BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO.: Order/AK/GN/2026-27/32705]

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995 AND UNDER SECTION 23-I OF THE SECURITIES CONTRACTS (REGULATION) ACT, 1956 READ WITH RULE 5 OF SCR(R) (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 2005 IN RESPECT OF;

JAINAM BROKING LIMITED

PAN: AABCJ3918N

Background

1. Securities and Exchange Board of India (hereinafter referred to as **'SEBI'**) conducted a comprehensive inspection of Jainam Broking Limited (hereinafter referred to as "**Noticee")** for the period April 01, 2021 to September 30, 2022 (**Inspection Period 1/IP1**) on January 05, 2023 and another inspection of Noticee on November 01, 2022 – November 30, 2023 (**Inspection Period 2/IP2**) (IP1 and IP2 hereinafter collectively referred to as **Inspection Period/IP**) from February 12, 2024 to February 16, 2024.

2. The Noticee is registered with SEBI as stock broker, a member of BSE, NSE, MCX, NCDEX, with SEBI Registration No. INZ000198735 and as Depository Participant at CDSL with SEBI Registration No. IN-DP-223-2016.

3. Based on the findings of inspection and reply dated January 27, 2023, May 03, 2024, May 06, 2024 and May 07, 2024 received from the Noticee, various non-compliances with provisions of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as "**Stock Brokers Regulation"**) and circulars issued by SEBI and BSE were, prima facie, found.

Appointment of Adjudicating Officer

4. Hence, SEBI approved initiation of adjudication proceedings and vide communique dated February 04, 2025, appointed Amar Navlani as the Adjudicating Officer u/s 19 of SEBI Act, 1992 (hereinafter referred to as **SEBI Act**) r/w Section 15-I (1) of

the SEBI Act and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter also referred as '**SEBI Rules'**) and u/s 23 I of the Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as **SCRA Act**) r/w Rule 3 of the Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter also referred as the '**SCRA Rules'**), to inquire into and adjudge u/s 15HB of SEBI Act and u/s Section 23D of SCRA Act, the violations allegedly committed by the Noticee. Upon transfer of matter, the undersigned was appointed as an AO vide communique dated July 08, 2026.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. Show Cause Notice (hereinafter being referred to as the **"SCN"**) dated March 13, 2025 and Supplementary Show Cause Notice dated July 14, 2025 (hereinafter referred to as **SSCN**) was issued to Noticee in terms Rule 4(1) of Adjudication Rules and SCRA Rules to show cause as to why an inquiry should not be initiated against Noticee and why penalty, if any, should not be imposed upon Noticee u/s 15HB of SEBI Act and 23D of the SCRA Act for the alleged violations.

6. Following are the allegations made against the Noticee in the SCN-

6.1 **Misuse of clients funds**: During IP1 it was observed that Noticee had not submitted correct details for Margin utilized for Credit Balance Clients (MC), and it was alleged that Noticee violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016.

6.2 **Client Funding:** During IP1 it was observed that Noticee has funded clients beyond T+2+5 and it was alleged that Noticee violated Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 r/w Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/ P/2017/64 dated June 22, 2017.

6.3 **Client registration process (KYC and KRA process):** During IP1 it was observed that KRA details were not updated in time / under process for 13 clients and it was alleged that Noticee violated Clause 2 of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 r/w Clause 3 of SEBI circular MIRSD/Cir-23/2011 dated December 2, 2011 and Clause 3 of SEBI circular MIRSD/Cir-5/2012 dated April 13, 2012.

6.4 **Verification of Email ID & Mobile Numbers:** During IP1 there was mismatches in Email/mobile number between the UCC Database and Back-office client master records was observed and it was alleged that Noticee violated Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011.

6.5 **Analysis of Enhanced supervision data (Weekly):** During IP1 it was observed that Noticee did not correctly reported bank balances as on 30.09.2022 and difference of Rs. 50,88,170/- was observed (Less reporting by TM). It was also observed that Noticee did not correctly reported client ledger balances as on 30.09.2022 for 20 Client out of 177383 reported client balances and it was alleged that Noticee violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

6.6 **Review of AP related Policy, Terminal verification and Certifications:** During IP1 it was observed that Noticee wrongly reported the user details on Exchange platform for 11 terminals and it was alleged that Noticee violated Clause A (5) of Schedule II r/w Regulation 9(f) of Stock Brokers Regulations.

6.7 **Risk based supervision**

6.7.1 During IP1 it was observed that Noticee had wrongly reported brokerage income and it was alleged that Noticee violated Clause 6.1.1.j of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

6.8 **Compliance with Cyber-security requirements**

6.8.1 During IP1 it was observed that trading and back office vendor did not had STQC certifications. Noticee had not developed plan and schedule to do Vulnerability Assessment for all critical IT assets. Noticee had not done VAPT for all critical IT assets. Noticee did not registered with CERT-IN and the details of the CISO was not shared with CERTIn. It was also observed that the Noticee had not set up a Security Operations Centre and it was alleged that Noticee violated Clause 36 & Clause 41 of Annexure-1 of SEBI Circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018.

6.9 **Segregation of Client's funds and Own funds:**

6.9.1 During IP2 it was observed that Noticee had used client bank account for the purposes other than specified and it was alleged that Noticee violated Clause 2.4.2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clauses 15.4.4.2, clause 23.1.3 & 23.1.4 of SEBI

Master circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023.

