

Before the
MEMBER COMMITTEE (MC)
of
NSE Clearing Limited (NCL)
Inspire BKC, Bandra-Kurla Complex, Bandra (East),
Mumbai - 400 051

In the matter of SMC Global Securities Ltd.

QUORUM:

Dr. Golaka Nath	-	Chairperson of the Committee
Mr. G S Hegde	-	Committee Member
Ms. Priti Savla	-	Committee Member
Mr. Vikram Kothari	-	Committee Member

60th Meeting of the Member Committee held on April 14, 2026 at Inspire BKC, Mumbai.

BACKGROUND

1. SMC Global Securities Ltd. (hereinafter referred to as "Noticee"/"SMC"), having its registered address at 11/6B, Shanti Chambers Pusa Road, New Delhi-110005 is registered as a Clearing Member in Capital Market, Futures & Options, Currency Derivatives, Interest Rate Futures, Debt Market and Commodity Derivative Segment of NSE Clearing Ltd. (hereinafter referred to as "NCL").
2. Noticee executed Clearing Member- Trading Member Agreement (CM-TM Agreement) on May 14, 2024 in Capital Market, Futures & Options and Commodity Derivatives segment with M/s Khosla Tradewise Private Limited (hereinafter referred to as "Khosla") for providing clearing services.

3. NCL conducted Limited Purpose Inspection (LPI) of the Noticee on May 09, 2025 for the period December 01, 2024 to March 31, 2025 in Capital Market, Futures & Options and Commodity Derivative segment with respect to compliance related to client collateral segregation reporting, client margin reporting and allocation of collateral data for Khosla.
4. Letter of Observation (LO) bearing reference No. NCL/CMPL/2025/568 dated October 24, 2025 was issued to the Noticee. Noticee was given time till October 29, 2025 to give its reply to the LO issued by NCL. Noticee vide its email dated October 29, 2025 sought extension to submit its replies to which NCL acceded and provided an extended timeline. Noticee provided its reply vide letter dated November 04, 2025. The reply given by the Noticee has been taken on record.
5. Show Cause Notice dated January 13, 2026 was issued to the Noticee where the Noticee was called upon to show cause as to why appropriate disciplinary action in terms of Rule 1 and/or Rule 2 of Chapter V of Rules of NCL (Futures & Options) and /or penalty in terms of NCL/CMPL/59930 dated December 26, 2023 should not be taken for the following alleged violations:-
 - a) Misutilisation of client funds (Regulation 4.5.4 of NCL Futures and Options Regulations: "*The Clearing Member shall not allow the utilisation of margin monies paid by one client to the margin money dues of his own account or of other clients*")
 - b) Regulation 10.1.1 of Chapter 10 Code of Conduct for F&O Clearing Members
 - c) SEBI Circular no. MRD/DOP/SE/Cir 11/2008 dated April 17, 2008,
 - d) Para 11 of SEBI circular SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021
 - e) Point 'd' of Annexure 1 NCL/CMPL/49287 dated August 13, 2021
 - f) NCL/CMPL/53287 dated August 12, 2022
 - g) NCL/CMPL/56624 dated May 05, 2023
 - h) Subpoint III of Point C of SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2023/84 dated June 8, 2023

5.1 Noticee while reporting proprietary peak margins to NCL for Khosla through the MG 12 file (daily client margin collection reporting done by the clearing members on or before T+5 day, hereinafter defined as “T+5 report”) reported matched margins (i.e. the margin required to be collected from the client rather than the actual collected margin). It is observed that the Noticee had failed to carry out due diligence while reporting under T+5 report, hence this is to be treated as false margin reporting amounting to Rs.10.33 Crores.

5.2 The Noticee while reporting under T+5 report, reported the entire prop peak margins as collected, however the corresponding receipt of funds were not received in the CM-TM proprietary bank account (hereinafter defined as “CM-TM prop bank account”) maintained by the Noticee. With respect to increase in intra-day proprietary allocation of Khosla, it was observed that in 3 instances the Noticee failed to substantiate receipt of funds in CM-TM prop bank account.

In view of the above, it is observed that the proprietary peak margins reported by the Noticee for the proprietary obligations of Khosla were in effect not collected. The Noticee has therefore failed to ensure that the client collaterals were being used to only meet the client’s obligations.

5.3 Discrepancies observed between collateral segregation reporting and allocation of collateral data:

a) The Noticee has to ensure that the allocation done towards proprietary account of Khosla is backed by proprietary collaterals received from Khosla. However, in 13 instances amounting to Rs. 4.49 Crores the amount of collateral allocated (prop) to Khosla exceeded the amount of collateral received (prop) from Khosla and reported in the daily client collateral segregation report (prop) of Khosla (hereinafter defined as “T+1 report”).

b) Noticee has reported peak ledger balances in T+1 report towards the prop account for Khosla, however it has failed to demonstrate/substantiate the same with the prop peak ledger balances for Khosla. It is observed that the Noticee had failed to carry out due diligence while reporting under T+1 report amounting to Rs. 41.00 Crores and this is to be treated as incorrect reporting in T+1 report. With respect to increase in proprietary funds on March 6, 2025 reported in T+1 report for F&O segment it was observed that no credit entry was observed on March 6, 2025 in CM-TM prop bank account.

Particulars	Prop Funds reported in T+1 report FO (Rs.)	Clients Funds reported in T+1 report FO (Rs.)
March 5, 2025	NIL	7,39,85,252
March 6, 2025	1,43,40,174	5,44,13,069
Difference	1,43,40,174 (No receipt entry in CM-TM prop bank account)	1,95,72,183

5.4 The Noticee failed to collect crystallised obligation in cash from Khosla as prescribed by NCL circular NCL/CMPL/44977 dated July 10, 2020 in 4 instances. The Noticee did not obtain the break up of client and prop collateral towards payment of crystallised obligation in cash and hence failed in ensuring that the client collaterals were being used to only meet the client's obligations and not proprietary obligations of trading member Khosala.

