client and the allegation was denied. It was submitted that the DMS shows the correct ledger balance.

10.15. With respect to 2 instances pertaining to AM274209 and MI245275, the Noticee denied that the details of securities details were not mentioned in the DMS. The Noticee submitted the margin statements and contended that the DMS duly shows details of securities in all instances.

10.16. On 5 instances pertaining to excess upfront margin reported in DMS in respect of client accounts viz. AM274209, MI245275 and VN314548, and short upfront margin reported in DMS of client accounts GL285289, and TJ14723, it was submitted that the discrepancy was a result of certain technical issues. The Noticee further submitted that there was no impact on trading limits of the clients. The Noticee submitted screenshots of the mobile application and web based platform to contend that correct trading limits were being displayed to the clients.

Submissions pertaining to wrongful passing of penalties (levied by the clearing corporation) to the clients for short collection of upfront margin

10.17. The Noticee submitted that the instances pointed out in the inspection actually pertain to cases where penalty was imposed on the client not because of inadequate upfront margin but due to shortfall resulting due to change in margin requirement or due to non-settlement of mark-to-market margin.

10.18. The Noticee has further submitted that it did not pass on the penalties for inadequate upfront margin to its clients in respect of 13 client accounts for the cash segment and 10 client accounts in the F&O segment. It stated that it ensures the proper controls and the system sets the trading limits to ensure that no transaction is initiated without upfront margin.

10.19. With respect to the allegation that the penalty passed on to 3 clients in the cash segment and 8 clients in the F&O segment was not refunded by the Noticee as per the directive of NSE Circular dated September 02, 2022, the Noticee argued that NSE Circular clarifies that penalties imposed by the clearing corporation for shortfall arising in instances other than short margin can be passed on to the client and stated that it had rightly imposed the penalties on the clients because penalties were imposed due to reasons other than shortfall in upfront margin.

Submissions pertaining to securities of credit balance clients transferred to CUSA

10.20. The Noticee provided instance wise responses and submitted that it has correctly transferred the securities to Client Unpaid Securities Account (CUSA) in each of the 1143 instances pertaining to 546 clients. It stated that shares were retained in CUSA until fulfilment of client obligation and the shares were released to the clients within the permissible time limit of 7 days.

10.21. The Noticee also provided 10 sample UCCs along with supporting documents to submit that it has an automated system to manage the pay-out process of securities. The Noticee submitted that the system calculates the clear ledger balance on pay out day by deducting the uncleared cheque amounts and outstanding margin requirement and excludes the BTST (Buy Today, Sell Tomorrow) sell valuation and the security valuation from previous day sell transactions. It stated that in the 10 instances provided on a sample basis, securities were transferred to CUSA because the clients either engaged in BTST trades or lacked a clear credit balance.

Submissions pertaining to not maintaining complete and accurate KYC of clients

10.22. With regard to uploading of incorrect date of birth on 31 instances, the Noticee submitted that at the time of Noticee's migration from its old back office system to a new vendor, due to porting error, the first two digits of the birth year were ported as zero were seen in such 31 instances. It also submitted that it had retained the back-up data and the issue has been promptly rectified.

10.23. In respect of the allegation pertaining to non-availability of CKYC number of 2004 clients, the Noticee submitted that these instances belong to older pre-existing clients of Noticee, which were opened prior to the implementation of the CKYC regime in 2016. The Noticee further submitted that post inspection; it has suspended all 2004 clients and has taken further steps resulting in completed CKYC of 1136 out of 2004 clients. Of the remaining 868 instances, 25 accounts have been closed and it is taking all necessary steps for the pending 843 client accounts.

10.24. With regards to 11 instances where it has been alleged that there was delay in uploading data to KRA, the Noticee has submitted that on 10 instances there was no delay and KRA process was completed in time and prior to account opening. In the remaining 1 instance, it submitted that the client PAN was under exempt category and

did not require KRA registration. The Noticee has also provided the proof of KRA compliances in respect of the said 11 instances.

10.25. The Noticee submitted that out of total 54,316 UCCs, which were reviewed, deficiency was observed only in 2046 instances and most of the said instances pertain to older pre-existing clients. Therefore, it contended that it was largely compliant and the current processes adopted by it ensure that no defects are found in the client registration process. It has also argued that deficiencies in KYC processes are bound to creep but it has taken all necessary steps to rectify the issues.

Submissions pertaining to incorrect reporting of enhanced supervision data

10.26. The Noticee stated that there was an error / mismatch between the observation made in inspection report and allegations made in SCN in respect to the aggregate value of credit balance of all clients i.e. the amount is mentioned as Rs. 2,02,678.32/- in the Inspection Report as opposed to Rs. 13,46,90,301.50 in the SCN.

10.27. The Noticee admitted that there was deficiency in the enhanced supervision reporting in the highlighted instances and the same was due to a genuine error on account of a logic gap in the new system which caused gaps in the range of Rs 2-3 Lakh for clients debit and credit balances reporting. It stated that the issues have been addresses and rectified since.

10.28. The Noticee also submitted that notwithstanding the difference in values reported under enhanced supervision, it did not have a negative J value. Furthermore, the difference in reporting is only with respect to the reporting values themselves and not the lack or shortfall in actual balances available with Noticee.

Submissions pertaining to incorrect reporting in client level cash & cash equivalent balances

10.29. The Noticee submitted that there was deficiency in the cash and cash equivalent reporting which has resulted in incorrect reporting of ledger balance on 13 instances amounting to Rs. 3.24 Crores and incorrect reporting of peak ledger balance on 55 instances amounting to Rs. 5.99 Crores. The Noticee has stated that the incorrect reporting was a genuine error because of a logic gap in the new system. The Noticee has further submitted that the issue has been identified and rectified since the inspection. The Noticee also stated that it had repeatedly highlighted this gap in the system to the software vendor and provided e-mails in sent to the software vendor in this regard.

Submissions pertaining to incorrect reporting of Risk Based Supervision data

10.30. The Noticee submitted that it has correctly reported the collaterals as per the pledge file. It stated that the difference of Rs. 22.42 Crores was observed between the submitted Risk Based Supervision (RBS) data and the inspection report because the securities in the pool account and CUSA account were not considered while reporting. The Noticee also stated that there was no clarity in the prevalent SEBI guidelines on whether such balances are to be considered and on a conservative basis; it did not consider the valuation of securities while reporting the data. It further submitted that SEBI vide its circular dated April 2024 provided clarity in these regard and accordingly the Noticee is now reporting the balances by including the securities in CUSA and pool account.

10.31. With respect to the allegation that there was incorrect reporting in brokerage income for the period ending March 2022, the Noticee submitted that the difference of Rs. 22,01,607/- was observed because it had included the commission earned out of

distribution of third-party products such as IPOs, Mutual Funds, Bonds etc. The same has also been clarified vide note entitled 'Fees and Commissions' in the Audited Financial Statement for year 2022.

10.32. The Noticee contended that the difference in respect of commission income has arisen because of difference in interpretation and it was under a bonafide belief that 'Fees and Commissions' formed part of brokerage incomes for the purpose of RBS. The Noticee stated that it has rectified the issue and the difference noted was not substantial and it did not have any material impact from risk management standpoint.

Submissions pertaining to discrepancies observed during verification of UCC and mapped email addresses and mobile numbers

10.33. With respect to allegations of Invalid category being updated in the UCC of 4 clients, the Noticee submitted that these four instances fall under Non Resident External (NRE) category and was missed to be updated in UCC. It stated that the same was updated on January 24, 2023.

10.34. In respect of observation that single email address was mapped to multiple clients viz. 570 email IDs against 1,486 clients, the Noticee submitted the following:

- i. Clause 2(b)(iv) of SEBI Circular dated August 2, 2011, provides that a common email ID and phone number can be mapped against multiple UCCs provided that the UCCs belong to immediate family members.
- ii. Upon review of records and instances pointed out during the inspection process, 1,271 out of 1,486 clients meet the criteria of exception where mapping of common email ID is permitted. It submitted that only the nature of the relationship for such mapping was set out incorrectly and the same have now

been rectified. A detailed sheet identifying the nature of relation was also enclosed.

iii. Furthermore, in the remaining 215 clients, as discrepancies was noted, it has suspended these accounts and they shall continue to remain so until the correct details or updated email IDs are provided.

10.35. In respect of allegation that single mobile numbers were mapped to multiple clients viz. 1123 mobile number were mapped to 2,762 clients, the Noticee submitted the following:

i. 2,360 out of 2,762 clients meet the criteria of exception where mapping of common mobile number is permitted. The discrepancy was only in respect of the nature of the relationship for the purpose of such mapping which was set out incorrectly and the same has now been rectified. A detailed sheet identifying the nature of relation was also submitted.

ii. 403 clients accounts have been suspended due to discrepancies shall continue to remain so until the correct details or updated mobile number are provided.

10.36. The Noticee submitted that it has complied with the requirement of obtaining a written request for mapping a common email ID or mobile number. In this regard, it submitted on a sample basis, the list of original and updated requests identifying the correct nature of relationship, in case of both common email ID and mobile number.

10.37. The Noticee submitted that it was not provided with the exact list of 180 client in respect of which it was alleged that contract notes have not been issued to the

ultimate client because only 48 email addresses were mapped against such clients. The Noticee reiterated that in case of 1,166 out of 1,486 clients, the common mapped email ID pertains to an immediate family member, as per the directive in the SEBI Circular, and the only deficiency in all such cases is the nature of the relationship, which was recorded.

