

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/BM/DS/2024-25/30602]**

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

In the matter of

**IIFL Securities Limited
PAN: AAACI7397D
SEBI Regn No. INZ000164132**

BACKGROUND:

1. Securities and Exchange Board of India (hereinafter being referred to as “**SEBI**”) had conducted examination of M/s IIFL Securities Limited (hereinafter referred to as “**the Company**”/ “**Noticee**”), with respect to its role in uploading mismatch/wrong Unique Client Code (UCC) data of clients in Multi Commodity Exchange of India Ltd (MCX) platform including Sikkim based clients for the period beginning from July 01, 2020 till June 30, 2022 (hereinafter referred to as “**examination period**” / “**EP**”).
2. In view of the above, SEBI initiated adjudication proceedings against the Noticee for the alleged violation of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as “**Stock Brokers Regulations, 1992**”).

APPOINTMENT OF ADJUDICATING OFFICER

3. Vide Order dated April 30, 2024, the undersigned was appointed as the Adjudicating Officer (“**AO**”) under Section 15-I of the SEBI Act, 1992 and Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties Rules, 1995

(hereinafter referred to as “**Adjudication Rules**”) to inquire into and adjudge under the provisions of Section 15HB of the SEBI Act, 1992, the alleged violations of provisions of Clause A(2) of Code of Conduct as specified in Schedule II of Regulation 9(f) of Stock Brokers Regulations, 1992 by the Noticee.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

4. Show Cause Notice no. EAD/BM/DS/17468/1/2024 dated May 22, 2024 (hereinafter referred to as “**SCN**”) was issued by the undersigned to the Noticee via Speed Post Acknowledgement Due (SPAD) and digitally signed e-mail under the provisions of Rule 4(1) of the Adjudication Rules and section 15-I of the SEBI Act, calling upon the Noticee to show cause as to why an inquiry should not be held against it for the aforesaid alleged violations of provisions of Stock Brokers Regulations, 1992, and why penalty, if any, should not be imposed on it under Section 15HB of the SEBI Act, 1992.

5. The allegations levelled against the Noticee are summarized as under:
 - 5.1. It was observed that during the examination period, the Noticee had uploaded incorrect data of Sikkim based clients in UCC Database, which was different from KYC Documents with respect to 18 clients. Sikkim domiciled residents are exempted from payment of stamp duty on the commodity derivative transactions made by them. However, 18 clients who were not domiciled in Sikkim, were considered as Sikkim based due to incorrect UCC data. It could have resulted in violation of Stamp Duty Act and misuse of the aforesaid exemption, only available to Sikkim domiciled residents.

 - 5.2. Following observations were made from the details provided by MCX vide email dated October 23, 2023 and November 08, 2023.

Member ID	Member Name	Total UCC registered till June 30, 2022	Total Traded Clients during the examination period i.e. July 2020 to June 30, 2022	Total Mismatch clients Traded during the examination period i.e. July 2020 to June 30, 2022
55995	IIFL Securities Limited	410512	16328	12101

5.3. From the figures in the table above, it was observed that ratio of total clients traded having mismatch in UCC during the examination period to the total UCC registered during the examination period with the Noticee was approximately 2.95%. Thus, it was observed that the Noticee has uploaded wrong/mismatch UCC data in MCX platform for 12101 (2.95%) clients including 18 clients from Sikkim during the period beginning July 01, 2020 till June 30, 2022.

5.4. Considering the quantum of incorrect UCC data uploaded by the Noticee, including 18 clients who were incorrectly considered Sikkim domiciled residents, which could have resulted in violation of Stamp Duty Act and misuse of the exemption from payment of stamp duty, only available to Sikkim domiciled residents, it was alleged that the Noticee has not acted with due skill, care and diligence in the conduct of all his business, and thus, violated the provisions of Clause A(2) of Code of Conduct as specified in Schedule II of Regulation 9(f) of Stock Brokers Regulations, 1992.

6. Vide email dated June 17, 2024, the Noticee requested for the list of 12101 clients including 18 clients from Sikkim during the examination period. The list was provided to the Noticee vide email dated July 01, 2024, and the Noticee was advised to submit its reply by July 10, 2024. The Noticee submitted its reply to the SCN vide letter dated July 10, 2024 sent through email dated July 11, 2024. In the

interest of natural justice, the Noticee was provided an opportunity of personal hearing vide notice dated July 11, 2024. The hearing was scheduled on July 19, 2024. The Noticee, through its authorized representative, appeared for the hearing, and reiterated the submissions already made vide letter dated July 10, 2024

7. The submissions made by the Noticee are as summarized below.

7.1. The Noticee denied the allegations made out in the SCN and submitted that if the intention was to allow clients to take undue benefit of stamp duty exemption then it would not have preferred to make such incorrect disclosure only in case of 18 clients.