7. Vide email dated March 29, 2025, Noticee sought extension of 15 days for submission of reply. Vide email dated April 02, 2025 Noticee acknowledged the receipt of physical copy of SCN. In the interest of Natural Justice opportunity of hearing was granted to Noticee on April 21, 2025, vide hearing notice dated April 09, 2025. Vide email dated June 23 2025, hearing in the captioned matter was rescheduled to July 11, 2025. Vide email dated June 24, 2025, Noticee submitted its reply. Vide email dated July 11, 2025 hearing was postponed. SSCN was issued to the Noticee on July 14, 2025 via SPAD and email dated July 14, 2025. Vide email dated July 30, 2026, opportunity of hearing was provided to Noticee on July 31, 2026. The Authorised Representatives (ARs) of the Noticee appeared for the hearing on the scheduled day and accepted the allegations made in the SCN and submitted that corrective steps have been taken wherever necessary. Reply dated July 30, 2026 and June 23, 2025 is summarised below-

7.1. ***Misuse of client funds***

7.1.1. *Noticee submitted that due to some back office error, they were not able to generate accurate data towards margin utilised for the credit balance client (MC) for Feb, 2022.*

7.2. ***Client Funding***

7.2.1. *Noticee submitted that there may be some instances of clients where exposure may be given where debit continues beyond 5th day of paying. However, in the said cases, no element of risk is found. Noticee submitted that out of nine instances observed, in five instances (client code WPV50, BCF507, DMP117, P298), amount not recovered was less than Rs. 500/-. The said amount not recovered is not towards funds pay in obligation of exchange, these are other service / financial charges (viz,. Demat charges, DP charges, LPC charges, etc) levied by the broker to be paid by the client for various services rendered.*

7.2.2. *Noticee submitted that clause 2(d) stated that "not to grant exposure when debit balance arise of client failure to pay and such debit balance beyond the fifth trading day as reckoned from the date of paying".*

7.2.3. *Thus, for above five instances, Noticee submitted that debit balance of Rs 500/- does not pertain of exchange pay in obligation beyond 5th trading day from the date of* *pay-in. Thus, the said amount must be excluded while calculating amount of funding beyond T+2+5 and must not be constructed as Funding to client beyond T+2+5.*

7.2.4. *Further, for client code KTR50, there is a further exposure is given in three instances due to some technical error, in specific single client code in their back office software.*

7.2.5. *There was some technical error in report generation hence this codes was not included in selling T+2+5 list of securities as per risk management system and thus the same couldn't to restricted for further exposure. Later on it was identified and Account dues was cleared by payment from client on 15/03/2022.*

7.2.6. *For client code AMP101, there was Ageing debit of Rs. 18,01,955.73 which was recovered by selling of securities on T+2+5 day. Client has cleared debit amount to some extent of of Rs. 17,63,219.00. Client has given cheque of Rs. 5,00,000 on 28/03/2022 to clear his outstanding dues of Rs. 38,736,.73 and advance payment for his new purchase of security. Hence further exposure allowed on 29/03/2022. Observed client is investor, he had purchases security of 11,59,794.00, hence they allowed him new exposure for delivery buying as client had assured that he will settle his old minor dues along with new purchase debit. However, later the cheque was dishonoured, therefore no further exposure was provided.*

7.3. ***Client registration process***

7.3.1. *Since all necessary rectification were immediately carried out and the same was complied post inspection, Noticee requested to take a lenient view in the matter.*

7.4. ***Mismatch in Email/Mobile number***

7.4.1. *As a prudent practice, Noticee also capture alternative email ID and mobile number in their back office which was collected from the respective client. While bulk uploading the file of Email ID and Mobile number, software erroneously captures alternative Email ID or mobile number in some of the clients. In remaining case, due to some software error, wrong Email ID and Mobile number have been uploaded on UCC data base.*

7.4.2. *For out of Total 3104 instances of email id mismatch, for 1189 instances, immediate steps were taken to update the email id at Exchange Portal as per the details available in their backoffice client Master after receipt of Preliminary inspection observation.*

7.4.3. *Noticee submitted that immediate steps were taken to update 823 instances the mobile no on Exchange Portal as per the details available in their back-office client Master after receipt of Preliminary inspection observation.*

7.5. ***Analysis of Enhance Supervision data** (Weekly)*

7.5.1. *HDFC Bank statement consist of two column i.e. Transaction date / Entry date and Value Date. Transaction Date/ Entry Date is Date on which cheque was deposited / withdrawal with bank, whereas Value Date is the date of clearance of funds towards either Receipt or payment. Thus, while reporting Bank Balances under Enhance supervision, Balance as per Value Date to be reported. Bank Statement enclosed for your reference. The transaction date is about when the bank processes the transaction, while the value date is about when the transaction affects your account balance.*

7.5.2. *Noticee submitted that the said balance was cleared on 01/10/2022 and was not available on 30/09/2022. Thus, it can be concluded that there is no incorrect reporting of Bank Balance in Enhance Supervision.*

7.5.3. *Out of 20 clients mismatch in ledger reporting, one client code M6000 had transferred Rs. 50000000/- which was not reflected on the same day of transfer due to late transfer of fund by the client.*

7.5.4. *Institutional clients are custodian clients, the funds and securities are managed by custodians. Stock Brokers acts as Trading Member for such institutional clients. Such institutional clients do not have to be reported under Enhance Supervision since these are custodian settle trades.*

7.5.5. *Similarly, out of 20 clients, there is also PMS code "JPMS1" in the name of the Company which is Own code. Code "PMS" pertains to Own code and not client. Jainam is SEBI registered PMS entity. Thus, the same is not to be included in reporting under Enhance Supervision.*

7.5.6. *All the 8 Clients were inactive for more than two years and had debit balances between Rs -250/- to Rs. – 5000/-. Thus, since clients were inactive and there were no trades in both the Fin. Year, and had debit balance, thus the same was not captured by system and was reported in cash and cash equivalent reporting.*

7.5.7. *For the balance clients, in case two clients (WA1081 and BHT581) there was a virtual debit in relation to demat / DP charges which was not posted in the ledger amount being less than Rs 1500/-in both the instances*