6. Case of Repeat violations:-

6.1 The Noticee is subject to monitoring and supervision by NCL as part of its existing framework. It may be noted that in the past, NCL has already given directions to the Noticee on several occasions either through warning or levy of monetary penalty with regard to client collateral segregation,

allocation and client margin reporting. However, despite the directives of NCL to perform adequate due diligence, the Noticee has again not exercised due diligence while complying with the provisions of NCL circulars.

- a) NCL conducted onsite inspection of Noticee for period January 01, 2019 to June 30, 2021 where one of the observations pertaining to incorrect reporting under MG 12 for Trading Member's proprietary margins obligations was highlighted.
- b) NCL conducted onsite inspection of Noticee for period July 01, 2022 to June 30, 2023 where observations pertaining Matched margin reporting, T+1 segregation reporting and Client Collateral Allocation/Upper Band/Lower Band were highlighted.
- c) NCL conducted onsite inspection of Noticee for period July 01, 2023 to September 30, 2024 where observations pertaining Matched margin reporting, T+1 segregation reporting and Client Collateral Allocation/Upper Band/Lower Band were highlighted.
- d) NCL conducted offsite monitoring and supervision of Noticee for Quarter 3, Quarter 4 of financial year 2023-24 and Quarter 1 of financial year 2024-25 where observations related to effective oversight over trading members, improper segregation and matched margin reporting were highlighted.
- e) NCL conducted offsite monitoring and supervision for period April 01, 2024 to June 30, 2024 and October 01, 2024 to December 31, 2024 where discrepancy in either Lower Band or Upper Band were highlighted.

7. Noticee's Reply To SCN

Noticee was given time till January 23, 2026 to give its submission to the SCN issued by NCL. Noticee vide its email dated January 23, 2026 sought extension till February 13, 2026 to submit its reply to which NCL acceded and provided an extended timeline. Accordingly, the Noticee provided its

submissions to the SCN on February 13, 2026. The submissions of the Noticee are reproduced as is below:-

7.1 At the outset, we wish to place on record that SMC, in its capacity as a Clearing Member (CM), exercised proactive and diligent supervisory oversight over the Trading Member (TM). On its own initiative, SMC conducted a detailed inspection of the Trading Member, identified the non-compliances, and promptly escalated the same to NSE/NCL.

7.2 These actions clearly demonstrate that SMC neither overlooked nor condoned the deviations, but rather detected, examined, documented, and reported the same strictly in discharge of its supervisory and reporting obligations under the applicable NCL regulatory framework.

7.3 It is respectfully submitted that the present proceedings arise from issues that were first identified and escalated by SMC itself, reflecting the effectiveness of its supervisory controls. At no point did SMC permit or cause misuse of client funds or collaterals, nor was there any compromise of settlement integrity or investor interest.

7.4 It is pertinent to note that TM-Khosla, being a registered Trading Member of the Exchange, is independently governed by the regulatory framework prescribed by SEBI, NSE, and NCL and is obligated to ensure strict adherence to the applicable rules, regulations, and operational compliances. The primary responsibility for the proper utilisation, reporting, and allocation of client funds squarely rests with the Trading Member.

7.5 It is evident from the facts on record that SMC neither supported nor was in any manner involved in the misutilisation of client funds. On the contrary, SMC acted as the detecting and reporting entity by promptly bringing the identified deviations to the attention of NSE/NCL in discharge of its supervisory responsibilities. The inspection of the TM-Khosla was

initiated pursuant to such reporting by SMC, thereby evidencing its proactive approach and regulatory diligence.

7.6 It is further submitted that during the inspection of the Trading Member, while the NSE/NCL enforcement team was seeking data and information from SMC in connection with the said entity, certain actions, the blocking of funds based on concerns relating to possible misutilisation by TM-Khosla and the subsequent release of such funds upon conclusion of those concerns were undertaken at the Clearing Corporation level without simultaneous intimation to SMC. SMC became aware of these initiations only upon subsequent receipt of data requirement from NCL, which is enclosed herewith as Annexure - 1. Considering the certain actions, SMC monitored and assisted the settlement of client funds and ensured that no default occurred in respect of client fund obligations. As part of enhanced risk containment measures, SMC temporarily restricted operations in the Trading Member's proprietary account for a specified period, and normal operations were permitted only upon receipt of regulatory comfort from NCL.

7.7 Further, the outcome of inspections conducted by NSE with respect to the TM-Khosla has not been shared with SMC. Consequently, SMC does not have regulatory visibility into whether any enforcement action has been initiated against the Trading Member, who bears primary responsibility for its operational conduct and compliance obligations.

7.8 Despite having acted proactively, responsibly, and strictly within the scope of its supervisory mandate, the present proceedings have been initiated by NSE/NCL against the Clearing Member, SMC, even though the underlying operational deviations pertained to the Trading Member. Accordingly, it is respectfully submitted that SMC has demonstrably fulfilled its obligations within the regulatory construct governing Clearing Members, and the accountability for the observed deviations appropriately rests with the Trading Member.

7.9 With above background our submissions to the observations raised in the SCN are provided below for the kind consideration of the Member Committee. Please note that the submissions are in addition to our earlier replies and shall form an integral part of the detailed response furnished in connection with the Letter of Observation issued in the same matter.