10.38. The Noticee also submitted that certain mismatches have inadvertently crept in case of 237 clients where there has been a mismatch between the back office & UCC. It is submitted that the same have been identified and rectified and no such mismatches remain between UCC and SSL's back office. Details of rectification are enclosed with the reply

Submissions pertaining to non-collection of adequate margin and not sending retention statement to clients who had availed margin trading facility

10.39. The Noticee denied the allegation in respect of non-collection of adequate margin on 10 instances for margin trading facility (**MTF**). The Noticee submitted that margin was available in each instance and reiterated the instance wise response it had provided in its reply to the inspection findings.

10.40. With respect to allegation in respect of not sending Daily Margin Statement (**DMS**) related to MTF transaction was not sent to 18 clients, the Noticee denied the same. In 9 instances, it was submitted that there were no trades in the client account and in the remaining 9 instances, DMS was duly generated and delivered. The Noticee submitted instance wise response along with proof of margin statement and delivery to client to substantiate its claim.

10.41. The Noticee also submitted that the process to provide a DMS to a client is automated and it had duly produced the margin logs. The Noticee further stated that

as the email to clients is also part of the automated system, the Noticee is able to provide the log data of emails addressed to the respective clients instead of exact emails evidencing delivery.

Submissions pertaining to compliance with Cyber security and cyber resilience framework

10.42. The Noticee submitted that during the financial year 2020-21, Noticee's Cyber Security Committee was duly constituted and included the CISO appointed in Stockholding Corporation of India Ltd., the parent company of Noticee for common oversight and compliance of the cybersecurity requirements.

10.43. The Noticee also submitted that it has reconstituted its Cyber Security Committee. Since FY 2023-24, the Noticee stated that it is availing v-CISO services from Imperium Solutions Pvt Ltd. and had appointed Ms. Tasneem Popat as CISO on March 8, 2023, which was intimated to CERT-IN. Further, Ms. Tasneem Popat continued to be appointed as CISO of Noticee until appointment of Mr. Satish Warrier as CISO with effect from June 15, 2024, and the same has been intimated to CERT-IN.

Submissions pertaining to non-cooperation with inspection team and Authenticity of data & format of the documents

10.44. The Noticee submitted that during the time of inspection, it was concurrently migrating its front and back-end software. The Noticee submitted that notwithstanding the request to provide more time due to strained workload, in a bona fide manner it extended full cooperation and provided documents on a best effort basis.

10.45. The Noticee also submitted that the data requested in inspection are often in a different format to what is generated on the back end the said process is required to be done manually which is both time consuming and prone to human error.

10.46. The Noticee unequivocally denied the allegations and any implication of deliberate non – cooperation and / or providing inauthentic data. In respect of emails received from NSE, it submitted that the Noticee had responded to the same and large number of emails were sent containing the data & information sought. Equally, a large volume of data and information sought were also uploaded on the portal of National Stock Exchange (NSE), Bombay Stock Exchange (BSE) and Multi Commodity Exchange (MCX).

10.47. With respect to the allegation of lack of authenticity, the Noticee submitted that at the start of the Inspection, it was migrating its front and back end software to a new vendor and at the relevant time, the migration was in transit phase and at its peak at the time of inspection, which greatly reduced the availability of our resources. Furthermore, there was a genuine lack of cooperation from our old vendor at the time when the information was being sought.

Other Submissions

10.48. It is the contention of the Noticee that the allegation made in the present SCN pertain to day-to-day operational activities of the Noticee in the ordinary course of business and are not egregious acts or delinquent conduct.

10.49. The Noticee submitted that it procured back-office services from M/s Apex Softcell Pvt. Ltd. in 2007 (an exchange verified and enabled back-office software vendor). It stated that due to the expansion of the compliance and reporting requirements, Apex's software features and ability became inadequate; particularly

post the COVID-19 pandemic. Accordingly, from time to time, the Noticee raised grievances with Apex in respect of the lack of availability of relevant data and due to the widespread inadequacy and in the absence of any improvement, the Noticee migrated to a new back-end software developed by TCS.

10.50. The Noticee has relied on the orders passed by Hon'ble Securities Appellate Tribunal ('**SAT**') in *Religare Securities Limited vs. SEBI (Appeal No. 23 of 2011 decided on June 16, 2011)* and *M/s DSE Financial Services Limited vs. SEBI (Appeal No. 153 of 2012 decided on September 11, 2012)* to submit that purpose of inspection is not punitive in nature and therefore minor lapses or technical violation, if any, should not be proceeded against.

10.51. The Noticee by relying on a SEBI order namely Eureka Stock & Share Broking Services Limited has submitted that the DA recommendations may not be confirmed as it has already undergone monetary penalty for the same violations.

10.52. The Noticee submitted that it had appointed M/s Mehta Sanghvi & Associates (an independent audit firm) to review the status of observations made in the pre-enquiry SCN. It enclosed a report dated September 17, 2024 from the said auditor wherein the auditor has stated that it has conducted an audit of all the points raised in the SCNs and confirmed that Noticee complies with the existing regulations on all the above points.

10.53. The Noticee has also provided a copy of letter dated February 01, 2025 and submitted that BSE had recently conducted a thematic inspection on short margin penalty, investor compliance and risk based supervision for the period April 2023-November 2024 and the same concluded with no adverse observation.

D. CONSIDERATION OF ISSUES AND FINDINGS

11. I have perused the Enquiry Report, SCN, replies of the Noticee and other material available on record. In the extant proceedings, it is required to ascertain whether the Noticee⁷ has violated the provisions of securities law as mentioned in the Enquiry report.
12. Before proceeding, I find it appropriate to reproduce below the relevant provisions of the regulations and circulars alleged to have been violated by the Noticee:

SEBI (Stock Brokers) Regulations 1992

Regulation 21 - Obligations of stock-broker on inspection by the Board.

(1) It shall be the duty of every director, proprietor, partner, officer and employee of the stock-broker, who is being inspected, to produce to the inspecting authority such books, accounts and other documents in his custody or control and furnish him with the statements and information relating to the transactions in securities market within such time as the said officer may require.

(2) The stock-broker shall allow the inspecting authority to have reasonable access to the premises occupied by such stock-broker or by any other person on his behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the stock-broker or any other person and also provide copies of documents or other materials which, in the opinion of the inspecting authority are relevant.

(3) The inspecting authority, in the course of inspection, shall be entitled to examine or record statements of any member, director, partner, proprietor and employee of the stock-broker.

(4) It shall be the duty of every director, proprietor, partner, officer and employee of the stock broker to give to the inspecting authority all assistance in connection with the inspection, which the stock broker may reasonably be expected to give.

SEBI Circular MIRSD/ SE /Cir-19/2009 dated December 3, 2009 (SEBI Circular dated December 03, 2009)

Annexure-A: Requirements relating to dealings between a Client and Stock Broker

12. Running Account Settlement

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:

a. The authorization shall be renewed at least once a year and shall be dated.

...

d. For the clients having outstanding obligations on the settlement date, the stock broker may retain the requisite securities/funds towards such obligations and may also retain the funds expected to be required to meet margin obligations for next 5 trading days, calculated in the manner specified by the exchanges.

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/MIRSD2/CIR/P/2016/95 dated September 26, 2016 (SEBI Circular dated September 26, 2016)

Annexure

3. Monitoring of Clients' Funds lying with the Stock Broker by the Stock Exchanges

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

6. Standard Operating Procedures for Stock Brokers/Depository Participants - Actions to be contemplated by Stock Exchanges/Depositories for any event based discrepancies

6.1. As per existing norms, Stock Exchanges /Depositories are required to monitor their members/depository participants. It has been decided that the Stock Exchanges and Depositories shall frame various event based monitoring criteria based on market dynamics and market intelligence. An illustrative list of such monitoring criterias are given below:

6.1.1. Monitoring criteria for Stock Brokers

...

e. Failure to submit data for the half-yearly Risk Based Supervision within the time specified by Stock Exchange.

...

j. In case stock broker shares incomplete/wrong data or fails to submit data on time.

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.

...

8.1.4. 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.

SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 (SEBI Circular dated June 16, 2021)

5. In partial modification of the aforementioned circulars dated December 03, 2009 and September 26, 2016 on settlement of running account, following has been decided:

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.

5.2. In case of client having any outstanding trade position on the day on which settlement of running account of funds is scheduled, a TM may retain funds calculated in the manner specified below:

5.2.1. Entire pay-in obligation of funds outstanding at the end of the day on settlement of running account, of T day & T-1 day.

5.2.2. Margin liability as on the date of settlement of running account, in all segments and additional margins (maximum up to 125% of total margin liability on the day of settlement). The margin liability shall include the end of the day margin requirement excluding the MTM and pay-in obligation; therefore, TM may retain 225% of the total margin liability in all the segments across exchanges. Computation for arriving at retention of excess client funds based on above points would be as under:

Scenario	Fund pay in obligation of T day & T-1 day	EOD/peak margin requirement	225% of the margin	Securities pledged/ repledged	Client fund balance	Excess client funds retained
	A	B	$C=225\% \times B$	D	E	$F=E-[(C-D)+A]$
1	110000	100000	225000	200000	300000	165000
2	50000	20000	45000	15000	50000	0

3	150000	100000	225000	280000^	180000	30000
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^ Excess securities of Rs. 55,000 (i.e. 280000-225000) is not required to be unpledged.

5.2.3. TM will first adjust the value of securities (after applying appropriate haircut) accepted as collateral from the clients by way of 'margin pledge' created in the Depository system for the purpose of margin and value of commodities (after applying appropriate haircut) respectively and thereafter TM shall adjust the client funds.