7.5.8. *In case of code ZBB553- ABC., this is not a Client registered with any of the Stock Exchanges. Dealer had erroneously entered traded in said client code which client code does not exist. So, the position in the said client code was squared of and MTM* *was created in the said client code. So, as there is no client in the said client code, there is no balance reporting of the same in C&CE on the said date.*

7.5.9. *In case of client code HBP225, Fund of Rs 40000/- was transferred on 30.09.2022 but the same intimation was given on next day by Bank.*

7.5.10. *Lastly in case of client code J43, due to some technical error, Account was not included in reporting however given balance is correct as per ledger on given date.*

7.5.11. *Noticee submitted that out of total around 1.70 lacs active clients, mismatch pertain to 20 instances which is around 0.01% of total active clients.*

7.6. ***Review of AP related policy, terminal verification and certification***

7.6.1. *Noticee submitted that due to overlapping, there was mismatch in terminal details between Exchange data and back office data. The data uploaded on Exchange portal were correct which is to be looked into vis-a vis dates. Similarly, data as per their records of back office are correct.*

7.7. ***Risk Base Supervision***

7.7.1. *Noticee submitted that as per their understanding, Exchange wise brokerage has to be reported instead of total brokerage. Noticee believed that exchange wise brokerage has to be reported because RBS has to be reported Exchange wise. They have rectified their understanding and correctly reported RBS brokerage figures on gross level across exchange for further reporting/s.*

7.8. ***Compliance with Cyber Security requirements***

7.8.1. *Noticee submitted that details of STQC certification was called from the trading and backoffice software vendors.*

7.8.2. *In response to their email, they have received reply email from Techexcel. Along with email, vendor has also provided Certificate of Registration of Techexcel License ISO Certification ISO 27001:2013 and VAPT Report of Techexcel backoffice confirming VAPT conducted.*

7.8.3. *Noticee submitted that VAPT was carried out as under:*

a) VAPT was done on 12-04-2022.

B) VAPT was done on 09-12-2022.

7.8.4. *Similarly, Noticee submitted Cyber audit report for half yearly ended March 2022 (Oct 2021 – March 2022), point no. 3(ae) and (af) on page no 30, where auditors has qualified that VAPT is conducted for all critical assests identified by the company.*

7.8.5. *Noticee also submitted Cyber policy first version is dated November 11, 2021. Thus, post release of the policy, we have conducted VAPT on 12-04-2022 and 09-12-2022 which is twice in a year.*

7.8.6. *In view of the above, Noticee submitted that they are in compliance of the said point.*

7.8.7. *Noticee submitted details of registration with CERT-IN was completed on 07-11-2023. Noticee had appointed Designated Officer CTO to carry out the responsibility of cyber security, cyber risk and cyber policy, however, CISO was appointed in Dec 2023, thus details of CISO could not be shared with CERT-IN.*

7.8.8. *Noticee submitted that SOC was in process of developing. The SOC was expected to be setup by March 31st 2023. Thus, they were already in process of discussion with respective firms for outsource the same. As mentioned in response to inspection observations, the same was implemented.*

7.9. ***Segregation of Client's funds and Own funds***

7.9.1. *Noticee submitted that funds transferred from Own to Client funds as mentioned in Column C for the month of Nov 2022, March 2023, June 2023, July, 2023, August 2023, Sept 2023, October, 2023 and November 2023. Thus, no client funds were utilised. Funds transferred from Own to Client are retained back from Client to Own. Thus, it stated there is no misutilisation of clients funds.*

7.9.2. *Funds have been transferred from Own Bank to Client Bank account to meet client obligation for payout.*

7.9.3. *Noticee also submitted that Funds transferred from Client to Own account also includes Brokerage Income, and other government /statutory taxes viz. Stamp duty, GST, demat charges, transaction charges, and other levies which are for legitimate purpose. However, all the funds transferred from Client to Own are reversed as reflected from July 2023 to November 2023.*

7.9.4. *Noticee also submitted that there was no shortfall of funds or G negative on weekly submission to all Exchanges for the said respective month from November, 2022 to October 2023 where funds have been transferred from Client to Own account.*

7.9.5. *Also net excess transferred from November 2022 to November 2023 is Own Bank account to Client bank account of Rs 32,09,07,06,630/-*

7.9.6. *Thus, Noticee submitted that there was no client misutilisation. All Client payout obligation of funds are meet on time. There is no client complaint for non receipt of payout of funds.*

7.10. *From the above response Noticee submitted that most allegations do not hold good and even if a few still remain those are of technical and venial nature and have not caused any prejudice to the clients or markets at large. Noticee is committed to comply with the law and request that the procedural lapses be seen in the context of their overall scale of operations handled and the various compliance measures adopted by them. Further, on becoming aware of the stray instances pointed out during the course of inspection, they have immediately taken steps to rectify the same and avoid their recurrence in future.*

CONSIDERATION FOR ISSUES, EVIDENCE AND FINDINGS

8. I have taken into consideration the facts and circumstances of the case and the material available on record. The issues that arise for consideration in the present case are:

   ISSUE I: Whether Noticee has violated the provisions as alleged in the SCN?

   ISSUE II- Does the violation, if any, attract monetary penalty u/s 15HB of the SEBI Act and 23D of the SCRA Act?

   ISSUE III- If so, how much penalty should be imposed taking into consideration the factors mentioned in Section 15J of the SEBI Act and 23J of the SCRA Act?

9. Before proceeding further, it will be appropriate to refer to the relevant provisions.

   Clause 12 of Annexure-A to the SEBI Circular SEBI/MIRSD/SE/Cir-19/2009 dated December 03, 2009

   Running Account Authorization

   12.Unless otherwise specifically agreed to by a Client, the settlement of funds/securities shall be done within 24 hours of the payout. However, a client may specifically authorize the stock broker to maintain a running account subject to the following conditions:

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

   b. The authorization shall be signed by the client only and not by any authorised person on his behalf or any holder of the Power of Attorney.

   c. The authorization shall contain a clause that the Client may revoke the authorization at any time.