8. NCL Comment on Noticee's abovementioned submissions

8.1 *With regard to the submissions of the Noticee in Para 7.1, it is noted that the Noticee is emphasising on the fact that it exercised its responsibility and performed its supervisory role by highlighting the identified discrepancies to its stockbroker Khosla and communicating the same to the NSE. It is important to note that :*

- *Sending supervisory alerts to the TM and informing exchange regarding discrepancies found, alone does not suffice and are not adequate steps to ensure regulatory compliance. Such acts do not discharge the regulatory responsibility of the Noticee and is rather mere passive supervision.*

8.2 *In terms of the SEBI circular no. SEBI/HO/MRD/DRMNP/CIR/P/2018/75 dated May 02 2018, clearing member is required to report the margins for the proprietary positions of Khosla. Had the Noticee, being a clearing member exercised due diligence by ensuring that proper segregation of collaterals was in place between the TM prop and the TM client collaterals, this situation would not have arisen. In fact, the Noticee has facilitated Khosla to use its client collaterals towards its prop trades by not ensuring proper segregation of prop and client collaterals of Khosla. Therefore, by not ensuring proper segregation of prop and client collaterals of Khosla, the Noticee as a CM has violated Regulation 4.5.4 of NCL which resulted in allowing the utilization of margin monies paid by clients of Khosla for prop obligation of Khosla.*

8.3 *The Noticee has submitted in its reply that it is the responsibility of the TM to ensure correctness of collateral data, proper utilization and reporting of client funds. However, the CM is responsible for the risk management of the trades cleared through it. Hence, it is the obligation of the CM to prevent misutilisation of client collateral by ensuring proper segregation of client and prop collateral.*

8.4 *The Noticee's submission in para 7.5 that the identified deviations were highlighted by SMC to NCL is factually incorrect as no such communications have been received by NCL as per NCL records.*

8.5 *The Noticee's submission in para 7.6 that during the inspection of the Trading Member, while the NSE/ NCL enforcement team was seeking data is factually incorrect in the context of NCL as no such inspection of TM was done by NCL.*

8.6 *Further, the Noticee's submission in para 7.6 that SMC temporarily restricted operations in the Trading Member's proprietary account for a specified period, and normal operations were permitted only upon receipt of regulatory comfort from NCL is also factually incorrect as no such regulatory comfort was provided by NCL.*

9. Noticee's submission on CM's Role under NCL Framework

9.1 Under the NCL regulatory framework, the CM is not supposed to manage the operational or treasury function of the TM. The role is fundamentally to monitoring, reporting, and escalation, analogous in principle to the supervisory role exercised by NCL over its members.

9.2 In this regard, we would like to draw attention to the following regulatory principles embedded in NCL regulations and circulars.

- Regulation 4.5.4 of the NCL F&O Regulations restricts the utilisation of client margin monies; however, it has to be read in conjunction with the prescribed

operational procedure, wherein the TM is responsible for allocating funds between proprietary and client accounts based on its internal books and records. Under such circumstances, the role of the CM remains confined to supervisory functions and does not extend to internal funding or allocation decisions undertaken by the TM, provided that the CM has exercised due supervision, monitoring, and reporting.

- NCL circulars governing the CM-TM framework consistently envisage that the Clearing Member shall monitor compliance by the Trading Member, detect and flag discrepancies, seek explanations and supporting documentation, and report material deviations to NCL.

9.3 In discharge of these responsibilities,

- SMC, as Clearing Member, made the entire eligible collateral available to the TM for allocation towards its client and proprietary accounts within the limits permitted by the Clearing Corporation.
- The operational act of allocation at the Clearing Corporation is executed by the TM based on its internal client-wise and proprietary books of records.

9.4 The regulatory framework does not require the Clearing Member to guarantee real-time proprietary funding of the Trading Member, nor does it mandate the CM to substitute itself for the TM's internal controls, banking operations, or ledger maintenance. Such functions are inherently performed at the Trading Member level, where the underlying books, accounts, and funding arrangements are maintained. Accordingly, the Clearing Member's responsibility is supervisory and reporting in nature rather than operational, consistent with the layered supervision model underpinning the NCL market oversight structure.

9.5 Within this layered supervisory construct, responsibility for operational compliance and funding discipline rests with the Trading Member, while the Clearing Member is responsible for maintaining effective oversight. A supervisory entity cannot reasonably be held liable for the underlying acts of the supervised entity where it has exercised due monitoring, identified deviations, and escalated the matter in accordance with the prescribed framework.

9.6 In the present case, SMC's supervisory framework operated as intended. Alerts were generated and reviewed, the Trading Member was subjected to inspection, and the identified deviations were formally reported to NSE/NCL. It is pertinent to note that the subsequent regulatory examination of the TM was initiated based on these supervisory inputs. Below chronology of events placed on record clearly evidences a continuous, and proactive supervisory process, along with continued regulatory correspondence and guidance-seeking communications.

Chronology of Supervisory Actions Undertaken by SMC:

Sr. No.	Particulars of Events	Date	Supporting Documents
1	Agreement executed between Clearing Member - SMC Global Securities Limited and Trading Member- Khosla Tradewise Private Limited	May 14, 2024	-
2	Commencement of Clearing Services to TM-Khosla	May 26, 2024	-
3	Email communications by Operations Team to TM-Khosla highlighting discrepancies in day-to-day reported data	Ongoing (2024- 2025)	Copies of relevant emails enclosed as Annexure -2.
4	Matter escalated to Compliance Team for detailed examination of irregularities	February 21, 2025	Email copies enclosed as Annexure -2.
5	Inspection notice issued to TM-Khosla	Feb. 28, 2025 & March 01, 2025	Email copies enclosed as Annexure -2.
6	On-site inspection conducted by SMC officials (One officials from Delhi Office and One officials from Mumbai Office)	March 03-04, 2025	Travel bills and attendance approval email dated March 06, 2025 enclosed as Annexure -2.