5.2.4. It is clarified that the excess securities (in the form of margin pledge) or any cash equivalent collateral identifiable with the client and deposited with CC, after adjustment of the 225% of margin liability need not be unpledged.

...

5.6. Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued.

SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022 (SEBI Circular 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.

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.

SEBI Circular MRD/DoP/SE/Cir- 11/2008 dated April 17, 2008 (SEBI Circular dated April 17, 2008)

2. In continuation of earlier circulars and in order to reiterate the need for brokers to maintain proper records of client collateral and to prevent misuse of client collateral, it is advised that :-

...

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

SEBI Circular CIR/DNPD/7/2011 dated August 10, 2011 (SEBI Circular dated August 10, 2011)

Sub: Short-collection/Non-collection of client margins (Derivatives Segments)

6. If during inspection it is found that a member has reported falsely the margin collected from clients, the member shall be penalized 100% of the falsely reported amount along with suspension of trading for 1 day in that segment.

SEBI Circular CIR/HO/MIRSD/DOP/CIR/P/2019/139 dated November 19, 2019 (SEBI Circular dated November 19, 2019)

4.1. Collection of margins from the clients by TM/CM in cash segment:

...

4.1.2. Henceforth, like in derivatives segment, the TMs/CMs in cash segment are also required to mandatorily collect upfront VaR margins and ELM from their clients. The TMs/CMs will have time till 'T+2' working days to collect margins (except VaR margins and ELM) from their clients. (The clients must ensure that the VaR margins and ELM are paid in advance of trade and other margins are paid as soon as margin calls are made by the Stock Exchanges/TMs/CMs. The period of T+2 days has been allowed to TMs/CMs to collect margin from clients taking into account the practical difficulties often faced by them only for the purpose of levy of penalty and it should not be construed that clients have been allowed 2 days to pay margin due from them.)

SEBI Circular SEBI/HO/MIRSD/DOP/CIR/P/2020/146 dated July 31, 2020 (SEBI Circular dated July 31, 2020)

2. In view of the representations received from investors, TMs / CMs, stock broker associations, in this regard, following has been decided:

2.1. If TM / CM collects minimum 20% upfront margin in lieu of VaR and ELM from the client, then penalty for short-collection / non-collection of margin shall not be applicable. However, it is reiterated that Clearing Corporation shall continue to collect the upfront margin from the TM / CM based on VaR and ELM.

SEBI circular no. MRD/DoP/SE/Cir-11/2008 dated April 17, 2008 (SEBI Circular dated April 17, 2008)

2. In continuation of earlier circulars and in order to reiterate the need for brokers to maintain proper records of client collateral and to prevent misuse of client collateral, it is advised that :-

...

2.4 Brokers should issue a daily statement of collateral utilization to clients which shall include, inter-alia, details of collateral deposited, collateral utilised and collateral status (available balance / due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities

SEBI circular CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 (SEBI Circular dated June 20, 2019)

4. In order to provide clarity with respect to a TM/CM maintaining a running account for client securities and pledging the client securities with Banks/NBFCs, after discussions with the Exchanges, Depositories and Clearing Corporations, the following advice is issued:-

...
4.2 With regard to securities that have not been paid for in full by the clients (unpaid securities), a separate client account titled – “client unpaid securities account” shall be opened by the TM/CM. Unpaid securities shall be transferred to such “client unpaid securities account” from the pool account of the concerned TM/CM.

SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011 (SEBI Circular dated August 22, 2011)

3. SEBI has devised the uniform documentation to be followed by all the stock brokers / trading members; a copy thereof to be provided by them to the clients. The details of such documents are listed below:

- i. Index of documents giving details of various documents for client account opening process - Annexure-1
- ii. Client Account Opening Form in two parts:
 - a. Know Your Client (KYC) form capturing the basic information about the client and instruction/check list to fill up the form - Annexure-2.
 - b. Document capturing additional information about the client related to trading account –Annexure-3

SEBI Circular CIR/MIRSD/120/2016 dated November 10, 2016 (SEBI Circular dated November 10, 2016)

2. Government of India, vide its letter dated October 04, 2016, has directed as follows with regard to KYC details of existing and new individual clients:

- a. Registered intermediaries have to update their IT systems as well as register all new accounts of individuals in accordance with the CKYCR template, mandatorily by October 31, 2016.
- b. Mutual funds and Intermediaries other than mutual funds may follow the following time lines in respect of uploading KYC data of the existing individual clients with CKYCR.

i. Mutual funds may ensure 30% completion of uploading of existing KYC data by November 30, 2016, another 30% of KYC data by January 31, 2017 and the rest 40% data by March 31, 2017.

ii. Intermediaries other than mutual funds may ensure 50% completion of uploading of existing KYC data by November 30, 2016 and the remaining 50% of KYC data by December 31, 2016.

SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011 (SEBI Circular dated August 02, 2011)

2. As an additional measure, it has now been decided in consultation with the major stock exchanges and market participants that the stock exchanges shall send details of the transactions to the investors, by the end of trading day, through SMS and E-mail alerts. This would be subject to the following guidelines:

B. Uploading of mobile number and E-mail address by stock brokers

i. Stock exchanges shall provide a platform to stock brokers to upload the details of their clients, preferably, in sync with the UCC updation module.

ii. Stock brokers shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address.

i. Stock brokers shall ensure that the mobile numbers/E-mail addresses of their employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.

ii. Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the stock broker may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.

SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017 (SEBI Circular dated June 22, 2017)

Clause 3.2 stands clarified that, Stock broker shall upload the data as envisaged in the Clause 3.2 on monthly basis instead of weekly basis till March 31, 2018. Accordingly, till March 31, 2018, stock broker shall submit the data as on the last trading day of every month to the Stock Exchanges on or before the next trading day. Thereafter, the uploading of that data by the stock broker to the Stock Exchanges shall be on weekly basis i.e. stock

brokers shall submit the data as on last trading day of every week on or before the next trading day.

SEBI circular no. CIR/MRD/DP/54/2017 dated June 13, 2017 (SEBI Circular dated June 13, 2017)

Margin Requirement

4. In order to avail margin trading facility, initial margin required shall be as under;

Category of Stock	Applicable Margin
Group I stocks available for trading in the F & O Segment	VaR + 3 times of applicable ELM*
Group I stocks other than F&O stocks	VaR + 5 times of applicable ELM*

5. The initial margin payable by the client to the Stock Broker shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in SEBI Master circular no. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016.

...

7. Stock brokers shall ensure maintenance of the aforesaid margin at all times during the period that the margin trading facility is being availed by the client. In case of short fall, stock broker shall make necessary margin calls.

SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018 (SEBI Circular dated December 03, 2018)

Annexure-1

6. Stock Brokers / Depository Participants should designate a senior official or management personnel (henceforth, referred to as the "Designated Officer") whose function would be to assess, identify, and reduce security and Cyber Security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the Cyber Security Policy.

7. The Board / Partners / Proprietor of the Stock Brokers / Depository Participants shall constitute an internal Technology Committee comprising experts. This Technology Committee should on a half yearly basis review the implementation of the Cyber Security and Cyber Resilience policy approved by their Board / Partners / Proprietor, and such review should include review of their current IT and Cyber Security and Cyber Resilience capabilities, set goals for a target level of Cyber Resilience, and establish plans to improve

and strengthen Cyber Security and Cyber Resilience. The review shall be placed before the Board / Partners / Proprietor of the Stock Brokers / Depository Participants for appropriate action.

Clause 42 of SEBI/HO/MIRSD/TPD/P/CUIR/2022/80 dated June 07, 2022 (SEBI Circular dated June 07, 2022)

42. Stock Brokers / Depository Participants shall conduct VAPT at least once in a financial year. All Stock Brokers / Depository Participants are required to engage only CERT-In empanelled organizations for conducting VAPT. The final report on said VAPT shall be submitted to the Stock Exchanges / Depositories after approval from Technology Committee of respective Stock Brokers / Depository Participants, within 1 month of completion of VAPT activity.

In addition, Stock Brokers / Depository Participants shall perform vulnerability scanning and conduct penetration testing prior to the commissioning of a new system, which is a critical system or part of an existing critical system.