7.2. MCX provides a Pincode state master file where the pin codes are mapped to states. MCX released one such master file on April 8, 2019 and another on November 1, 2019 and there was some issue in mapping these files as a result of which there was issue in some of the UCCs uploaded to the Exchange.

7.3. Out of the 18 clients, 12 client codes were uploaded in the UCC database prior to the gazette notification dated August 19, 2020 issued by the Ministry of Finance directing not to collect stamp duty for the state of Sikkim. Thus, the details in respect of the 12 client codes, which were uploaded prior to the issuance of the notification dated August 19, 2020, could not be seen as having been wrongly uploaded and proves beyond doubt that the instances were merely a technical error and were not intentional. The Noticee has provided date of registration of the 18 clients in support of its submissions.

7.4. The process was rectified immediately upon the same being highlighted by MCX and all the existing UCCs were also rectified. The error was merely technical in nature and no way intentional and has not caused any harm to investors, markets at large, Exchange, SEBI or even the State for Stamp Duty.

7.5. The stamp duty payable on the above clients was collected by MCX.

- 7.6. Even further MCX had taken up this matter for Adjudication and a penalty of Rs. 1,80,000/- plus GST has been levied upon the Noticee for these 18 instances.
- 7.7. Only the state of Sikkim was not wrongly mapped and this proves beyond doubt that in the incorrect mapping of Sikkim was not with an intention to allow exemption to ineligible clients but was a technical / venial error.
- 7.8. MCX had identified the issue and had subjected the Noticee to an inspection and the same was responded accordingly while rectifying all historical errors and putting in place processes to ensure that such an instance is not repeated in future. The Noticee was penalised Rs. 1,00,000 by the MCX for this technical error of 12101 clients.
- 7.9. As per MCX website, it has levied penalty to 8 brokers for updating incorrect State in UCC database. It is quite strange to believe that so many brokers had made the error in updating incorrect State only on MCX UCC database at the same point of time. However, there is no such error noted/observed by the other exchanges. Hence, it could be possible that there might be system/technical issue at MCX's end which resulted in incorrect mapping of State/ pin code in UCC database for so many brokers at the same point of time.
- 7.10. The Noticee referred to Article 20(2) of the Constitution and submitted that the SCN of SEBI would cause double jeopardy. The SCN of SEBI deals with the same issues for which MCX had penalized the Noticee.
- 7.11. SCN is merely charging us for the possible violation of Stamp Act. In this regard, the Noticee relied and quoted from the SEBI order dealing with inspection of IFCI Financial Services Limited (Order No. EAD/ AO-NP/ JR/ 39 /2017 dated May 22, 2017). It further submitted that in the current case, it has rectified the issues and have put in place processes to ensure non-repetition of the same in future.
- 7.12. With reference to the above Order, SEBI should ensure consistency while dealing with similar matters. In the above case, allegation of violations of

Clauses A(2) & A(5) of the code of conduct specified under schedule II were made, however, in the Noticee's case, charges are only of violation of Clause A(2) of the code of conduct under Schedule II.

7.13. Upon becoming aware of the issue pointed out during the course of inspection, we have immediately taken steps to rectify the same and avoid their recurrence in future.

7.14. The Noticee relied upon and quoted from the observations made out in the Order passed by Hon'ble Securities Appellate Tribunal in the matter of Chona Financial Services Pvt Ltd vs. SEBI (Appeal No 95 of 2003) and also in the Order dated 16.6.2011 in the matter of Religare Securities Ltd vs. SEBI. From the aforesaid orders it can be observed that SEBI and SAT have maintained a consistent stand from 2003 till date of not levying penalties for technical / venial / procedural violations that have been rectified.

7.15. The Noticee also submitted some mitigating factors such as neither the Noticee nor its clients have defaulted in meeting their obligations, the alleged discrepancies do not exist or at the highest, are technical, procedural and venial breach, the alleged technical lapses were not deliberate and intentional, no manipulative practices were indulged into, alleged deficiencies have been cured.