Sr. No.	Particulars of Events	Date	Supporting Documents
7	Observed discrepancies formally communicated to TM-Khosla	March 12, 2025	Email copies enclosed as Annexure -2.
8	Formal intimation of matter to the Exchange	March 26, 2025	Communication records as Annexure -2.
9	Unsatisfactory response received from TM-Khosla	March 28, 2025	Email copy enclosed as Annexure -2.
10	Termination Notice served to TM-Khosla (physical post and email)	April 04, 2025	Copy of termination notice enclosed as Annexure -2.
11	Communication received from NSE regarding TM-Khosla deposits	April 07, 2025	Email copy enclosed as Annexure -2.
12	Email to TM-Khosla reconfirming termination across all segments	April 09, 2025	Email copy enclosed as Annexure -2.
13	Email to NSE informing segment-wise termination status	April 09, 2025	Email copy enclosed as Annexure -2.
14	Email from SMC to NSE confirming date of termination and seeking guidance for further action	April 24, 2025	Email copy enclosed as Annexure -2.

This sequence of events clearly evidences that SMC acted proactively as whistleblower and in good faith to safeguard market integrity, and that its supervisory responsibilities remained fully intact throughout.

In view of the above, it is would like to submit that any operational irregularity, if at all, lies at the level of the Trading Member, whereas SMC discharged its role as Clearing Member diligently by detecting, examining, and reporting the matter. Holding the Clearing Member responsible despite demonstrable supervision would be inconsistent with the regulatory architecture, which relies on layered oversight rather than substitution of operational responsibility.

10. NCL Comment on Noticee's abovementioned submissions

10.1 *It may be noted that Regulation 3(4) of the SEBI Stock Broker Regulations 2026, states as below:*

“(4) The provisions of Chapters II, Chapter III, Chapter V, Chapter VI and Chapter VIII of these regulations other than provisions specified under regulation 13, regulation 14, regulation 15(5) and regulation 19 shall mutatis mutandis apply to a clearing member and any reference to a recognised stock exchange in that case shall be taken as reference to a clearing corporation”

In view of the above provisions in the SEBI Stock Broker Regulations, it may therefore be noted that Chapter III of the SEBI Stock Broker Regulations i.e. General Obligations And Responsibilities, casts certain responsibilities on the clearing member. Extracts of some Regulations in Chapter III are reproduced herein below:

“CHAPTER III GENERAL OBLIGATIONS AND RESPONSIBILITIES

Other obligations and responsibilities for stock broker.

18. (1) The stock broker shall be required to meet the obligations and discharge responsibilities as stated in sub-regulation (2) to (11), in the manner specified.

Protection of client’s funds and securities.

(2) A stock broker shall–

(a) ensure that the clients’ funds are available at all times, as specified;

(b) adhere to the allocation and segregation of collaterals at the client level and upstreaming of client funds provisions, as specified; and

(c) segregate the money and securities deposited by a client from its own account or account of any other client and shall not use the same for itself or for any other client or for any purpose other than the purposes mentioned in rules, regulations, circulars and guidelines issued by the Board or the Central Government as the case may be or rules, regulations, bye-laws and circulars issued by a recognised stock exchange.

Risk management and internal control.

(3) A stock broker shall have a sound risk management system for comprehensively managing risks and shall have adequate internal procedures and controls with the aim of protecting the interests of clients, their assets and ensuring proper management of risk.

Further, the provisions of Chapter VIII of the SEBI Stock Broker Regulations, on Code of Conduct are also applicable to the clearing members in the same way as they are applicable to the stock broker.

Regulation 36 (1) and extract of Regulation 36 (2) is reproduced herein below:

General principles.

36. (1) Integrity: A stock broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all its business.

(2) Diligence, honesty and fairness: A stock broker shall– (a) act honestly, fairly and with due skill, care and diligence and in the interest of investors while conducting its business;

In view of the above provisions present in the SEBI Stock Broker Regulations, it is amply clear that a serious responsibility is cast on a clearing member which is dealing with client collaterals.

10.2 *It is not the charge that the Noticee is expected to manage the operational or treasury function of its stock broker nor is the Noticee expected to extend the internal funding or take allocation decisions on behalf of its stock brokers. However there is an obligation cast on the Noticee to maintain proper segregation of client and prop collateral*

11. Noticee's submission on Matched margin reported in T+5 reporting

11.1 It has been alleged that the proprietary peak margins reported by SMC for the proprietary obligations of TM-Khosla in the T+5 report represented "matched margins" rather than margins actually collected, and that SMC failed to ensure that client collaterals were utilised solely towards client obligations.

11.2 In this regard, we would like to submit that the instances of "matched margin" reporting arose due to a system limitation in the back-office software, wherein the functionality to report actual collected margin was not available at the relevant time. Consequently, the reporting was system-driven and based on margin requirements mapped against allocations, which were in any case within and backed by the actual collected margin and available collateral. Upon identification of this limitation, appropriate corrective measures were undertaken, and the back-office system has been enhanced to incorporate the requisite functionality.

11.3 At the outset, it is further submitted that no instance of short allocation or margin shortfall was observed in any snapshot or report generated by NCL for the relevant period. The proprietary margin reported by SMC was based on the allocation made by the TM to its proprietary account.

11.4 In the absence of any shortage, exception, or adverse observation reported by NCL during the relevant period, the said reporting difference, being attributable to a system constraint and not to any diversion or misuse of client funds, should not be characterised as false margin reporting amounting to Rs. 10.33 Crores. Accordingly, it is humbly requested that the said observation be dropped.

12. Noticee's submission that it reported entire proprietary peak margin as collected

12.1 With reference to the observation that the entire proprietary peak margin was reported as collected, we would like to submit that the Clearing Member deposits all funds received from its clients and the associated TM with the Clearing Corporation, and allocations are permitted strictly up to the extent of funds available. The Clearing Member does not independently operate the TM's bank accounts or proprietary ledgers, nor does it control the internal funding arrangements of the TM.

12.2 The allocation of funds between proprietary and client accounts is operationally executed by the Trading Member, who alone maintains client-wise and proprietary records and is therefore responsible for the correctness and timing of such allocations. The reporting undertaken by SMC was consequently based on the allocations reflected in the TM's records and the funds made available within the permissible limits, and not on any assumption or independent representation by the Clearing Member.