Applicable Exchange Circulars

BSE Notice No. 20210205-30 dated February 05, 2021- Guidelines for 'Statement of Accounts' for Funds, Securities and Commodities (BSE Circular dated February 05, 2021)

<https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20210205-30>

BSE Notice No. 20200210-47 dated February 10, 2020 - Treatment of Inactive Trading Account (BSE Circular dated February 10, 2021)

<https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20200210-47>

NSE circular no. NSE/INSP/29096 dated March 11, 2015 - Actual Settlement of Client Accounts (NSE Circular dated March 11, 2015)

NSE circular no. NSE/INSP/49929 dated October 12, 2021 - Guidelines/Clarifications on Margin collection and reporting (NSE Circular dated October 12, 2021)

NSE circular no. NSE/INSP/53525 dated September 02, 2022 - Guidelines/Clarifications on Margin collection and reporting (NSE Circular dated September 02, 2022)

NSE circular no. NSE/INSP/45191 dated July 31, 2020 - Guidelines/clarifications on Margin collection & reporting (NSE Circular dated July 31, 2020)

NSE circular no. NSE/INSP/28925 dated February 20, 2015 - Risk Based Supervision- Submission of information for Half year ended September 30, 2014 (NSE Circular dated February 20, 2015)

NSE circular no. NSE/COMP/35260 dated June 30, 2017- Rights and Obligations for the purpose of margin trading facility (NSE Circular dated June 30, 2017)

NSE circular no. NSE/INSP/43069 dated December 31, 2019 - Guidelines/clarifications on Margin collection & reporting (NSE Circular dated December 31, 2019)

All NSE Circulars accessible at - <https://www.nseindia.com/resources/exchange-communication-circulars>

MCX Circular MCX/INSP/217/2022 dated April 11, 2022 - Submission of Data/Details/Information for the period April 01, 2021 to March 31, 2022 (MCX Circular dated April 11, 2022)

<https://www.mcxindia.com/circulars/all-circulars>

13. I shall now proceed to deal with the violations alleged, basis the conclusions in the Enquiry report:

I. Failure to provide monthly/quarterly retention statements and non-settlement of client funds and securities in respect of running accounts

14. The SCN alleged that the Noticee has violated provisions of Clause 12 of Annexure A of SEBI circular dated December 03, 2009, Clause 8 of Annexure of SEBI circular dated September 26, 2016, Clauses 5.1, 5.2, 5.4 and 6 of SEBI circular dated June

16, 2021 and Clause 4 of SEBI Circular dated July 27, 2022 and elaborated as follows:

- i. It had not provided statement of accounts/_retention statements to the inspection authorities for 103 instances pertaining to 62 clients.
- ii. It had not provided complete data for 45 instances pertaining to 38 clients.
- iii. On 36 instances, it had retained excess margin amounting to Rs. 9.48 Crore.
- iv. On 7802 instances, it had failed to park sufficient funds to settle as per the prescribed guidelines in respect of the client accounts where no transaction was carried for more than 30 days; and
- v. On 81 instances, it had failed to generate and send retention statements to its clients.

15. As per Clause 12(e) of SEBI Circular dated December 03, 2009, Stock Brokers are required to settle running accounts at least once in every calendar quarter or calendar month, depending on the client's preference. Clauses 8.1.1 and 8.1.4 of the Annexure to SEBI Circular dated September 26, 2016, mandated that the maximum period between two running account settlements shall not exceed 90 (ninety) days or 30 (thirty) days, respectively, as per the client's preference. Further, Clause 5.1 of SEBI Circular dated June 16, 2021, further states that the quarterly or monthly settlement, as the case may be, shall be carried out after considering the end-of-day (**EOD**) obligation of funds as on the date of settlement across all Exchanges. Clause 5.4 of the same circular further stipulates that if a client maintains a credit balance but has not executed any transactions for 30 calendar days following the last transaction, the Stock Broker is required to settle such client's account within three working days, irrespective of the date when the running account was previously settled (i.e. 33 days from the last transaction). Clause 4.1 of SEBI Circular dated July 27, 2022, has now partially modified the above requirements by mandating that the running accounts shall be settled on the first Friday of each quarter/month for all clients after considering the EOD obligation across all Exchanges on the date of settlement.

16. The Noticee had submitted instance wise response before the DA. The DA based on her examination, accepted the submission of the Noticee that on 100 instances settlement of client was not required and rejected all other submissions made by it. The Noticee has restated the submissions made before the DA, which have been summarized at paragraphs 10.1-10.4 above.

Failure to provide to the inspecting authorities the statement of accounts/retention statements for 103 instances and not sending statement of accounts/retention statements to the clients on 81 instances

17. It was observed that the Noticee on 103 instances had failed to provide to the inspecting authorities the statement of accounts/retention statements and on 81 instances, the Noticee had failed to generate and send the retention statement & statement of accounts to debit balance clients and statement of accounts to nil balance clients on October 07, 2022.
18. The Noticee has not made any submission with respect to not sending the retention statement to debit balance clients. In respect of other instances, it submitted that the client accounts had nil balance and its old office software did not have any functionality to generate retention statement for zero balance accounts. Therefore, it was unable to generate statement of accounts/retention statements on such instances and therefore it could not provide the same to the inspection authorities/clients.
19. As per clause 12 (e) of SEBI Circular dated December 03, 2009, the Stock Broker shall send retention statement along with the statement of running accounts to the clients within 5 working days. BSE Circular dated February 05, 2021 clarifies that the Stock Brokers are obligated to send a complete 'Statement of Accounts' for both funds and securities/commodities in respect of each of its clients on weekly basis

from Monday to Saturday for each week. Further, the Stock Broker, shall not be required to send the 'Statement of Accounts' to clients with zero funds, zero securities and zero commodities balances and also has been flagged as 'Inactive' (i.e. if no trades are carried out by the client in the last 12 months across all Exchanges) in the UCC database of the Exchange

20. I note that the Noticee has not made any submissions as to why retention statements were not sent to debit balance clients on 81 instances. Further, the client accounts with zero balance, which were identified in the inspection report, were not marked as 'inactive'. Therefore, as per BSE Circular dated February 05, 2021 the statement of accounts was required to be generated and the Noticee was obligated to send them to the clients. It was the responsibility of the Noticee to ensure that all inadequacies in its system are addressed in a timely manner and it adheres to the applicable regulations and circulars. The Noticee by not generating and providing the retention statement in such zero balance accounts has clearly violated the applicable SEBI and Exchange Circulars.

Incomplete data submitted for 45 instances pertaining to 38 clients

21. With respect to 45 instances of 38 clients, the Noticee had submitted before the DA that it had already submitted to the Inspecting Authority the retention statement and supporting documents along with its letter dated February 01, 2022. The DA had observed that the data provided was incomplete because the Noticee had provided documents of only 35 instances pertaining to 29 clients instead of the 45 instances pertaining to 38 clients as contended by the Noticee. The Noticee has neither refuted the said allegations nor provided any additional documents. Thus, the Noticee has failed to provide the complete data in respect of such 45 instances.

Retention of excess margin of Rs. 9.48 Crore on 36 instances.

22. I note that the Noticee had retained excess margin of Rs. 9.48 Crore on 36 instances. The Noticee has admitted that excess margins were retained on such 36 instances and explained that the calculation error occurred due to the old back office software, which was also considering Mark to Market (MTM) margin for calculation of margin retention.
23. As per SEBI Circular dated June 16, 2021 states that the quarterly or monthly settlement, as the case may be, shall be carried out after considering the end-of-day (**EOD**) obligation of funds as on the date of settlement across all Exchanges and calculation of margin has to take into account EOD obligation.
24. While the the Noticee has submitted that it has since migrated to the new back office software provided by TCS had ensured that only required margins are retained, the retention of excess margin in the 36 instance cannot be overlooked. The primary duty to ensure that margin is calculate properly is on the Noticee and cannot be shifted to the software provider. Therefore, the Noticee by considering MTM margin was clearly in violation of SEBI Circular dated June 16, 2021.

Failure to set aside funds as per prescribed guidelines to settle client accounts on 7802 instances.

25. I note that that on 7802 instances, no transaction was carried out for more than 30 days and as per clause 5.4 of SEBI Circular dated June 16, 2021 the said accounts had to be settled within the next three working days (i.e. 30+3 days from the date of last trade). It is noted the Noticee did not settle the client accounts on 7802 instances and had deposited the funds of such non-settled clients in its mutual fund settlement account no- 510101005903350.
26. As clarified by BSE Notices dated February 10, 2020, in situations where the broker is unable to settle a client's account due to traceability, the Stock Broker has to *inter-*

alia open separate bank account, immediately set aside the funds and submit the details of such accounts to the exchange on quarterly basis for regulatory oversight.

27. It is noted that the Noticee is allowed to park the funds in a separate bank account only when the accounts cannot be settled due to certain traceability issues. However, the Noticee has transferred the funds of such non-settled clients in a separate account, irrespective of their traceability and not reported such accounts as untraceable to the exchange. Furthermore, the shifting of funds to the mutual fund settlement, even though temporarily, is not in accordance with the prescribed guidelines.
28. Therefore, I agree with the conclusion of the DA that the Noticee has violated provisions of Clause 12 of Annexure A of SEBI circular dated December 03, 2009, Clause 8 of Annexure of SEBI circular dated September 26, 2016, Clauses 5.1, 5.2, 5.4 and 6 of SEBI circular dated June 16, 2021, Clause 4 of SEBI Circular dated July 27, 2022 and BSE Notice dated February 10, 2020.

II. Stock reconciliation

29. The SCN observed that upon reconciliation of back office holding of client securities with actual stock lying in the Demat accounts of respective clients, there were excess shares available in the Demat account of the clients for 47 ISINs amounting to Rs. 55.85 Lakhs. It was further observed that there were excess shares available in Back Office records of shares maintained by Noticee for clients as compared to Demat account holding statement of clients for 2 ISIN of ₹3,901. Therefore, it was alleged that in respect of such 49 instances, the Noticee had violated NSE Circular dated March 11, 2015 read with clause 2.3 of SEBI Circular dated April 17, 2008.