   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.

f. The client shall bring any dispute arising from the statement of account or settlement so made to the notice of the broker preferably within 7 working days from the date of receipt of funds/securities or statement, as the case may be.

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

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

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

h. The stock broker shall transfer the funds / securities lying in the credit of the client within one working day of the request if the same are lying with him and within three working days from the request if the same are lying with the Clearing Member/Clearing Corporation.

i. There shall be no inter-client adjustments for the purpose of settlement of the 'running account'.

j. These conditions shall not apply to institutional clients settling trades through custodians. The existing practice may continue for them.

SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

"…

2.6.Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in.

…

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

…

6.1.1.Monitoring criteria for Stock Brokers

…

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.

Clause 5.1 & Clause 5.4 of SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021

"…

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

…

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

…"

Clause 47.4 of SEBI Master circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023

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

Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017

2. SEBI has received further representations from the market participants regarding certain provisions of the aforesaid circular. Based on the discussions with different stakeholders, following clarifications are made:

…

d. Clause2.6 stands modified as, "Stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in, except, in accordance with the margin trading facility provided vide SEBI circular CIR/MRD/DP/54/2017 dated June 13, 2017 or as may be issued from time to time. "This clause would be effective from August 1, 2017.

Clause 2 of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011

2. Guidelines for KRAs:

i. KRA system shall provide KYC information in data and image form to the intermediary.

ii. KRA shall send a letter to the client within 10 working days of the receipt of the initial/updated KYC documents from intermediary, confirming the details thereof and maintain the proof of dispatch.

iii. KRA(s) shall develop systems, in co-ordination with each other, to prevent duplication of entry of KYC details of a client and to ensure uniformity in formats of uploading / modification / downloading of KYC data by the intermediary.

iv. KRA shall maintain an audit trail of the upload / modifications / downloads made in the KYC data, by the intermediary in its system.

v. KRA shall ensure that a comprehensive audit of its systems, controls, procedures, safeguards and security of information and documents is carried out annually by an independent auditor. The Audit Report along with the steps taken to rectify the deficiencies, if any, shall be placed before its Board of Directors. Thereafter, the KRA shall send the Action Taken Report to SEBI within 3 months.

vi. KRA systems shall clearly indicate the status of clients falling under PAN exempt categories viz. investors residing in the state of Sikkim, UN entities / multilateral agencies exempt from paying taxes / filing tax returns in India.

vii. A client can start trading / investing/ dealing with the intermediary and its group / subsidiary / holding company as soon as the initial KYC is done and other necessary information is obtained while the remaining process of KRA is in progress.

…"

Clause 3 of SEBI circular MIRSD/Cir-23/2011 dated December 2, 2011

"…

3. An intermediary shall perform the initial KYC of its clients and upload the details on the system of the KRA. When the client approaches another intermediary, the intermediary can verify and download the client's details from the system of the KRA. As a result, once the client has done KYC with a SEBI registered intermediary, he need not undergo the same process again with another intermediary.

…"

Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 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.

iii. 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.

iv. 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.

…"

Clause 36 & Clause 41 of Annexure-1 of SEBI Circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018

"…

Certification of off-the-shelf products

36.Stock Brokers / Depository Participants should ensure that off the shelf products being used for core business functionality (such as Back office applications) should bear Indian Common criteria certification of Evaluation Assurance Level 4. The Common criteria certification in India is being provided by (STQC) Standardisation Testing and Quality Certification (Ministry of Electronics and Information Technology). Custom developed / in-house software and components need not obtain the certification, but have to undergo intensive regression testing, configuration testing etc. The scope of tests should include business logic and security controls.

…

Vulnerability Assessment and Penetration Testing (VAPT)

41.Stock Brokers / Depository Participants should regularly conduct vulnerability assessment to detect security vulnerabilities in their IT environments exposed to the internet

…"

SEBI (Stock Brokers) Regulations, 1992

"…

Conditions of registration.

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

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

…

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

…

SCHEDULE II

CODE OF CONDUCT FOR STOCK BROKERS

A. General.

…

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

…"

Note: for detailed/ complete text of the provisions, relevant Acts etc., may please be referred

FINDINGS

10. On perusal of the material available on record and giving regard to the facts and circumstances of the case and submissions of the Noticee, I record my findings hereunder:

ISSUE I: Whether Noticee has violated the provisions as alleged in the SCN?

10.1. **Misuse of clients funds:**

10.1.1. During IP1 it was found that Noticee had not submitted correct details for Margin utilized for Credit Balance Clients (MC) and it was alleged that Noticee violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/ CIR/P/2016/95 dated September 26, 2016.

10.1.2. In reply to the SCN, Noticee submitted that due to some back office error, they were not able to generate accurate data towards margin utilised for the credit balance client (MC) for Feb, 2022

10.1.3. I note that as per Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016, Stock brokers shall submit Aggregate value of Margin utilized for positions of Credit Balance Clients across Stock Exchanges as on last trading day of every week to the Stock Exchanges on or before the next trading day.

10.1.4. I note that during IP1 Noticee had not submitted correct details for Margin utilized for Credit Balance Clients (MC) column under monitoring of client funds (assets) data submission to exchanges for the 4 sample dates i.e. February 04, 11, 18 and 25 of 2022 and the value of Incorrect reporting was Rs.47.13 Lakh.

10.1.5. I note that Noticee has admitted that due to some back office error, they were not able to generate accurate data towards margin utilised for the credit balance client (MC) for Feb, 2022.

In view the above, I find that the Noticee has violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016.