12.3 Within the NCL regulatory framework, the role of the Clearing Member is supervisory and monitoring in nature. Accordingly, SMC periodically reviews allocation data, generates alerts where required, seeks explanations for variances, and undertakes appropriate supervisory measures. In the present

matter, upon identifying discrepancies, SMC promptly exercised its supervisory mandate by conducting an inspection of the TM, obtaining clarifications, and initiating enforcement action, including issuance of a termination notice. All such actions were duly communicated to NSE/NCL in a timely manner.

12.4 It would like to submit that the very fact that the deviations were detected, examined, and escalated demonstrates the effectiveness of SMC's supervisory framework. The present proceedings, therefore, arise from SMC's proactive monitoring and reporting, and should not be construed as indicative of any failure of supervision or as evidence of misutilisation of client funds.

13. NCL Comment on Noticee's submissions in points 11 and 12

13.1 *In terms of NCL/CMPT/67750 dated April 29, 2025, point 15.1, it is mandatory for all clearing /trading members to report details of such margins collected to the Clearing Corporation in accordance with the procedure and formats specified hereunder or as may be specified by the Clearing Corporation from time to time. Members are allowed to upload client margin reporting file up to T+5 working days.*

13.2 *NCL vide its circular no. NCL/CMPL/56624 dated May 5, 2023 had stated that some of the members report matched margins to the Clearing Corporation (i.e., the margin required to be collected from the client) rather than the actual collected margin. However, such reporting of margins by the members does not reflect the true picture of margins of clients with the members and therefore NCL directed the members to report the correct value of margins and mark to market losses etc. collected from the clients even if the amount collected is more than the requirement.*

13.3 *Para 3 of the SEBI circular no. SEBI/HO/MRD/DRMNP/CIR/P/2018/75 dated May 02, 2018 states as below:-*

"Margin Enforcement Requirement 3. With reference to SEBI circular CIR/DNPD/7/2011 dated August 10, 2011 captioned "Short-collection/Non-

collection of client margins (Derivatives segments)”, it is clarified that the ‘margins’, for both Equity Derivatives Segment and Currency Derivatives Segment, shall include margins as specified in Para 2 of this circular, mark to market settlements or any other margin as prescribed by the Exchange/Clearing Corporation to be collected **by Clearing Members from their clients (i.e. Custodial Participants and Trading Members - for their proprietary positions) and by Trading Members from their clients”**

In view of the above provisions in place, clearing member is responsible for reporting client margins for the proprietary position of its trading member.

13.4 *It is further noted that in terms of SEBI circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/84 dated June 8, 2023, CMs, who clear trades for other SBs, shall only use the designated bank account(s) maintained with the nomenclature “Name of the CM –TM prop account” to receive/pay proprietary funds from/to stock brokers . Therefore, the Noticee had to receive the funds from its stock brokers for their proprietary trades in the CM TM Prop bank account maintained by it.*

Further, SEBI Circular dated April 17, 2008 reiterated by NSE’s Circular dated April 21, 2008, states as below:

“2.1 Brokers should have adequate systems and procedures in place to ensure that client collateral is not used for any purposes other than meeting the respective client’s margin requirements / pay-ins. Brokers should also maintain records to ensure proper audit trail of use of client collateral.”

13.5 *The SEBI Stock Broker Regulations 2026 also emphasises on segregation of client collateral from member’s own collateral.*

Therefore, the Noticee while doing the daily client margin reporting for the proprietary trades of Khosla had to ensure that it has collected sufficient margins. Further, the Noticee also had to ensure that the funds related to proprietary trades of its stock broker Khosla are received in the CM-TM Prop account. But, the Noticee was unable to demonstrate the same, in response to the SCN issued.

13.6 *In fact, the Noticee’s submissions that no instance of short allocation or margin shortfall was observed in any snapshot or report generated by NCL , is not*

relevant to the charge and is misleading since , the Noticee itself reported complete margins as collected to NCL, so there would be no instance of short allocation/short margins for which NCL shall require the Noticee to explain.

It was only at the time when inspection of the Noticee was conducted by NCL where the Noticee was required to demonstrate the prop peak margins reported by it, which the Noticee has failed to demonstrate.

As per the records at NCL, as on March 2026, the Noticee clears for around 35 stock brokers in cash market, 78 stock brokers in F&O segment, 33 stock brokers in commodity derivatives segment and 62 stock brokers in currency derivatives segment. Therefore, considering the scale of operations of the Noticee with regard to the number of stock brokers for which clearing services is provided, it is imperative for the Noticee, to adhere to the regulatory guidelines by having adequate and advanced systems and processes in place since the failure of the Noticee to adhere to regulatory guidelines will have catastrophic impact to the securities market. Further, in terms of SEBI circular number SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/24 dated February 6, 2023 on Enhanced obligations and responsibilities on Qualified Stock Brokers (QSBs) and SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/14 dated March 11, 2024 Measures to instill trust in securities market –Expanding the framework of Qualified Stock Brokers (QSBs) to more stock brokers , NSE has identified SMC Global Securities Limited as a Qualified Stock Brokers in NSE circular number NSE/INSP/63011 dated July 19, 2024. Therefore, the Noticee plays a crucial role in the existing ecosystem of securities markets.

13.7 *The Noticee has further submitted that its systems were not developed to ensure that it is in compliance with NCL/CMPL/56624 dated May 5, 2023, which the Noticee has claimed that it has now enhanced to incorporate the requisite functionality.*

Hence, despite the large scale of operations and its status as a QSB and clearing member clearing trades for several trading members as mentioned above, the Noticee was under the regulatory expectation to maintain robust systems to ensure strict adherence to the compliance requirements at all times.

The fact that no such system was in place for such a long period underscores a serious deficiency in its internal controls and depicts absence of systemic oversight, particularly from an entity of this large scale and regulatory standing. Further, such deficiency does not purge the Noticee of the violations.