30. The DA has observed that the Noticee has admitted to the mismatches in its back office report and Demat holding statements of the client and it had not been diligent in ensuring that correct and complete information is maintained/reflected in its back office software. In this regard, the Noticee has restated the submission made before the DA, which have been summarized at paragraphs 10.5 – 10.7. It has also argued that the present allegations does not attract clause 2.3 of SEBI Circular dated April 17, 2008 because the principal nature of violation sought to be curbed by the said provision is misutilization and/or non-settlement of client collateral, which is absent in the present case.
31. I note that the DA has concluded that the Noticee has violated clause 2.3 of SEBI Circular dated April 17, 2008 which states that a Stock Broker is required to maintain proper records of client collateral and such records should be periodically reconciled with the actual collateral deposited. In this regard, I find merit in the submission of the Noticee that the said circular pertains to client collateral deposited with the Stock Broker which has not been alleged in the present case.
32. Nonetheless, the Noticee is obligated to maintain proper records of securities and the same can be traced under Clause 7.1.2 read with 6.1.1 (j) of SEBI vide Circular dated September 26, 2016. It mandates that the Stock Broker has to report to the exchange on a monthly basis the end of day securities balances (as on last trading day of the month) which shall be consolidated ISIN wise (i.e., total number of ISINs and number of securities across all ISINs). Further, NSE Circular dated March 11, 2015 also makes it clear that Stock Brokers have to reconcile client beneficiary account/s and the register of securities on a quarterly basis and maintain complete audit trail & documentation of such reconciliation. Therefore, the obligation to maintain proper records of securities of clients is clearly mandated by NSE Circular dated March 11, 2015 read with SEBI Circular dated September 26, 2016.

33. The Hon'ble Supreme Court in the case of ***Collector of Central Excise, Calcutta vs. The Pradyumna Steel Ltd. (SLP (C) No. 18531 of 1995 decided on January 19, 1996)*** while dealing with the validity of a show cause notice wherein an inapplicable provision was mentioned, has held that *"It is settled that mere mention of a wrong provision of law when the power exercised is available even though under a different provision is by itself not sufficient to invalidate the exercise of that power."* Therefore, mere mentioning of SEBI Circular dated April 17, 2008 instead of SEBI Circular dated September 26, 2016 does not vitiate the present proceedings or the SCN issued when the actual allegations can be sustained under a different SEBI Circular.
34. I note that the Noticee had primarily argued that the mismatches were due to deficiencies in back office software, which was not capturing the instances such as inactive or suspended ISINs or ISINs under lock-in period. Further, shares were excess in back office reporting when compared with Demat holding with respect to two clients due to reporting error made at its own end. It is relevant to note that the Noticee had engaged the services of the software provider in 2007 and was expected to be well versed with the features and shortcomings of the said software. However, the Noticee resolved the issues in February 2022 only after a meeting with the software vendor and the NSE. It was the duty of the Noticee to identify and resolve the issues in the back office software and it should have migration to a new software, if required, proactively. The said technical issues does not absolve the Noticee of mismatch observed in the system and it being a registered intermediary cannot shift its responsibilities to the software vendor who is merely an agent providing its services to the Noticee.
35. Therefore, I find that the Noticee has violated NSE Circular dated March 11, 2015 read with SEBI Circular dated September 26, 2016.

III. Incorrect reporting of weekly holding submissions

36. The SCN observed that in the weekly holding submissions made to the Exchanges by the Noticee as on October 31, 2022 there were excess shares for 105 ISINs amounting to Rs. 2.15 crores in Demat account of clients as compared to back-office records maintained by the Noticee. Further, it was also observed there were excess shares of two ISINs amounting to Rs. 3,901 in back office records maintained by Noticee as compared to Demat account holding statement of clients. Therefore, it was alleged that the Noticee had violated the provisions of NSE circulars dated September 27, 2016, August 30, 2018, November 13, 2018, and July 03, 2019 read with SEBI Circular dated September 26, 2016.
37. NSE circulars September 27, 2016, August 30, 2018, November 13, 2018, and July 03, 2019 read with SEBI Circular dated September 26, 2016 *inter- alia* requires the stock brokers to submit day-wise holding statements of securities on weekly basis to the Exchanges. The reporting shall be correct and complete.
38. In this regard, the Noticee had submitted before the DA that the mismatches were primarily due to deficiencies in back office software, which was not capturing the instances such as inactive or suspended ISINs or ISINs under lock-in period and the same resulted in errors in weekly submissions. The DA had rejected the said submissions and observed that it was Noticee's responsibility to ensure that the back office software is accurate.
39. The Noticee has restated the submissions made before the DA and not refuted the allegations made in the SCN. The Noticee has submitted instance wise response submitted and elaborated as follows: (i) on 66 out of 107 instances shares of clients were not reported due to a system error in the office software, (ii) on 24 instances shares were not reported because ISINs were suspended/inactive/under lock-in

period and (iii) on 17 instances, the Demat account of the clients were under inactive status/PAN of clients were under freeze.

40. I note that the Noticee attributed this error in reporting to its faulty back office software. However, it was the Noticee's responsibility to ensure that all such instances were reported correctly to the Exchange regardless of the software used by it. The submission that there were deficiencies in the software used by the Noticee, does not absolve it from its duty to report all the holdings accurately to the exchange. It is also observed from the reply submitted before the DA that the Noticee had sent emails to its vendors in the months of August, 2021 highlighting the mismatch in holdings generate from the back office. However, the same issue was still existent in the data verified as on October 31, 2022 i.e. even after a lapse of more than one year. Hence, it is apparent that the Noticee was well aware of the issue in the back office software and still the Noticee took no corrective actions in a timely manner and the same issues persisted for more than year in the back office software.
41. Therefore, I agree with the conclusions of the DA that the Noticee has violated the provisions of NSE circulars dated September 27, 2016, August 30, 2018, November 13, 2018, and July 03, 2019 read with SEBI Circular dated September 26, 2016.

IV. Incorrect reporting and short collection of Margin in Cash Market and F&O Segment

42. The inspection report had observed that the Noticee had incorrectly reported margin to the Exchanges in the Cash Market and F&O Segment in the following instances –
- i. EOD Margin was reported incorrectly on 4 instance pertaining to 4 clients amounting to Rs.1.03 Crores
 - ii. Peak Margin was reported incorrectly on 8 Instances pertaining to 8 Clients amounting to Rs.1.84 Crores.

43. As per point no. 6 of SEBI Circular dated August 10, 2011 stock brokers shall collect and maintain adequate margins from their clients as per the extant requirements and shall be penalized for short collection / incorrect reporting of margins. Clause 4.1.2 of SEBI Circular dated November 19, 2019 prescribes the Stock Broker to mandatorily collect upfront Value at Risk (VaR) margins and Extreme Loss Margin (ELM) within T+2 working days. Clause 2.1 of SEBI Circular dated July 31, 2020 states that if the stock brokers collect 20% upfront margin in lieu of VaR and ELM from the clients, then penalty for short collection/non-collection shall not be applicable. Further, the Stock Brokers shall report details in respect of such margin amount due to the exchanges.
44. The Noticee had submitted instance wise response in respect of the aforesaid 12 instances. The DA after analysing the said responses accepted the submission with respect to 3 instances of alleged shortfall in EOD Margin and 4 instances of alleged shortfall in Peak Margin. Thus, the DA concluded that there was shortfall in EOD Margin in 1 instance and shortfall in Peak Margin in 4 instances, and the same was incorrectly reported by the Noticee. Therefore, the SCN alleged that the Noticee has violated the provisions of Point No 6 of SEBI Circular dated August 10, 2011, Clause 4.1.2 of SEBI Circular dated November 19, 2019 & Clause 2.1 of SEBI Circular July 31, 2020.
45. The inspection report had initially observed that the Noticee had incorrectly reported to the Exchanges in Cash Market and F&O Segment regarding EOD margin with respect to 4 clients amounting to Rs.1.03 Crores and Peak Margin with respect to 8 Clients amounting to Rs.1.84 Crores. The Noticee had provided an instance wise response and submitted that there was no shortfall of EOD or Peak margin in any of the instances. The DA after considering the submissions had concluded that the Noticee's submissions with respect to 3 instances of alleged shortfall in EOD Margin

and 4 instances of alleged shortfall in Peak Margin can be accepted. Thus, the DA observed that there was shortfall in EOD Margin in one instance and shortfall in Peak Margin in four instances, and the same was incorrectly reported by the Noticee.

46. The Noticee has restated the submissions made before the DA. With respect to instances accepted by the DA, it is noted that the Noticee has provided Delivery Instruction Report and the Transaction statement of its pool account. From the said documents, it is noted that there is no shortfall in margin calculation.
47. With respect to 2 instances pertaining to client account with code SB277197 (shortfall in in EOD margin and peak margin) and on 1 instance pertaining to client code SN73128 (shortfall in peak margin), the Noticee did not provide a statement of holdings in support of its submission. With respect to client account with code RK267387 (shortfall in peak margin) the Noticee has admitted that there was a shortfall in margin. Further, with respect to client code KP315882 (shortfall in peak margin) it is observed that there was a shortfall in peak margin because the client had pledged securities of value of Rs. 90.22 Lakhs which is less than the required peak margin of Rs. 95.99 Lakhs.
48. Therefore, I agree with the conclusion of the DA that the Noticee has violated the provisions of Point No 6 of SEBI Circular dated August 10, 2011, Clause 4.1.2 of SEBI Circular dated November 19, 2019 and Clause 2.1 of SEBI Circular July 31, 2020.