10.2. **Client Funding:**

10.2.1. During IP1 it was found that Noticee has funded clients beyond T+2+5 and hence, it was alleged that Noticee violated Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 r/w Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/ 2017/64 dated June 22, 2017.

10.2.2. In reply to the SCN, Noticee submitted that there may be some instances of clients where exposure may be given where debit continues beyond 5th day of paying. However, in the said cases, no element of risk is found.

10.2.3. I note that as per Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016 r/w Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017, stock brokers shall not grant further exposure to the clients when debit balances arise out of client's failure to pay the required amount and such debit balances continues beyond the fifth trading day, as reckoned from date of pay-in.

10.2.4. I note that during IP1, it was found that in following 9 instances out of total 75 instances checked, the Noticee had funded clients beyond T+2+5 (Funded amount was Rs.59.69 Lacs).

UCC	Date of debit	T+2+5 days	Amount of debit	Amount recovered	Amount not recovered	Further exposure date	Amount of exposure	Amount funded
KTR50	11/01/2022	20/01/2022	795,994.42	97,148.00	698,846.42	44,585.00	271,993.00	970,839.42
KTR50	27/01/2022	07/02/2022	1,019,447.22	120,981.00	898,466.22	44,601.00	32,038.00	930,504.22
KTR50	21/01/2022	01/02/2022	751,823.12	125,403.00	626,420.12	44,595.00	83,807.00	710,227.12
AMP101	17/03/2022	28/03/2022	1,801,955.73	1,763,219.00	38,736.73	44,649.00	1,159,794.00	1,198,530.73
WPV50	27/10/2021	05/11/2021	370,776.30	370,669.00	107.30	44,509.00	386,105.00	386,212.30
BCF507	09/08/2021	18/08/2021	251,782.65	251,672.00	110.65	44,428.00	227,623.00	227,733.65
DMP117	15/03/2022	24/03/2022	14,179.20	13,870.00	309.20	44,648.00	336,766.00	337,075.20
DMP117	15/03/2022	24/03/2022	14,179.20	13,870.00	309.20	44,649.00	831,522.00	831,831.20
P298	25/02/2022	08/03/2022	400,063.97	399,944.00	119.97	44,630.00	376,110.00	376,229.97

10.2.5. I note that in reply to the SCN Noticee submitted that in five instances (client code WPV50, BCF507, DMP117, P298), amount not recovered was less than Rs. 500/-. The said amount not recovered is not towards funds pay in obligation of exchange, these are other service/ financial charges (viz,. Demat charges, DP charges, LPC charges, etc) levied by the broker to be paid by the client for various services rendered. Thus, I note that there is a violation in these five instances.

10.2.6. With respect to KTR50, Noticee submitted that there is a further exposure is given in three instances due to some technical error, in specific single client code in their back office software. Therefore, I note that there is a violation in these three instances.

10.2.7. With respect to AMP101, Noticee submitted that further exposure was given on 29/03/2022 on basis of clients' cheque of INR 5,00,000/- submitted on 28/03/2022. In this regard Noticee submitted client ledger statement, the contents of which cannot be verified. Thus, Noticee's reply is not tenable.

In view thereof, I find that Noticee has violated Clause 2.6 of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 r/w Clause 2(d) of SEBI circular CIR/HO/MIRSD/MIRSD2/CIR/P/2017/64 dated June 22, 2017.

10.3. **Client registration process (KYC and KRA process):**

10.3.1. During IP1 it was observed that KRA details were not updated in time/ under process for 13 clients and hence it was alleged that Noticee has violated Clause 2 of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 r/w Clause 3 of SEBI circular MIRSD/Cir-23/2011 dated December 2, 2011 and Clause 3 of SEBI circular MIRSD/Cir-5/2012 dated April 13, 2012.

10.3.2. I note that in reply to the SCN, Noticee submitted that all necessary rectifications were immediately carried out and the same was complied post inspection.

10.3.3. I note that as per Clause 2 of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 r/w Clause 3 of SEBI circular MIRSD/Cir-23/2011 dated December 2, 2011 and Clause 3 of SEBI circular MIRSD/Cir-5/2012 dated April 13, 2012, an intermediary shall perform the initial KYC of its clients and upload the details on the system of the KRA.

10.3.4. I note that during IP1, it was found KRA details were not updated in time / under process for following 13 clients.

Client Code				
BSD22	GMM92	PNA06	SBM95	XDB05
DLT01	GVJ44	RJW3333	SNM1002	
G1221	MLF38	RJW4040	SNM1011	

10.3.5. I note that Noticee has accepted the violation and submitted that it has rectified the same.

In view thereof, I find that Noticee has violated Clause 2 of SEBI Circular MIRSD/Cir-26/2011 dated December 23, 2011 r/w **Clause 3 of SEBI circular MIRSD/Cir-23/2011 dated December 2, 2011 and Clause 3 of SEBI circular MIRSD/Cir-5/2012 dated April 13, 2012.**

10.4. **Verification of Email ID & Mobile Numbers:**

10.4.1. During IP1 mismatches in Email/ mobile number between the UCC Database and Back-office client master records were found and hence it was alleged that Noticee has violated Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011.

10.4.2. In reply to the SCN, Noticee submitted that due to some software error, wrong Email ID and Mobile number have been uploaded on UCC data base.

10.4.3. I note that as per Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011, stock brokers shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address.

10.4.4. I note that during IP1, it was found that there were mismatches between the UCC Database and Back-office client master records for which the member was informed at the time of inspection and after which these records were updated in the UCC Database. Instances of mismatch are as follows-

- 3104 instances where there was mismatch in email and
- 823 instances where there was mismatch in mobile numbers and
- 530 instances where there was mismatch in mobile numbers and email id both

10.4.5. In reply to the SCN, Noticee admitted that due to some software error, wrong Email ID and Mobile number have been uploaded on UCC data base.