13.8 *It was further noted that in terms of SEBI circular SEBI/HO/MRD2_DCAP/CIR/2021/0598 dated July 20, 2021, clearing members are required to segregate and allocate client collateral. In terms of this circular, clearing member shall allocate towards the prop trades of its stock broker based on the prop collaterals placed by its stock broker with its clearing member. However, three instances were observed wherein the Noticee increased the allocation of Khosla towards its prop trades without ensuring that such collaterals allocated by the Noticee have been placed by Khosla with the Noticee.*

13.9 *The Noticee's contention that the clearing member does not independently operate the TM's bank accounts or prop ledgers nor does it control the internal funding arrangements of the TM is baseless, frivolous and misleading. Noticee being regulated by SEBI is required to comply with the circulars of SEBI and cannot take a stand that it is playing a supervisory role.*

13.10 *The Noticee's submission that it exercised its supervisory mandate by conducting an inspection of the TM, obtaining clarifications, and initiating enforcement action, including issuance of a termination notice and that all such actions were duly communicated to NSE/NCL in a timely manner, is factually incorrect with respect to NCL as NCL has become aware of such inspection being conducted by the Noticee of Khosla only at the time of the Noticee's inspection conducted by NCL*

14. Discrepancies between collateral segregation reporting and allocation of collateral data

14.1 With reference to the observation regarding discrepancies between collateral segregation reporting and allocation data, we would like to reiterate that the Clearing Member makes available the entire quantum of funds

deposited by the TM for allocation, either towards its clients or towards its proprietary account, strictly within the limits permitted by the Clearing Corporation. The operational act of allocation between client and proprietary accounts is executed by the TM, who alone maintains client-wise and proprietary ledgers and is therefore responsible for the correctness and timing of such allocations.

14.2 The regulatory framework does not require the Clearing Member to guarantee real-time proprietary funding of the Trading Member, nor does it mandate the CM to substitute itself for the TM's internal controls, banking operations, or ledger maintenance. Consistent with its supervisory role, SMC periodically reviews allocation data, generates alerts where necessary, seeks explanations for observed variances, and undertakes appropriate supervisory follow-up.

14.3 Upon identification of the differences, SMC promptly exercised its supervisory mandate by examining the matter, seeking clarifications from the TM, and strengthening monitoring controls. The fact that these variances were detected and addressed through established oversight mechanisms clearly demonstrates the effectiveness of SMC's supervisory framework.

15. NCL Comment on Noticee's submission in point 14

15.1 *The Committee noted that in terms of para 11 of the SEBI circular dated July 20, 2021, clearing members:*

"11. The amount of collateral allocated shall not exceed the amount of collateral received by the TM/CM from the client and reported as such under the reporting mechanism (refer Para 4), excluding the securities collateral re-pledged to CC through margin pledge mechanism. Further, the sum of client collateral retained by the TM/CM and client collateral passed on to CM/CC shall equal the amount of collateral received by the TM/CM from the client. Also, the allocation of collateral at CC shall not be lower than the amount of collateral (except securities collateral repledged to CC) reported as having been passed on by

the CM to the CC. The CC shall have appropriate validations in place in respect of allocations and reporting done by CMs. Further, CMs shall also perform validations at their end in respect of allocations and reporting done by TMs”

15.2 *With regard to point 5.3 (a) and 5.3(b) above, the Noticee has to ensure that the allocation done towards proprietary account of Khosla is backed by proprietary collaterals received from Khosla. However, in 13 instances amounting to Rs. 4.49 Crores the amount of collateral allocated (prop) to Khosla exceeded the amount of collateral received (prop) from Khosla and reported in the daily client collateral segregation report (prop) of Khosla.*

15.3 *Para 9 and Para 10 of the SEBI circular dated July 20, 2021 states as below:*
“9. While depositing other forms of collateral i.e. Cash, Fixed Deposits (FDs), Bank Guarantees (BGs) or Government Securities provided through the SGL/CSGL route, etc, the CM shall allocate these collaterals into proprietary account of CM, and/or proprietary account of any TM clearing through the CM, and/or account of any of the clients (including Custodial Participants (CPs)) clearing through the CM, and/or of any of the clients trading through the TM who in turn is clearing through the CM, segment-wise.

10. In case of such collateral received by the CM from any TM, the CM shall not accept the same without the TM specifying break-up of such collateral into proprietary account of the TM and/or uniquely identified client account. Similarly, the CC shall not accept such collateral without the CM specifying appropriate break-up of such collateral into proprietary account of CM/ proprietary account of TM/ client account. The CM shall ensure that the sum of break-up of such collateral provided by TM is equal to the total value of such collateral provided by TM, and that the allocation of such collateral to any entity as reported to the CC does not exceed the allocation of collateral reported by the TM for that entity”

15.4 *In view of the above provisions in place, it is not open for the Noticee to contend that the stock broker is responsible for its prop and client allocations. The above provisions clearly cast a responsibility on the Noticee to monitor the allocations received from its stock broker which the Noticee has failed to demonstrate.*

15.5 *It may be further noted that with regard to the charge 5.3(b), the Noticee has reported peak ledger balances towards the prop account of Khosla in the daily client collateral segregation report for the dates 10-Feb-2025, 11-Feb-2025, 13-Feb-2025, 14-Feb-2025, 17-Feb-2025, 19-Feb-2025, 25-Mar-2025, the aggregate of the peak ledger balances reported across the above mentioned dates is Rs.40.99 Cr, however the Noticee is unable to demonstrate the peak ledger balances reported which clearly establishes the lapse on the part of the Noticee.*

15.6 *As per para 11 of SEBI circular dated July 20, 2021, the clearing member is required to have validations in place in respect of allocations and reporting done by its stock brokers. The Noticee's submissions that the operational act of allocation between client and prop accounts is executed by the TM who alone maintain client wise and prop ledgers is not tenable.*

16. Noticee's submission on Collection of consolidated crystallised obligation in cash

16.1 At the outset, it is reiterated that the primary responsibility for accurate computation, funding, and reporting of proprietary obligations rests with the TM, based on its proprietary balances and internal records. The Clearing Member's role, under the NCL framework, is supervisory, monitoring, and reporting in nature.