V. Incorrect Daily Margin Statements sent to clients

49. The SCN alleged that Noticee has violated the provisions of Clause 2.4 of SEBI Circular dated 17 April, 2008 and elaborated as follows:

- i. Incorrect Ledger Balance was reported for 2 Client Accounts –
 - a. In the case of client code SM172426 – Noticee has reported an excess amount in daily margin statement (DMS) amounting to Rs. 7,259.
 - b. In the case of client code ST316829 - Noticee has under reported the ledger balance in the DMS.
 - ii. Reporting of incorrect upfront margin for following 6 Client at 6 Instances –
 - a. In the case of client code AM274209, MI245275 and VN314548, Noticee has reported an excess amount in DMS amounting to Rs. 1,14,68,909.60.
 - b. In case of client code GL285289, TJ14723 & SM172426, Noticee has reported less amount in DMS amounting to Rs. 3,08,707.66.
50. As per Clause 2.4 of SEBI Circular dated April 17, 2018 Stock Brokers are mandated to issue a daily statement of collateral utilization to clients which shall include, inter-alia, details of collateral deposited, collateral utilised and collateral status (available balance/ due from client) with break up in terms of cash, Fixed Deposit Receipts (FDRs), Bank Guarantee and securities, at the end of the Trade day itself, in the prescribed format.
51. The submissions made by the Noticee are summarized at paragraphs 10.12 -10.16. The Noticee has restated the submissions made before the DA and has not refuted the allegations made in the SCN.
52. With respect to incorrect ledger balance, the following is observed:
- i. The Noticee submitted that on two instances excess balance and short margin was reported in the DMS of client account with code SM172426 because the

trades executed on the MCX exchange were not considered due to late receipt of the MCX trade file. However, the Noticee has not provided any supporting document regarding late receipt of MCX trade file. Even if it is accepted that the MCX trade file was received with delay, the Noticee was required to consider the trade details of MCX trades available with it, for the generation of DMS, which has not been done. Thus, Noticee's submissions in this regard cannot be accepted.

ii. The Noticee admitted that in respect of ST316829, its back office system used an outdated margin value and that there was under-reporting of ₹1,773.

53. The Noticee has admitted that incorrect upfront margin was reported in the DMS generated for 6 Client at 6 instances due to technical issues in its back office system.
54. Therefore, I find that the Noticee has violated the provisions of Clause 2.4 of SEBI Circular dated 17 April, 2008 as it reported incorrect ledger balance and upfront margin in the DMS sent to the clients.

VI. Wrongfully passing of the penalties (levied by clearing corporation) to the clients for short collection of upfront margin

55. The SCN alleged that the Noticee had violated the provisions of NSE Circulars dated July 31, 2020, October 12, 2021 and September 02, 2022 and elaborated as follows:
- i. The Noticee had wrongfully passed on penalty (levied by clearing corporation) to clients for short collection of upfront margin in the Cash Market- with respect to 13 clients (Amount of penalty passed on to clients – Rs. 3.32 lakhs).

ii. The Noticee had not refunded the penalty (levied by clearing corporation) passed on to clients for short collection of upfront margin with respect to 3 Clients in the Cash Market Segment (Amount of penalty passed on to clients – Rs. 0.93 lakhs).

56. SEBI Circulars dated August 10, 2011, September 07, 2016, August 01, 2019 and November 19, 2019 state that clearing corporations can impose penalties on the stock brokers for short collection of upfront margin. Further, NSE Circulars dated October 12, 2021 and September 02, 2022 clarified that stock members are not permitted to pass on the penalty levied by the clearing corporations for short / non-collection of upfront margins to clients under any circumstances.
57. The Noticee provided instance wise explanations and submitted that its system sets the trading limit and the same is assigned to the clients to ensure that no transaction is initiated without upfront margin. The Noticee stated that all the instances in which the Noticee has passed on the penalties to the clients pertain to shortfall due to change in the margin required or due to non- settlement of MTM by the client and argued that the same is in accordance with the NSE Circular dated October 12, 2021 which clarifies that penalties imposed by clearing corporation for shortfall arising in instances other than short upfront margin can be passed on to the client.
58. I note that the Noticee has stated that due to some issue with its vendor (63 moons Financial Technology - ODIN); few positions were created which resulted in a shortfall of upfront margin. The Noticee further stated it is in the process of refunding the penalty for short collection of upfront margin to certain clients,, Therefore, the Noticee has admitted that it had wrongfully passed on penalty (levied by clearing corporation) to clients for short collection of upfront margin and is in the process of refunding them.

59. With respect to the allegation that the Noticee has not refunded the penalty that was passed on to the clients, the Noticee had not provided any explanations or made any submissions in its reply and during the personal hearing with respect to the penalty of Rs. 0.93 lakh passed on to 3 clients in the cash market segment. Subsequently, the Noticee intimated that it has duly refunded the penalty amount to the said clients.
60. Therefore, I find that the Noticee had violated NSE Circulars dated October 12, 2021 and September 02, 2022 read with SEBI Circulars dated August 10, 2011, September 07, 2016, August 01, 2019 and November 19, 2019.

VII. Incorrect transfer of securities of credit balance clients to CUSA

61. The inspection report observed that the Noticee had incorrectly transferred securities of credit balance clients to "Client unpaid securities account" (CUSA) in 1143 instances with respect to 546 Clients amounting to ₹3.71 crores and therefore it was alleged that the Noticee had violated provisions of SEBI Circular dated June 20, 2019.
62. SEBI Circular dated June 20, 2019 states that all stock brokers are required to transfer the clients securities received in pay-out to clients Demat account within one working day. In case the client does not pay for such securities received in pay-out, then the TM/CM shall be entitled to retain those securities up to five trading days after pay-out. Clause 4.2 clarifies that the unpaid Securities shall be transferred to a separate client account titled CUSA and the securities shall either be transferred to the Demat account of the respective client upon fulfilment of client's funds obligation or shall be disposed of in the market by TM/CM within five trading days after the pay-out. Further, if the securities are kept in the CUSA beyond seven trading days after the pay-out, the depositories shall under their bye-laws levy appropriate penalties upon the stock brokers.

63. The Noticee had submitted before the DA that in all the 1143 instances, the shares were retained in CUSA until fulfilment of client obligation and were released to the client within the permissible period of 7 days. The Noticee submitted that it operates an automated system to manage all securities pay-out processes and the shares were transferred to CUSA because on 1140 instances, the clients had executed trades while not having clear credit balances. The DA after analysing the submissions of the Noticee had concluded that allegation against the Noticee were not established.
64. The Noticee has restated the submissions made before the DA. Upon analysing the submissions of the Noticee, it is noted that the Noticee had transferred the shares to CUSA, only when clear balance was not available in the clients' accounts at the time of receipt of shares. It has not kept the shares in the pool account, and has duly transferred the shares to the client accounts upon receipt of funds. In cases where the funds were not received from the client, the Noticee had transferred the shares to CUSA, until the receipt of funds. It is also noted that the Noticee had ensured receipt of consideration at the time of posting of shares to the client Demat account. Further, the Noticee had considered only clear cheque balances for margin / collateral and was considering clear ledger balance before transferring the shares to the client's Demat account.
65. Therefore, I agree with the finding of the DA that violation of provisions of Clause 4.2 of SEBI Circular dated June 20, 2019 do not stand established against the Noticee.

VIII. Failure to maintain complete and accurate KYC records of Clients

66. The SCN alleged that the Noticee had violated SEBI Circulars dated August 22, 2011 and November 10, 2016 as it failed to update the correct date of birth in respect of 31

client accounts and had not completed the CKYC process with respect to 2004 client accounts.

67. As per the provisions of SEBI Circular dated August 22, 2011, Stock Brokers are required to document basic information about the clients in the KYC form, which inter-alia includes date of birth of the client. SEBI Circular dated November 10, 2016, required the Stock Brokers to complete the CKYC process of all existing clients i.e. updating of KYC details with Central KYC Records Registry (CKYCR) by December 2016.
68. The Noticee has restated the submissions made before the DA. With respect to the allegation of incorrect date of birth of 31 clients, the Noticee has admitted that the error had occurred and submitted that the same was due to a porting error caused during migration from old to new back office software. With respect to the allegation of non-provision of CKYC number with respect to 2004 clients, the Noticee had submitted before the DA that the accounts were KRA compliant but yet to comply with CKYC requirements. The Noticee submitted that it is taking appropriate steps to complete the CKYC of these clients.
69. I note that as per SEBI Circular dated November 10, 2016 the Noticee was required to send the documents to the KRA and complete the CKYC process before December 31, 2016 for all the existing clients, and in other cases, within 10 working days from the execution of documents by the clients. However, the Noticee had not completed CKYC process until the date of inspection i.e. after lapse of more than 6 years from the deadline.
70. The Noticee had also submitted that deficiencies were observed in miniscule number of incident i.e. 2046 instances out of the total 54316 instances inspected, and these instances are mainly pertaining to older clients. It is noted that the obligation to

maintain proper and accurate KYC records cannot be conditioned with a permissible threshold up to which discrepancies can be accepted. Being a SEBI registered intermediary, the Noticee is expected to maintain complete and accurate records of KYC of its clients. Thus, Noticee's submissions are not tenable.

71. Therefore, I agree with the conclusion of the DA that the Noticee had failed to maintain proper and accurate records of client KYC and find that the Noticee has violated SEBI Circulars dated August 22, 2011 and November 10, 2016.

IX. Incorrect reporting to the exchanges pertaining to enhanced supervision data, risk based supervision data and client level cash/ cash equivalent balances

72. The SCN alleges that SEBI Circular dated September 26, 2016 and June 22, 2017 because it had made incorrect reporting to the exchange in respect of the following:
- i. Client level Cash & Cash Equivalent Balances
 - ii. Data required under enhanced supervision
 - iii. Data required under risk based supervision
73. Clause 3.2 of SEBI Circular dated September 26, 2016 inter-alia requires the Stock Brokers to make a weekly reporting of the aggregate value of credit balances and debit balances as obtained from trial balance across stock exchanges. The Stock Brokers are also mandated to report client level cash/cash equivalent balances and day wise day wise reporting of Bank balances is required to be made by the stock brokers, in the formats prescribed therein. Further, as per NSE Circular dated February 20, 2015 the stock brokers are required to provide various data including brokerage income and total available collaterals from all debit balance clients.