In view of the above, I find that the Noticee has violated Clause 2(B) of SEBI Circular CIR/MIRSD/15/2011 dated August 02, 2011.

10.5. **Analysis of Enhanced supervision data (Weekly):**

10.5.1. During IP1, it was observed that Noticee did not correctly reported bank balances and client ledger balances as on 30.09.2022. In view of the above, it was alleged that Noticee violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016.

10.5.2. In reply to the SCN, Noticee submitted that it has correctly reported Bank Balance in Enhance Supervision.

10.5.3. I note that as per Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016, stock brokers shall submit aggregate of fund balances available in all client bank accounts, including the settlement account, maintained by the stock broker across stock exchanges as on last trading day of every week to the stock exchanges on or before the next trading day.

10.5.4. I note that during IP1, it was found that Noticee incorrectly reported bank balances as on 30.09.2022 and difference of Rs. 50,88,170/- was observed (Less reporting by Noticee).

10.5.5. I also note that during IP1, it was found that Noticee incorrectly reported client ledger balances as on 30.09.2022 for 20 Client out of 1,77,383 reported client balances i.e. mismatch in weekly client level cash & cash equivalent balances as on 30.09.2022 with that of balance as per trial balance.

10.5.6. In reply to the SCN, Noticee provided HDFC Bank statement in order to substantiate their claim that wrong reporting of Rs. 50,88,170/- is due to difference is methodology followed by Noticee and bank for reporting EOD balances. Thus, I observe that Noticee is following wrong method for reporting of bank balances. Therefore, the submission made by Noticee is not tenable.

10.5.7. I note that the Noticee submitted that Client M6000 had transferred amount Rs. 5,00,00,000/- which was not reflected in ledger on the same day due to late transferred of fund by Client.

10.5.8. Noticee submitted that 5 clients were institutional clients. For 8 clients Noticee submitted that they were inactive clients. For two clients Noticee submitted that there was virtual debit against charges which was not posted in ledger due to which difference between ledger and trial balance arose. However, no supporting documents are provided by the Noticee. In view of the same, the aforesaid submission made by Noticee is not tenable.

10.5.9. I also note that with respect to J43, Noticee admitted that due to some technical error, Account was not included in reporting however given balance is correct as per ledger on given date.

10.5.10. Further, I note that Noticee submitted that mismatch pertains to 20 instances which is around 0.01% of total active clients. However, I note that as per Clause 3.2 of SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, stock brokers shall submit the data as on last trading day of every week to the stock exchanges, and the information has to be correct. Therefore, the contention of the Noticee is not tenable.

In view of the above, I find that the Noticee has violated Clause 3.2 of Annexure of SEBI Circular SEBI/HO/MIRSD/ MIRSD2/CIR/P/2016/95 dated September 26, 2016.

10.6. **Review of AP related Policy, Terminal verification and Certifications:**

10.6.1. During IP1, it was found that Noticee wrongly reported the user details on Exchange platform for 11 terminals and hence it was alleged that Noticee has violated Clause A (5) of Schedule II r/w Regulation 9(f) of Stock Brokers Regulations.

10.6.2. In reply to the SCN, Noticee submitted that due to overlapping, there was mismatch in terminal details between Exchange data and back office data.

10.6.3. I note that as per Clause A (5) of Schedule II r/w Regulation 9(f) of Stock Brokers Regulations, a stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

10.6.4. I note that during inspection it was found that Noticee has wrongly reported the user details on Exchange platform for 11 terminals. Details of the same are as follows-

CTCL_ID	DC_APP_PER_NAM	NAME AS PER BO DATA
560064712002	MR. DIMPAL DEEPAK RATHOD	MR. BHARATI PRATAPPURI GOSWAMI
560064712005	MR. BHARATI PRATAPPURI GOSWAMI	MR. DIMPAL DEEPAK RATHOD
560064712007	MR. CHHAYA GOVIND JETHWA	MR. PRAMOD RAMESHCHANDRA ZAVERI
560064712001	MR. PRASHANT RAJARAM BANDEKAR	MR. CHHAYA GOVIND JETHWA
560064712001	MR. PRASHANT RAJARAM BANDEKAR	MR. SUNIL DAGADU GAWALI
560064712005	MR. SATYAPRAKASH HARISHCHANDRA DHIVAR	MR. BHARATI PRATAPPURI GOSWAMI
560064712005	MR. SATYAPRAKASH HARISHCHANDRA DHIVAR	MR. DIMPAL DEEPAK RATHOD
560064712007	MR. PRAMOD RAMESHCHANDRA ZAVERI	MR. CHHAYA GOVIND JETHWA
560064712002	MR. PRAKASH RAGHUNATH MESTRY	MR. DIMPAL DEEPAK RATHOD
560064712002	MR. PRAKASH RAGHUNATH MESTRY	MR. BHARATI PRATAPPURI GOSWAMI
395009199002	RAMESHKUMAR BHANAJI VISAVANIA	KAMIREDDY SAI PRANEETH

10.6.5. In reply to the SCN, Noticee admitted the mismatch in terminal details between Exchange data and back office data.

In view of the above, I find that the Noticee has violated Clause A (5) of Schedule II r/w Regulation 9(f) of Stock Brokers Regulations.

10.7. **Risk based supervision (RBS):**

10.7.1. During IP1, it was observed that Noticee had wrongly reported brokerage income in RBS, hence, it was alleged that Noticee violated Clause 6.1.1.j of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

10.7.2. I note that in reply to the SCN, Noticee submitted that it reported exchange wise brokerage as per its understanding and has rectified its understanding and correctly reported RBS brokerage figures on gross level across exchange for further reporting/s.

10.7.3. As per Clause 6.1.1.j of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, sharing of incomplete/wrong data or failure to submit data on time is monitoring criteria for stock broker.