16.2 In the referred instances, the proprietary crystallised obligations were fully adjusted and settled within the same settlement cycle, and no debit remained outstanding beyond the regulatory timelines. The TM, through written communications (enclosed as Annexure-3), specifically requested that the crystallised obligations be adjusted against the funds available with the Clearing Corporation through the Clearing Member.

16.3 Accordingly, upon reduction of the TM's allocation, the said obligations were adjusted from the available allocation balance, resulting in full settlement of the crystallised obligations. There was no unpaid debit, delay, or shortfall, and no adverse settlement impact was reported by NCL.

16.4 It is therefore would like to submit that the observation pertains to the mode of settlement and not to non-settlement or misuse of funds. The Clearing Member duly monitored the position, recorded the requests, and ensured settlement completion, strictly in discharge of its supervisory responsibilities.

17. NCL Comment on Noticee's submissions in Point 16

17.1 *As per point 3 of NCL/CMPL/44977 dated July 10, 2020 "the CMs are required to collect margins on Consolidated Crystallised Obligation from its respective TMs/CPs only in the form of Cash (and not in the form of FDRs/BGs or any other form of collateral) in the F&O and Currency Segment (except for physical settlement component on expiry of the contract, as may be specified by Clearing Corporation)"*

17.2 *The Noticee has provided in response to SCN, the email communication from Khosla to the Noticee, wherein Khosla has requested the Noticee to release the funds towards obligation of derivative market. The Noticee being aware of the NCL circular as stated above had to ensure that the crystallised obligations towards the proprietary trades are collected or adjusted in cash, from the cash collateral pertaining to Khosla itself and not pertaining to its clients. In response to the email communication from Khosla to release the crystallise obligation, Noticee ought to have sought such details from Khosla about its prop cash to be released towards crystallised obligation, however the Noticee failed to do so.*

18. Noticee's submission with respect to "Repeat Violations"

18.1 With respect to the reference to "Repeat Violations" observations in the Show Cause Notice, it is respectfully submitted that the same must be viewed in the context of the evolving regulatory architecture governing client collateral segregation, margin reporting, upstreaming of funds, and related operational processes. During the earlier observation period of 2022-2024, the industry, including SMC, operated within a dynamic regulatory environment that required continuous recalibration of back-office systems, reporting logic, reconciliation controls, and supervisory mechanisms in response to successive regulatory enhancements and clarifications.

18.2 It is further submitted that certain observations during the said period were attributable, *inter alia*, to limitations in the then back-office software. Recognising the need for stronger technological support to meet the evolving regulatory expectations, SMC undertook a comprehensive migration to an upgraded back-office platform during this period, with the objective of enhancing reporting accuracy, strengthening control mechanisms, and ensuring greater alignment with regulatory requirements. The said transition was also appropriately disclosed to the regulators.

18.3 Accordingly, the observations cited in the SCN should be seen as reflective of a progressively strengthened control environment, rather than any pattern of regulatory indifference. In each instance, SMC exercised active supervisory oversight by monitoring transactional and reporting data, identifying deviations through its internal control framework, seeking explanations from the concerned Trading Members, and escalating material matters wherever warranted.

18.4 Noticee's submission on continuous improvements in in monitoring systems:

18.4.1 SMC has consistently endeavoured to strengthen its supervisory architecture through continuous enhancement of monitoring controls, review mechanisms, and risk-based oversight processes.

18.4.2 SMC has established a structured supervisory framework under which band mismatch alerts are periodically reviewed and communicated to the concerned Trading Members, advising them to complete allocation up to the full eligible amount and adhere to regulatory discipline. Wherever deemed necessary, SMC seeks clarifications from the respective Trading Members and obtains supporting evidence to substantiate their explanations. In warranted instances, adequate documentary support, including Chartered Accountant certificates, has been obtained and verified, select sample cases demonstrating the same are enclosed as Annexure -4.

18.4.3 Further, in instances where changes are observed in proprietary fund balances within the segregation reports without corresponding increases through verifiable banking channels, SMC review alerts and seeks clarification from the concerned Trading Members along with supporting documentary evidence. Also, SMC has commenced raising focused queries regarding intraday fund allocations on a sample review basis to validate the prudence and appropriateness of fund deployment and to ensure adherence to regulatory requirements. Any deviations observed through such reviews are subjected to enhanced scrutiny, and corrective actions are initiated wherever deemed necessary.

18.4.4 As prescribed under the applicable NCL circulars, SMC places reliance on the audit reports of TM as an important component of its supervisory framework. SMC maintains a mechanism for reviewing audit reports of Trading Members. Any observations noted therein are closely monitored, and compliance report are obtained from the respective entities to ensure timely rectification. In addition, SMC conducts periodic inspections of Trading Members based on a risk-based supervisory approach.

18.4.5 The above measures reflect SMC's continued emphasis on strengthening its monitoring processes and demonstrate an ongoing commitment to proactive supervision, regulatory compliance, and safeguarding client interests.

18.4.6 In view of the above submissions, we respectfully submit that mere existence of supervisory observations, which have already been appropriately responded to, with corrective actions duly implemented and confirmed, and wherein the operational challenges encountered during an evolving regulatory framework were also transparently highlighted, cannot be construed as regulatory non-compliance or misutilisation of client funds, particularly where the Clearing Member itself acted as the detecting and reporting authority. On the contrary, identification of issues, timely reporting, and technological enhancement measures undertaken by SMC underscore the effectiveness, maturity, and responsiveness of its supervisory framework, reflecting its continued commitment to regulatory discipline, market integrity, and investor protection.