ISSUES FOR CONSIDERATION, EVIDENCE AND FINDINGS

8. After perusal of the material available on record, I have the following issues for consideration.

ISSUE I: Whether Noticee has violated provisions of Clause A(2) of Code of Conduct as specified in Schedule II of Regulation 9(f) of Stock Brokers Regulations, 1992?

ISSUE II: Does the violation, if any, on part of the Noticee attract penalty under Section 15HB of the SEBI Act, 1992?

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, 1992?

9. Before moving forward it is pertinent to refer to the relevant provisions of Stock Brokers Regulations, 1992 which read as under:

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,-

(a) ...

(b) ...

...

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

SCHEDULE II - CODE OF CONDUCT FOR STOCK BROKERS

A. General.

(2) Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business.

FINDINGS

10. On perusal of the material available on record and giving regard to the facts and circumstances of the case and submissions made by the Noticee vide letter dated July 10, 2024, I record my findings hereunder:

ISSUE I. Whether Noticee has violated provisions of Clause A(2) of Code of Conduct as specified in Schedule II of Regulation 9(f) of Stock Brokers Regulations, 1992?

11. The Noticee has been alleged for violation of provisions of Clause A(2) of Code of Conduct as specified in Schedule II of Regulation 9(f) of Stock Brokers Regulations, 1992, as the Noticee had allegedly uploaded wrong / mismatch UCC data in MCX platform for 12101 (2.95%) clients including 18 clients from Sikkim during the examination period.

12. The Noticee has submitted that there was some issue in mapping of Pincode state master files received from the MCX on April 08, 2019 and November 01, 2019, as a result of which there was issue in some of the UCCs uploaded to the Exchange. For the pin-codes that were not available in any of these files, the team would manually check the state basis the pin code and map the state code manually. The issues were rectified upon being highlighted by the MCX. There has not been any evasion of the stamp duty and it was not intended to cause such evasion. The error is merely technical and venial in nature and MCX has already penalised the Noticee for the observation, and thus penalising the Noticee again will cause double jeopardy, which is unconstitutional in terms of Article 20(2) of the Constitution. As the error was observed only with eight stock brokers registered with the MCX, it could possible that there might be system/ technical issue at MCX's end which resulted in incorrect mapping of State/ pin code in UCC database for so many brokers at the same point of time.

13. From the details provided by the MCX vide emails dated October 23, 2023 and November 08, 2023, I observe that the ratio of total clients having mismatch in UCC during the EP to the total UCC registered during the EP was approximately 2.95%. Thus, the Noticee had uploaded incorrect UCC data in MCX platform for 12101 clients, i.e. 2.95% of its total clients registered during the EP. It is further observed

that 16328 clients of the Noticee had traded during the EP. Thus, around 74% of the total UCCs traded during the EP were having UCC details in the database. Out of these, 18 clients was incorrectly considered as Sikkim domiciled clients. As per MCX Circular dated August 19, 2020, which was issued upon issuance of letter dated August 19, 2020 by the Ministry of Finance, no collection of stamp duty was to be done with respect to clients domiciled in the state of Sikkim, until further instruction, and refund of stamp duty collected from July 01, 2020 till August 19, 2020 was required to be made. Thus, the 18 clients which were incorrectly considered as Sikkim domiciled in the UCC could have resulted in violation of Stamp Duty Act and misuse of the exemption from payment of stamp duty, only available to Sikkim domiciled residents.

14. I also note that the MCX had applied a penalty of ₹1,00,000 against the Noticee for the discrepancy with respect to 12101 clients and a penalty of ₹1,80,000 against the Noticee for the discrepancy with respect to 18 clients which were incorrectly considered as Sikkim domiciled in the UCC database.

15. As per the market practice, the state-city code file is sent by the Exchanges to the stock brokers, and the stock brokers are required to map the same with pin-code file and update the UCC database. Thus, the stock broker is responsible for uploading correct details in the UCC database of the Exchanges. It is observed that the Noticee had incorrectly mapped the master file, which led to incorrect state-city details in the UCC database. The Noticee was required to make and maintain proper internal checks to ensure that correct UCC information is provided in the UCC database to the Exchange. However, the UCC details were incorrect with respect to 12101 clients and were not matching with the KYC documents of those clients.