10.7.4. I note that during IP1, observation of NSE, NCDEX and MCX were as follows-

- NSE: Based on verification of data submitted with relevant supporting under the Risk based supervision, Noticee had wrongly reported brokerage income in RBS as Rs. 27,10,37,711 (Less reported by 39.44 Crore).
- NCDEX: Noticee had incorrectly submitted exchange wise brokerage income instead of across the exchanges brokerage income.
- MCX: Brokerage Income submitted was Rs.1,22,73,693 instead of Rs. 66,56,22,180 for RBS submission period ending Mar 2022

Exchange	Amount in Rs.
NSE Brokerage	27,10,37,711
BSE Brokerage	38,15,09,554
MCX Brokerage	1,22,73,693
NCDEX Brokerage	8,01,224
Total Brokerage	**66,56,22,180**

10.7.5. In reply to the SCN Noticee submitted that it has reported exchange wise brokerage instead of total brokerage and submitted that it will further report as per the requirements. Thus, Noticee has accepted the violation.

In view of the above, I find that Noticee has violated Clause 6.1.1.j of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

10.8. **Compliance with Cyber-security requirements:**

10.8.1. During IP1, it was found that Trading and back office vendor did not had STQC certifications. Noticee had not developed plan and schedule to do Vulnerability Assessment for all critical IT assets. Noticee has also not done VAPT for all critical IT assets. Noticee had not registered with CERT-IN and the details of the CISO is not shared with CERTIn. It was also found that the Noticee has not set up a Security Operations Center, hence, it was alleged that Noticee violated Clause 36 & Clause 41 of Annexure-1 of SEBI Circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018.

10.8.2. In reply to the SCN, Noticee submitted that VAPT Report of Techexcel backoffice confirming VAPT conducted. Noticee submitted that VAPT is conducted for all critical assests identified by the company. Noticee had appointed Designated Officer CTO to carried on the responsibility of cyber security, cyber risk and cyber policy, however, CISO was appointed in Dec 2023, thus details of CISO could not be shared with CERT-IN. 7.8.9. Noticee submitted that SOC was in process of developing.

10.8.3. I note that as per Clause 36 & Clause 41 of Annexure-1 of SEBI Circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018, the Common criteria certification in India is being provided by (STQC) Standardisation Testing and Quality Certification (Ministry of Electronics and Information Technology). Custom developed / in-house software and components need not obtain the certification, but have to undergo intensive regression testing, configuration testing etc. The scope of tests should include business logic and security controls. Stock Brokers/ Depository Participants should regularly conduct vulnerability assessment to detect security vulnerabilities in their IT environments exposed to the internet.

10.8.4. I note that during IP1 there were few observations given by internal auditor in the cyber security audit reports which are as under-

- Trading and back office vendor not having STQC certifications.
- Noticee has not developed plan and schedule to do Vulnerability Assessment for all critical IT assets.
- Noticee has not done VAPT for all critical IT assets.
- Noticee has not registered with CERT-IN and the details of the CISO is not shared with CERTIn.
- Noticee has not set up a Security Operations Center.

10.8.5. I note that in reply to the SCN, Noticee submitted certificate of registration of Techexcel and VAPT report of Techexcel backoffice confirming VAPT conducted. I note that no STQC certification is provided by the Noticee, therefore the contention of the Noticee is not tenable.

10.8.6. Noticee also submitted that it has carried out VAPT on April 12, 2022 and December 09, 2022 and submitted the VAPT reports in this regard. However, the contents of the same cannot be verified at this stage of proceeding. Therefore, the aforesaid contention of the Noticee is not tenable.

10.8.7. Noticee admitted that CISO was appointed in Dec 2023, however details of CISO could not be shared with CERT-IN. 7.8.9. Noticee has also submitted that SOC was in processing of developing. Thus, Noticee has accepted the violation.

In view of the above, I find that Noticee has violated Clause 36 & Clause 41 of Annexure-1 of SEBI Circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018.

10.9. **Segregation of Client's funds and Own funds:**

10.9.1. During IP2 it was found that Noticee has used client bank account for the purposes other than specified, hence it was alleged that Noticee violated Clause 2.4.2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clauses 15.4.4.2, clause 23.1.3 & 23.1.4 of SEBI Master circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 (erroneously mentioned as Clause 6.1.1.j of Annexure of SEBI Circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 in the SCN).

10.9.2. In reply to the SCN, Noticee submitted that no client funds were utilised. Funds transferred from Own to Client are retained back from Client to Own. Thus, Noticee stated that there is no misutilisation of clients funds. All client payout obligation of funds were met on time. There is no client complaint for non-receipt of payout of funds.

10.9.3. I note that as per Clause 2.4.2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, Transfer of funds between "Name of Stock Broker -Client Account" and "Name of Stock Broker -Settlement Account" and client's own bank accounts is permitted. Transfer of funds from "Name of Stock Broker -Client Account" to "Name of Stock Broker -Proprietary Account" is permitted only for legitimate purposes, such as, recovery of brokerage, statutory dues, funds shortfall of debit balance clients which has been met by the stock broker, etc. For such transfer of funds, stock broker shall maintain daily reconciliation statement clearly indicating the amount of funds transferred.

10.9.4. Clause 23.1.3 of SEBI Master circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 provides that no money shall be paid into clients account other than - money held or received on account of clients, such money belonging to the Member as may be necessary for the purpose of opening or maintaining the account, a cheque or draft received by the Member representing in part money belonging to the client and in part money due to the Member, money for replacement of any sum which may by mistake or accident have been drawn from the account.