Client level cash and cash equivalent balances

74. The Noticee had incorrectly reported clear ledger balance of 13 Clients in 13 Instances amounting to ₹3.24 crore and the Peak Ledger balance of 55 Client in 55 instances amounting to ₹5.99 crore.
75. The Noticee has admitted the differences in reporting and has submitted that such issues were created due to logic gap in the new system software. As per SEBI Circular dated September 26, 2016 the Noticee was obligated to make weekly submission of day wise Client Level Cash/Cash Equivalent Balances and day wise reporting of Bank balances in the formats prescribed therein. The obligation of the Noticee to make correct reporting cannot be expunged due to problems in its own software. It was Noticee's responsibility to ensure that correct data is recorded and reported to the exchange. However, the Noticee failed to report the same, which resulted in incorrect reporting of client level cash and cash equivalent balances.

Data reported for Risk Based Supervision (RBS)

76. The Noticee had incorrectly reported the following data to the exchanges in respect of Risk Based Supervision:

Particulars	Submitted by Noticee (In Cr.)	Inspection (In Cr.)	Difference (In Cr.)
Total available collaterals from all debit balance clients as on March 31, 2022 (In Crores)	Rs. 435.15	Rs. 457.56	Rs. 22.42
Brokerage income reported as per RBS submission as on March 31, 2022	Rs. 109.69	Rs. 109.47	Rs. 0.22

77. The Noticee submitted that there was a difference of ₹22.42 crore in respect of total available collaterals from all debit balance clients because it had not considered the value of securities in Pool account and CUSA due to lack of clarity. It stated that SEBI issued clarification only on April 2024 after which it started considering the value of securities in Pool account and CUSA for the aforesaid calculation. With respect to the difference of Rs. 0.22 Crore in the brokerage income as on March, 2022, the Noticee submitted that it had also included the commission earned by it from distribution of third party products such as IPOs, Mutual Funds, Bonds, etc., as also reported by the Noticee in its annual statement for the year ended 2022.
78. The value of total available collateral from all debit balance clients includes the value of securities of debit balance clients in the Pool account and CUSA. Further, there may be significant value of securities of the debit balance clients which may be transferred to CUSA or may be present in the Pool account. Therefore, the Noticee was required to consider the same while reporting of total collateral available for risk based supervision. Further, MCX Circular dated April 11, 2022 make it abundantly clear that the brokerage income should have included only the gross brokerage revenue from broking operations and not the commission earned by it from other ancillary services that the Noticee is providing.

Data reported for Enhanced Supervision

79. The Noticee had incorrectly reported the aggregate value of Credit & Debit Balances of all clients as obtained from trial balance across Stock Exchanges in its weekly reporting under enhanced supervision monitoring of client assets as on September 23, 2022. The details of the same are reproduced below:

Particulars	As on 23-Sep-2022		
	Values as per calculation	Actual Submission by Member	Difference
Aggregate value of Credit Balances of all clients	178,53,87,151.50	178,51,84,473.00	-202,678.32
Aggregate value of Debit Balances of all clients	55,14,97,893.76	55,17,94,085.00	296,191.24

80. The Noticee has admitted the differences in reporting and submitted that the differences were due to logic gap in the new system software. It is noted that as per clause 3.2 of SEBI Circular dated September 26, 2016 the Noticee was required to report the aggregate values of debit and credit balance of clients every week. The Noticee was responsible to ensure that all the data correct data are recorded and reported to the exchange. However, the Noticee failed to ensure the same, which resulted in incorrect reporting of enhanced supervision data, with respect to week ended on September 23, 2022.
81. In view of the above, I agree with the finding of the DA that the Noticee has made incorrect reporting to the exchange and violated the provisions of SEBI Circular dated September 26, 2016 and June 22, 2017, NSE Circular dated February 20, 2015 and MCX Circular dated April 11, 2022.

X. Verification of UCC, Email ID and Mobile numbers

82. The SCN alleged that the Noticee has violated the provisions of Clause 2(B) of SEBI Circular dated August 02, 2011 and elaborated as follows:

- i. With respect to 4 clients, correct category was not updated in UCC data of Exchange.
 - ii. Invalid email ID was linked in the UCC database with respect to 1 client.
 - iii. Single mobile number was mapped to multiple clients.
 - iv. Single email address was mapped to multiple client accounts.
 - v. Contract notes issued by the Noticee did not reach to the actual clients as incorrect email addresses were mapped to multiple clients.
83. As per the clause 2 (B) of SEBI Circular dated August 02, 2011 Stock brokers shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address. Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the Stock Broker may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents
84. The DA has observed the following in respect of the aforementioned violation-
- i. Invalid category in UCC in 4 clients – The Noticee has admitted to have missed to update the category of 4 NRE clients, and submitted that the category was updated subsequently.
 - ii. Invalid email ID in UCC of 1 client – The Noticee has accepted the observation and submitted that it had subsequently taken appropriate steps to update correct email ID, which is updated presently.
 - iii. Single email ID mapped to multiple clients – The Noticee has admitted that there were discrepancies with respect to 215 clients, for which the Noticee has taken corrective actions subsequently. In the instances where email ID of the actual client or its relative was not mentioned, the contract notes could not have reached the actual client through the email.

- iv. Single mobile number mapped to multiple clients – The Noticee has submitted that discrepancies were present with respect to 413 clients, which have been suspended by the Noticee until provision of correct mobile number. In the remaining instances, the nature of relationship whose mobile number was provided was mentioned incorrectly, and the same was rectified subsequently.

85. I note that the Noticee has not refuted the allegations made in the SCN and has merely restated the same submissions made before the DA. The Noticee has admitted to the irregularities that were found in the inspection and has stated that it has taken corrective action in order to rectify the said discrepancies. Therefore, I agree with the conclusion of the DA and find that the Noticee has violated provisions of Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011.

XI. Margin trading facility

86. The SCN alleged that the Noticee had violated the provisions of Clause 7 of SEBI circular dated June 13, 2017 and elaborated as follows:

- i. Noticee had not sent daily margin statement related to MTF transaction to 18 clients.
- ii. Out of the said 18 clients, Noticee had not collected adequate margin in the form of cash, cash equivalent or Group I equity shares with appropriate haircut, with respect to 10 clients, which resulted in margin shortfall of Rs. 47,08,273/- .

87. Clause 4 of SEBI Circular dated June 13, 2017 prescribes the applicable margin to be maintained by the clients in order to avail margin-trading facility. Clause 5 of the said circular mandates that the initial margin shall be payable by the client in the form of cash, cash equivalent or Group I equity shares with appropriate haircut as prescribed by SEBI. Further, Clause 7 of said Circular requires the Stock Brokers to ensure

maintenance of the aforesaid margin at all times during the period that the margin trading facility is being availed by the client and in case of shortfall, Stock Broker shall make necessary margin calls.

88. With respect to 18 client accounts, the Noticee has submitted that on 9 instances margin statement was not generated as no trades were made on the respective dates. With respect to the remaining 9 client accounts, the Noticee has submitted that daily margin statements were generated and sent to the clients and it submitted that adequate margin was available in all these instances. It submitted copies of daily margin statements of such client accounts.
89. I note that as per NSE Circulars dated June 30, 2017 and December 31, 2019, the Noticee was required to provide daily margin statement with respect to Margin Trading Facility on a daily basis to its clients. There is no such exception to the said obligation that the same may not be sent when no trades are placed. In view of the same, Noticee's submissions that margin statement were not generated with respect to 9 client accounts as no trades were made on the respective dates cannot be accepted.
90. Further, upon perusal of the daily margin statements, I note that that the calculation of margin available and margin required are not matching with the details maintained by the clearing corporation and the exchange. Further, the Noticee has also provided no explanation with respect to the mismatch observed in the margin calculation provided by it. Hence, I can only come to the conclusion that the daily margin statements sent by the Noticee do not mention the correct details of the margin position of clients and that there was a margin shortfall in respect of such 10 client accounts.
91. In view of the aforesaid, I find that the Noticee has violated the provisions of Clause 7 of SEBI circular dated June 13, 2017 and NSE Circulars dated June 30, 2017 and December 31, 2019.

XII. Failure to comply with cyber security and cyber resilience framework

92. The SCN alleges that the Noticee had not appointed CISO or Designated Officer during the period April 01, 2021 to March 31, 2022 and had not shared the details of CISO with CERT-In. Therefore, it is alleged that the Noticee has violated provisions of SEBI circulars dated December 03, 2018 and SEBI Circular dated June 07, 2022.
93. SEBI circulars dated December 03, 2018 which prescribes the framework for Cyber Security & Cyber Resilience for Stock Brokers mandates the Stock Brokers *inter-alia* to designate a senior official or management personnel (henceforth, referred to as the “Designated Officer”) whose function would be to assess, identify, and reduce security and Cyber Security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as per the Cyber Security Policy.
94. The Noticee had admitted in its response to the inspection that it was in the process of appointment of CISO and in the meantime, it was taking the assistance of Mr Satish Warier, who was the CISO of its parent company. It is noted that Mr Satish Warier was CISO of Stockholding Corporation of India Limited and not the ‘Designated Officer’ or CISO of the Noticee during the period April 01, 2021 to March 31, 2022, as required under SEBI circular dated Dec 03, 2018.
95. Therefore, I find that the Noticee failed to adhere to the cyber security and cyber resilience framework and has violated provisions of SEBI circulars dated December 03, 2018.