16. The Noticee has submitted that the Pincode state master files received from the MCX were incomplete/ incorrect. However, the Noticee has not provided any evidence in this regard. Therefore, its contention is not acceptable.
17. The Noticee has submitted that the discrepancies were rectified upon identification of the issue by the MCX and checks have been put in place to ensure that such discrepancies do not recur. I note that the Noticee cannot be absolved of its responsibility to provide correct details in the UCC database for the reason that the rectifications were made thereafter. I note that there were discrepancies with respect to around 74% of the total traded clients during the EP, and also incorrectly considering the 18 clients as Sikkim domiciled, which should not have occurred in the first place, and the internal checks should have already been in place, which were not there, in the present case. Therefore, the violations cannot be considered as technical or venial.
18. I note that the Noticee was penalised by the MCX for the violation of various MCX circulars. Whereas, the allegations in the SCN pertain to violation of Clause A(2) of Code of Conduct as specified in Schedule II of Regulation 9(f) of Stock Brokers Regulations, 1992, which states that a stock broker shall act with due skill, care and diligence in the conduct of all its business.
19. The Noticee has referred to the SEBI Order dealing with the inspection of IFCI Financial Services Limited and submitted that SEBI should ensure consistency in dealing with similar matters. I note that the facts and circumstances of the aforementioned Order and the present case are different. Further, each adjudication proceeding is independent by itself, and therefore, the present adjudication proceedings are not bound by the aforementioned SEBI Order. Therefore, the Noticee's contention is not tenable.

20. In view of the foregoing, I find that the Noticee has not acted with due skill, care and diligence in the conduct of its business, as it had not ensured correct uploading of the details in the UCC database, including 18 clients which were incorrectly considered as Sikkim domiciled, which could have resulted in violation of Stamp Duty Act and misuse of the exemption from payment of stamp duty, only available to Sikkim clients. Therefore, the Noticee has violated the provisions of Clause A(2) of Code of Conduct as specified in Schedule II of Regulation 9(f) of Stock Brokers Regulations, 1992.

ISSUE II: Does the violation, if any, on part of the Noticee attract penalty under Section 15HB of the SEBI Act, 1992?

21. The provisions of Section 15HB of the SEBI Act, 1992 read as under:

SEBI Act, 1992

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.*

22. I further note that, the Hon'ble Supreme Court of India in the matter of Chairman, SEBI Vs Shriram Mutual Fund {[2006]5 SCC 361} has held that:

"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant....."

I am therefore of the view that it is a fit case for imposition of penalty.

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?

23. While determining the quantum of penalty under Section 15HB of the SEBI Act, 1992 it is important to consider the factors relevantly as stipulated in Section 15J of the SEBI 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 investor/+s as a result of the default;*
- (c) the repetitive nature of the default.*

24. I note that the material available on record has not quantified the amount of disproportionate gain or unfair advantage, if any, made by the Noticee and the loss, if any, and suffered by the investors as a result of the Noticee's failure, nor has it been alleged by SEBI. I also note that the Noticee has been penalized earlier for the violation of provisions of code of conduct under Stock Brokers Regulations, 1992. Thus, the violation is repetitive in nature. Further, I cannot ignore the fact that the Noticee, being a SEBI registered intermediary, was expected to act with due skill, care and diligence in the conduct of its business. The very purpose of the said regulations is to promote ethical conduct in the securities market. Thus, such non-compliance deserves and attracts suitable penalty. The penalties imposed by the Exchange have been taken into consideration for the imposition of penalty upon the Noticee.

ORDER

25. Having considered all the facts and circumstances of the case, the material available on record, the submissions made by Noticee and also the factors mentioned in Section 15J of the SEBI Act, 1992 and also taking into account judgment of the Hon'ble Supreme Court in SEBI vs. Bhavesh Pabari (2019) 5 SCC 90, I, in exercise of the powers conferred upon me under Section 15-I of the SEBI Act and Rule 5 of the Adjudication Rules, hereby impose penalty of ₹ 3,00,000/- (Rupees Three Lakh only) under Section 15HB of the SEBI Act, 1992, on the Noticee for the violation of provisions of Clause A(2) of Code of Conduct as specified in Schedule II of Regulation 9(f) of Stock Brokers Regulations, 1992.
26. 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.
27. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties of Noticee.
28. In terms of the provisions of Rule 6 of the Adjudication Rules, a copy of this order is being sent to Noticee and also to the Securities and Exchange Board of India.

Place: Mumbai
Date: July 30, 2024

BARNALI MUKHERJEE
ADJUDICATING OFFICER