18.4.7 It is respectfully submitted that a supervisory framework must be evaluated based on the robustness of detection, escalation, and corrective action, rather than the mere occurrence of operational observations in a rapidly evolving regulatory landscape.

18.4.8 In view of the facts placed on record, the applicable regulatory framework, and the detailed submissions provided herein, it is respectfully submitted for the kind consideration of the Member Committee that SMC has at all times acted in faithful discharge of its obligations as a Clearing Member, strictly within the supervisory, monitoring, and reporting architecture prescribed under the NCL framework.

18.4.9 The material on record clearly establishes that SMC neither facilitated nor condoned any misuse of client funds or collateral. On the contrary, the sequence of events demonstrates that the deviations under reference were identified through SMC's supervisory controls, examined through

inspection, documented, and promptly escalated to NSE/NCL, thereby evidencing the effectiveness of SMC's governance and oversight mechanisms. There has been no adverse impact on client funds, no compromise of collateral integrity, and no disruption to settlement obligations or market discipline.

18.4.10 In these circumstances, it is respectfully submitted that the present proceedings arise not from any failure of supervision, but from the very supervisory processes that SMC had instituted and effectively executed. A supervisory framework should be assessed by its ability to detect, escalate, and remediate issues, all of which stand clearly demonstrated in the present matter.

18.4.11 Accordingly, it is humbly prayed that the Member Committee may take a holistic and substance-based view of the matter, duly recognising SMC's proactive supervision, technological strengthening, and regulatory cooperation, and may therefore refrain from drawing any adverse inference or initiating punitive action against SMC in respect of the observations under reference.

We remain committed to continued strengthening of our oversight mechanisms and to full cooperation with NSE Clearing Limited.

19. NCL comment on Noticee's submission in point 18

19.1 *Regarding the repeat violations highlighted by NCL, it is noted that the Noticee has claimed it to be "evolving regulatory architecture". However, it is pertinent to note that the prescribed compliances were already promulgated to the market participants vide the above-mentioned circulars and regulations. Hence, the member ought to have known the same and it is not open to the Noticee to subsequently claim that it was in the nature of "evolving regulatory architecture" since these compliances were already known to the members and the Noticee cannot wait for the receipt of enforcement actions to ensure compliance.*

19.2 *Regulatory regime leaves no ambiguity as there exists a strict regulatory duty on the Noticee to ensure effective oversight on its stock broker and to maintain strict segregation of client funds and prop funds in order to ensure that client funds are not misused.*

19.3 *Further, NCL/CMPL/49287 dated August 13, 2021 prescribes:*

“The CM should ensure that the TM does not comingle client collateral with the proprietary collateral and that it provides separate collaterals for proprietary positions out of own funds only and not from the client collaterals. TMs submit various data to the CM, which may be submitted by the CM to Exchange/CC. The CM should assess the correctness of the data submitted by the TMs to CM.”

19.4 *It is the clearing member who submits the allocation data to Clearing Corporations for computation of margin utilization and risk management calculations. Hence such data that is submitted by the clearing member at least, in so far as to the extent of the proprietary collaterals of its TMs, is expected to be correct and accurate. The allocation without corresponding receipt of funds in the proprietary account of the Noticee’s CM TM Prop account indicates breakdown of risk control mechanism of the Noticee and thus is a failure of the Noticee’s oversight mechanism on its TMs. The Noticee’s argument that the Noticee being a clearing member just performs the supervisory role is untenable and does not absolve the Noticee of regulatory compliance especially when the various circulars/guidelines/regulations of SEBI cast a specific responsibility on a clearing member to ensure that client collateral is protected. Para 2 of the SEBI circular dated June 20, 2019 has stipulated that the term “stock broker” means Trading Member/ Clearing Member and in the said circular, SEBI had referred to all the previous SEBI circulars, including the 2008 SEBI Circular which are applicable to both Trading Members and Clearing Members with respect to handling of client’s funds and securities.*

On the basis of the foregoing observations and submissions of the Noticee, the Committee deliberated on the enforcement action and decided as under:

Decision of the Committee:

1. For Violation mentioned in 5(i) of the Show Cause Notice (SCN) dated January 13, 2026, relating to reporting of proprietary margins on T+5 for Khosla Tradewise Private Ltd. (Khosla), penalty for false reporting of client margin of Rs. 25 Lakhs as per NCL circular NCL/CMPL/42946 dated Dec 19, 2019.
2. For Violation mentioned in 5(ii) of the SCN dated January 13, 2026, relating to non-receipt of appropriate funds from Khosla for its proprietary trades in the CM TM Prop bank account maintained by the clearing member, penalty of Rs. 1 lakh in terms of point no. 28 of List of non-procedural non-compliances of NCL circular NCL/CMPL/59930 dated December 26, 2023 is levied.
3. For Violation mentioned in 5(iii) of the SCN dated January 13, 2026, relating to discrepancies in the allocation and segregation reporting for the proprietary collateral of Khosla, penalty of Rs. 1 lakh in terms of point no. 28 of List of non-procedural non-compliances of NCL circular NCL/CMPL/59930 dated December 26, 2023 is levied.
4. For Violation mentioned in 5(iv) of the SCN dated January 13, 2026, relating to non collection of Crystallized obligation in cash for proprietary trades of Khosla, "Warning" is issued in terms of point no. 24 of List of non-procedural non-compliances of NCL circular NCL/CMPL/59930 dated December 26, 2023.
5. The member is also advised to get monthly Concurrent Audit of its operations with respect to segregation and allocation, conducted by an independent CA firm for a period of 3 months as prescribed by NCL.

Dr. Golaka Nath
(Chairperson)

Mr. G S Hegde
(Committee Member)

Ms. Priti Savla
(Committee Member)

Mr. Vikram Kothari
(Committee Member)

Date: May 11, 2026