10.9.5. Clause 23.1.4 of SEBI Master circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 provides that no money shall be drawn from clients account other than - money properly required for payment to or on behalf of clients or for or towards payment of a debt due to the Member from clients or money drawn on client's authority, or money in respect of which there is a liability of clients to the Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each client; such money belonging to the Member as may have been paid into the client account and money which may by mistake or accident have been paid into such account in contravention of para 23.1.3 above.

10.9.6. I note that during IP2 on verification of bank books and monthly gross summary on fund reconciliation covering inspection period provided by Noticee, it was found that Noticee has transferred funds from client to own bank account amounting to Rs. 30,052.15 Crores and from own bank account to client bank account amounting to Rs. 33,261.22 Crores. Net amount transferred from Own Bank Account to Client Bank Account was Rs. 3,209.07 Crores.

10.9.7. Summary of transfer of funds between client banks and own banks based on details provided by the Noticee is as follows:

Period	**All Client banks to All Own banks transfer (Amt in Rs. Crores)**	**All Own banks to All Client banks transfer (Amt in Rs. Crores)**	**Excess transfer of funds from Own Bank a/cs to Client Bank a/cs (Amt in Rs. Crores)**
01-Nov-2022 to 30-Nov-2023	30,052.14	33,261.21	3,209.07

10.9.8. In reply to the SCN, Noticee submitted that funds were transferred from own bank account to client bank account and vice versa, however there is no misutilization of fund. I note that Clause 23.1.3 & 23.1.4 of SEBI Master circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 provides that no money shall be paid into clients account and drawn from the clients for reasons other than provided in the in the aforesaid provisions.

However, in the instant matter no such reason have been shown by the Notice along with supporting documents. Therefore, the contention of the Noticee is not tenable.

10.9.9. I further note that no submission in this regard was made by the Noticee in response to the inspection findings, therefore, the contentions made by the Noticee in response to the SCN is just an afterthought and is devoid of any merits.

In view of the above, I find that Noticee has violated Clause 2.4.2 of Annexure to SEBI circular SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016 and clauses 15.4.4.2, clause 23.1.3 & 23.1.4 of SEBI Master circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023.

ISSUE II: Does the violation, if any, on part of the Noticee attract penalty u/s 15HB of SEBI Act and u/s 23D of SCRA Act?

11. In view of the violations as established above, I find that this is a fit case for penalty u/s 15HB of the SEBI Act for the violation mentioned in paragraph 10.1 to 10.8 and u/s Section 23D of SCRA Act for the violation mentioned at paragraph 10.9 above. The text of the aforesaid provisions reads as given below:

Penalty for contravention where no separate penalty has been provided.

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

SCR Act, 1956

[Penalty for failure to segregate securities or moneys of client or clients.

23D. If any person, who is registered under section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) as a stock broker or sub-broker, fails to segregate securities or moneys of the client or clients or uses the securities or moneys of a client or clients for self or for any other client, he shall be [liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.]

ISSUE III: If so, how much penalty should be imposed on the Noticee taking into consideration the factors mentioned in Section 15J of the SEBI Act and 23J of SCRA Act?

12. While determining the quantum of penalty u/s 15HB of the SEBI Act and 23D of the SCRA Act, it is important to consider the factors stipulated in section 15J of SEBI Act and 23J of the SCRA Act, which reads as under:-

15J - Factors to be taken into account by the adjudicating officer

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

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default."

23J - Factors to be taken into account while adjudging quantum of penalty

While adjudging the quantum of penalty under [section 12A or section 23-I], the [the Securities and Exchange Board of India or the adjudicating officer] shall have due regard to the following factors, namely:—

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.]

13. In the present matter, I note that no quantifiable figures are available to assess the disproportionate gain or unfair advantage made as a result of the defaults by Noticee. Further, from the material available on record, it may not be possible to ascertain the exact monetary loss to the investors /clients on account of default by the Noticee. As SEBI registered intermediary, Noticee is under statutory obligation to comply with the applicable circulars, rules and regulations. The very purpose of the said regulations is to deter wrong doing and promote ethical conduct in the securities market. Therefore, non-compliances/ violations by the Noticee deserves and attracts suitable penalty. I note that corrective steps have been taken by the Noticee post inspection and also no complaint against Noticee has been brought on record etc. As per available records, penalty has been imposed by SEBI against the Noticee in the past.

ORDER

14. Having considered the facts and circumstances of the case, the material available on record, the submissions made by the Noticee, the factors mentioned in Section

15J of the SEBI Act and 23J of the SCRA Act, and also taking into account judgment of the Hon'ble Supreme Court in *SEBI vs. Bhavesh Pabari (2019) 5 SCC 90* and in exercise of power conferred upon the undersigned u/s 15-I of the SEBI Act r/w rule 5 of the Adjudication Rules, 1995, and u/s 23I of the SCRA Act r/w rule 5 of SCR Rules, I impose following penalty u/s 15HB of the SEBI Act and 23D of the SCRA Act on the Noticee:

Name of entity	Provisions of Act	Penalty
Jainam Broking Limited **PAN: AABCJ3918N**	Section 15HB of SEBI Act	Rs. 5,00,000 (Rupees Five Lakhs Only)
	Section 23D of SCRA Act	Rs. 2,00,000 (Rupees Two Lakhs Only)

I am of the view that the said penalty is commensurate with the violation committed by the Noticee in this case.

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

ENFORCEMENT → Orders → Orders of AO → PAY NOW

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

16. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings u/s 28A of the SEBI Act and 23JB of SCRA Act for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

17. In terms of the provisions of rule 6 of the SEBI Rules and SCR Rules, a copy of this order is being sent to the Noticee and also to SEBI.

Amit Kapoor
Digitally signed by Amit Kapoor
Date: 2026.09.02 11:44:45 +05'30'

Place: Mumbai **AMIT KAPOOR**

Date: September 02, 2026 **ADJUDICATING OFFICER**