XIII. Non-cooperation with inspection team and submission of unauthentic/incomplete data

96. The inspection report had observed that the Noticee had violated Regulation 21 of Securities and Exchange Board of India (Stock Broker) Regulation 1992, clause 6.1.1(j) of Annexure of SEBI circular dated September 26, 2016 as it failed to co-operate with inspection team and provided incomplete data for verifying authenticity of data and multiple deficiencies were observed in the provided data. The inspection report noted that Noticee did not provide the requested information and inspecting authorities. Various deficiencies were also observed in the provided data viz. incomplete sample client ledgers, sample dump without email address of respective clients, incorrect settlement working sheet and incomplete KYC kit. Further, the Noticee also provided incomplete data viz. KYC kit was provided on 38 out of 89 samples and exchange trade file was provided instead of back office trade files.
97. As per Regulation 21 of the Stock Brokers Regulations, Stock Brokers are obligated to produce documents / records / information in their custody or control to the inspecting authority. Further, Clause 6.1.1(j) of Annexure of SEBI circular dated September 26, 2016 casts an obligation on the Stock Brokers to share complete and correct data to the exchanges within the prescribed timelines.
98. The Noticee had submitted before the DA that it was unable to provide the information due to lack of co-operation from its old software vendor and since it was concurrently migrating its front and back end software, there was reduced availability of resources. It also stated that it maintains data in a particular format, which is different from the customized format required by the inspecting authorities and has to be processed manually. Therefore, the errors or inability to provide the requested data and meet the format requirements were neither intentional nor malicious act by the Noticee. The DA after considering the submissions of the Noticee concluded that violations as alleged in the inspection report were not made out.

99. The Noticee has restated the submission made before the DA. I note that the Noticee has provide various data in its reply to the inspection findings, based on which some of the allegations have been reduced or removed. Further, the Noticee has also provided various documents in its reply to the SCN and during and post hearing. Hence, the benefit of doubt can be extended to the Noticee with respect to allegation that it provided unauthentic/incomplete data.
100. I note that the Noticee was requested to provide complete and correct data on various instances and several reminders were sent to the Noticee. However, the Noticee failed to provide the complete information within the stipulate timeline. Some of the instances along with the date of reminders sent to the Noticee are provided in the table below:

Sl. No.	Details Sought	Dates of reminders
1	Verification of Margin for Short Collection and Wrong Reporting	20-12-2022, 23-12-2022, 27-12-2022, 28-12-2022, 30-12-2022, 02-01-2023, and 03-01-2023.
2	Verification of Daily margin statements	30-12-2022 and 03-01-2023
3	Short margin penalty passed on to clients	20-12-2022, 28-12-2022 and 30-12-2022
4	Data pertaining to UCC verification	09-09-2022, 12-09-2022, 16-09-2022, 19-09-2022, 20-09-2022, 21-09-2022, 22-09-2022 and 26-09-2022
5	Data pertaining to clients who had availed Margin Trading Facility	27-12-2022, 28-12-2022, 30-12-2022 and 03-01-2023.

101. From the above-mentioned instances, it is clear that the Noticee did not submit the requested document to the inspecting authorities. While I acknowledge the challenges faced by the Noticee in providing the voluminous data to the inspection

authorities, but being an experienced Stock Broker it was expected to manage the same and adhere to the timelines specified by the inspecting authorities.

102. However, I note that the Noticee had submitted various information and documents after the inspection, based on which several observations of the inspection team were addressed. The DA had also observed that the Noticee diligently provided various documents sought from it during the hearing and post-hearing before the DA. I note that although there were delays on behalf of the Noticee in submitting the requested information, but the said delays were not malafide or created with an intention to obstruct the inspection and subsequent enquiry proceedings. Furthermore, the allegation of providing unauthentic data also does not stand as the Noticee has subsequently provided various data, which it had not provided earlier. Considering the same and the submissions of the Noticee that the delay was due to lack of cooperation from its old vendor and there was constraint of resources, I agree with the conclusion of the DA that allegations of non-cooperation with the inspecting authorities and providing unauthentic/ incomplete data is not established against the Noticee.

103. Therefore, I find that the violation of Clause 6.1.1(j) of Annexure of SEBI circular dated September 26, 2016 read with Regulation 21 of Securities and Exchange Board of India (Stock Broker) Regulation 1992 does not stand established against the Noticee.

E. CONCLUSION

104. In view of my above stated findings, I find that the Noticee has violated the following provisions:

a. Failure to provide monthly/quarterly retention statements and non-settlement of client funds and securities in respect of running accounts: Clause 12 of Annexure A

of SEBI circular dated December 03, 2009, Clause 8 of Annexure of SEBI circular dated September 26, 2016, Clauses 5.1, 5.2, 5.4 and 6 of SEBI circular dated June 16, 2021, Clause 4 of SEBI Circular dated July 27, 2022 and BSE Notice dated February 10, 2020.

b. Failure to reconcile the record of client's securities in back office holdings and the actual securities lying in Demat account of clients: Clause 2.3 of SEBI Circular dated April 17, 2008 and NSE Circular dated March 11, 2015

c. Discrepancies in the weekly holding submission made to the exchanges: September 27, 2016, August 30, 2018, November 13, 2018, and July 03, 2019 read with SEBI Circular dated September 26, 2016.

d. Incorrect reporting and short collection of Margin in Cash and F&O Segment: Point No 6 of SEBI Circular dated August 10, 2011, Clause 4.1.2. of SEBI Circular dated November 19, 2019 & Clause 2.1 of SEBI Circular dated July 31, 2020

e. Incorrect reporting in Daily Margin Statement: Clause 2.4 of SEBI Circular dated 17 April, 2008

f. Wrongfully passing of the penalties (levied by the clearing corporation) to the clients for short collection of upfront margin: NSE Circulars dated October 12, 2021 and September 02, 2022 read with SEBI Circulars dated August 10, 2011, September 07, 2016, August 01, 2019 and November 19, 2019.

g. Failure to maintain complete and accurate records of KYC of Clients: SEBI Circular dated August 22, 2011, SEBI Circular dated November 10, 2016, and SEBI Circular dated December 23, 2011.

h. Incorrect reporting to the exchanges pertaining to enhanced supervision data, risk based supervision data and client level cash/ cash equivalent balances: SEBI Circular dated September 26, 2016, SEBI Circular dated June 22, 2017 and NSE Circular dated February 20, 2015.

i. Failure to ensure mapping of separate mobile number/E-mail address for each client: Clause 2(B) of SEBI Circular dated August 02, 2011.

j. Failure to collect adequate margin and not sending retention statement to clients who had availed margin trading facility: Clause 7 of SEBI Circular dated June 13, 2017 and NSE Circulars dated June 30, 2017 and December 31, 2019

k. Failure to comply with cyber security and cyber resilience framework for Stock Brokers: SEBI Circular dated Dec 03, 2018.

105. The Noticee is registered as a Stock Broker with SEBI since March 02, 2006 and has presence through various branches across 26 states and 162 cities. Further, as per the website of Noticee, it is the broking arm and wholly owned subsidiary of Stockholding Corporation of India Limited (**SHCIL**). SHCIL is essentially a public sector entity, which is jointly promoted by public financial institutions viz. IFCI Ltd, Life Insurance Corporation of India, Specified Undertaking of the Unit Trust of India, and General Insurance Corporation of India etc. The Noticee is an experienced Stock Broker with a large scale of business/ client base and is a wholly owned subsidiary of a publicly sector entity. Therefore, there is an onerous duty on the Noticee to strictly comply with the prescribed rules and regulations. The fact that the public also has indirect interest/stake in the Noticee, the duty to uphold the interest of investors and not deviate from the prescribed regulations becomes more critical.

106. The Noticee has submitted that it has resolved the various allegations made in the SCN and has provided a certificate dated September 17, 2024 from an independent auditor firm demonstrating that it has taken corrective action in respect of the alleged violation and is compliant with the applicable provisions of law. The Noticee has also submitted that no adverse observations were made against it on identical issues in the recently concluded BSE inspection (for the period April 2023-November 2024).
107. I note that an Adjudication Order dated December 20, 2024 has been passed against the Noticee which *inter-alia* included identical allegations arising out of the same inspection. A penalty of Rs. 10 Lakh was imposed on the Noticee, which has been paid. In this regard, I also note that Enquiry and Adjudication proceedings are separate and independent of each other. Even if penalty is imposed, directions under section (3) of section 12 of the SEBI Act can also be passed.
108. While the violations established against the Noticee cannot be overlooked completely, I must also take into account punitive/ remedial directions already ordered in the context of the established violations while passing directions to ensure proportionality in punishment. I find that the DA has recommended issuance of regulatory censure to the Noticee. Having regard to the fact that the Noticee has submitted that it has taken corrective action to comply with the applicable laws and has also undergone monetary penalty of Rs. 10 Lakhs imposed by the Adjudication Order, I am inclined to agree with the recommendation made by the DA that issuance of a regulatory censure to the Noticee would be apt and proportionate.

F. ORDER

109. In view of the foregoing, I, in the exercise of powers conferred upon me under sub section (3) of section 12 and section 19 of the SEBI Act, 1992 read with the sub-regulation (5) of regulation 27 of the Intermediaries Regulations, hereby issue

regulatory censure against the Noticee i.e. Stockholding Services Limited (Formerly SHCIL Services Limited) having SEBI Registration No. INZ000199936.

110. The Order shall come into force with immediate effect.

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

Date: October 07, 2025

Place: Mumbai

Sd/-

ANANTH NARAYAN G.

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA