

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
ADJUDICATION ORDER NO. Order/PM/PA/2022-23/17252-17254**

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

In respect of:

Noticee no.	Name	PAN
1	Trustline Securities Ltd.	AAACK1251G
2	Palak Gupta	BVKPG1822J
3	Siddhartha Chatterjee	ACSPC7031M

In the matter of Trustline Securities Ltd.

*(Noticees 1 to 3 are individually known by their respective name or Noticee no. and collectively referred to as the “**Noticees**”)*

A. BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) conducted an inspection of the books and records of Trustline Securities Limited registered with SEBI *inter alia* as a research analyst (hereinafter referred to as “**RA**”) bearing registration no. INH100000528 (hereinafter referred to as “**Noticee**”/“**TSL**”) for the period April 01, 2018 to March 31, 2019 (hereinafter referred to as “**Inspection Period**”). The aforesaid inspection was conducted at its office located at Trustline Tower, B-3, Sector-3, Noida-201301 on November 18, 2019 and November 19, 2019.
2. The focus of inspection was to *inter alia* analyse the practices and systems put in place by Noticee 1 in respect of client onboarding, internal controls, delivery of services, acceptance, redressal of investor grievances, check compliance in respect of SEBI (Research Analysts) Regulations, 2014

(hereinafter referred to as “**RA Regulations**”) and other SEBI regulations/directives/circulars, etc.

3. Noticee 1 was granted its registration as a RA on June 01, 2015. It is also registered as a stock broker and it is primarily engaged in providing stock broking services. Noticee 2 and Noticee 3 were employed as RAs by Noticee 1 during Inspection Period. The findings of the inspection were communicated to the Noticee 1 *vide* letter dated August 25, 2020, pursuant to which Noticee 1 *vide* email dated September 01, 2020 submitted its reply.
4. After analysing the reply furnished by the Noticee 1 *vis-à-vis* the findings of the inspection, adjudication proceedings were initiated against the Noticees under Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the “**SEBI Act**”) for the following alleged violations:

Sl. No.	Name of the Noticee	Violations observed	Adjudication proceedings under the legal provisions
1.	Trustline Securities Ltd. (Noticee 1)	Non-maintenance of records in respect of recommendations/calls made through whatsapp/e-mail /terminal Regulation 25(1)(iii) and clauses 2, 7 and 8 of the code of conduct as specified in third schedule under regulation 24(2) (hereinafter referred to as “ CoC ”) of the RA Regulations.	Sections 15A(c) and 15EB of SEBI Act.
		Non-maintenance of records in respect of recommendations made to public through media, by not-cooperating and furnishing false information Regulations 25(1)(iii), 25(1)(iv), 29(1), 29(2) and clauses 2, 7 and 8 of CoC under RA Regulations.	Sections 15 A(a), 15A(c) and 15EB of SEBI Act.
		Non-fulfilment of qualifications/certification requirements by RAs of Noticee 1 Regulations 6(v), 7(1), 7(2), 24(5) and clauses 7 and 8 of the CoC under RA Regulations.	Section 15EB of SEBI Act.
		Non-segregation of RA activities / operations from other business / activities Regulations 13(iii), 15(2), 24(1) and clauses 3, 7 and 8 of the CoC under RA Regulations.	Section 15EB of SEBI Act.
		Failure in framing/adopting Internal policies and control procedures governing the dealing and trading by RAs, and ensuring monitoring and approval of trades of its RAs	Section 15EB of SEBI Act.

Sl. No.	Name of the Noticee	Violations observed	Adjudication proceedings under the legal provisions
		Regulations 15(1), 16(1) and clauses 7 and 8 of the CoC under RA Regulations.	
		Trading by Noticee 1 during prohibited period and contrary to the recommendations of its RAs	Sections 15A(a) and 15EB of SEBI Act
		Regulations 16(2), 16(3) and clauses 3, 7 and 8 of the CoC of RA Regulations.	
		Failure to make necessary disclosures in research reports	Section 15EB of SEBI Act.
		Regulations 19(i)(a), 19(ii)(b), (c), (d), (e), 19(v) and clauses 3, 6, 7 and 8 of the CoC under RA Regulations.	
		Failure to make necessary disclosures in public appearance	Section 15EB of SEBI Act.
		Regulations 21(1) and regulation 24(2) read with clauses 2, 6, 7 and 8 of the CoC under RA Regulations.	
		Failure to obtain SCORES authentication and maintain a separate complaint redressal system	Section 15EB of SEBI Act.
		SEBI circular no. CIR/OIAE/1/2014 dated December 18, 2014 and clause 7 and 8 of the CoC under RA Regulations.	
		Failure to conduct appropriate internal audit	Section 15EB of SEBI Act.
		Regulation 25(3) and clauses 7 and 8 of the CoC under RA Regulations.	
2.	Palak Gupta (Noticee 2)	Traded during prohibited period	Sections 15A(a) and 15EB of SEBI Act.
		Regulations 16(2), and clauses 1, 3, 7 and 8 of the CoC under RA Regulations.	
3.	Siddhartha Chatterjee (Noticee 3)	Traded during prohibited period and contrary to his own recommendations	Sections 15A(a) and 15EB of SEBI Act.
		Regulation 16(2), 16(3) and clauses 3, 7 and 8 of the CoC under RA Regulations.	

B. APPOINTMENT OF ADJUDICATING OFFICER

- Pursuant to the inspection, SEBI initiated adjudication proceedings against the Noticees and appointed the undersigned as the adjudicating officer *vide* order dated March 31, 2021 under section 19 of the SEBI Act read with sub-section (1) of section 15-I of the SEBI Act and rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as the “**SEBI Adjudication Rules**”) to inquire into and adjudge under sections

15A(a), 15A(c) and section 15EB of the SEBI Act for the aforesaid alleged violations by the Noticees.

C. SHOW CAUSE NOTICE, REPLY AND HEARING

6. A show cause notice (hereinafter referred to as “**SCN**”) bearing reference no. EAD-8/PM/NJMR/15632/1/2021 dated July 19, 2021 was served on the Noticees under rule 4 of the SEBI Adjudication Rules to show cause as to why an inquiry should not be held against them in terms of rule 4 of the SEBI Adjudication Rules and penalty should not be imposed for the violation(s) alleged to have been committed by them. In the SCN, the Noticees were asked to indicate whether they would prefer a personal hearing before the adjudicating officer in the matter. I note that the SCN was duly served on the Noticees.
7. The allegations levelled against the Noticees in the SCN are summarized below as follows:
 - 7.1 Alleged violation 1 by Noticee 1: Non-maintenance of records in respect of recommendations/calls made through whatsapp/e-mail/terminal
 - (i) Upon comparing the records of rationales *vis-à-vis* the total 6,463 recommendations/calls made by TSL it was found that during the Inspection Period, in respect of 308 instances of recommendations/trading calls, rationale was not recorded and in respect of 64 instances recommendations were not recorded by TSL.
 - (ii) In view of the above, it was alleged that Noticee 1 by not maintaining requisite records in relation to its research recommendations/trading calls has violated the provisions of regulations 25(1)(iii), and clauses 2, 7 and 8 of the CoC under RA Regulations.
 - 7.2 Alleged violation 2 by Noticee 1: Non-maintenance of records in respect of recommendations made to public through media

- (i) Contrary to the submission of Noticee 3 provided during inspection that he was not involved in any RA activities, TSL vide email dated February 25, 2020 informed that Noticee 3 is the RA who has made recommendations as submitted in a folder named “10. SC_Media_Log_18_19” in response to pre-inspection questionnaire and also attached copies of the recommendations signed by him.
- (ii) It was observed that Noticee 3 has made various recommendations/trading calls through youtube and regional media during the Inspection Period. He has made such recommendations/trading calls on total 123 days during the Inspection Period, wherein multiple recommendations/trading calls were made during each such days. It was also observed from the aforesaid records of recommendations/trading calls, that merely gist of the recommendations/trading calls made through media were recorded, however, records were not maintained with regard to the rationale of such recommendations, and no details were maintained by Noticee 1 that through which form of media a particular recommendation/trading call was made.
- (iii) Further, no records were maintained and furnished by TSL relating to very frequent recommendations trading calls made by Noticee 3 in social media through his Twitter profile “@SiddharthaTopse” where he has declared himself as a SEBI registered investment advisor.
- (iv) In view of the above, it was alleged that Noticee 1, by not maintaining requisite records in relation to research recommendations/trading calls through media has violated the provisions of regulations 25(1)(iii), 25(1)(iv), and clauses 2, 7 and 8 of the CoC under RA Regulations.

7.3 Alleged violation 3 by Noticee 1: Non-fulfilment of qualifications/certification requirements by RAs of TSL

- (i) The following was observed from the submissions made by TSL and records of NISM certificates obtained from NISM skills registry with regard to the qualifications and certifications of its RAs:

#	Name of the RA	Appointment date	Educational qualification	Experience	NISM certification validity	Observations
1.	Palak Gupta	17.07.2018	B. Com (Hons.), 2017	Nil	October 30, 2019 to October 24, 2022 (the validity of certificate provided is not within Inspection Period). However, as checked from NISM skills registry, the RA was not certified during the Inspection Period.	In the absence of requisite NISM certification and required experience, the said RA was not qualified.
2.	Pranay Guha	01.10.2007	B. Com, 2006	8 years	Not available. Also, as checked from NISM skills registry, the RA was not certified during the Inspection Period.	In the absence of requisite NISM certification, the said RA was not qualified.
3.	Siddhartha Chatterjee	01.12.2006	CA and CS	NA	Not available. Also, as checked from NISM skills registry, the RA was not certified during the Inspection Period.	In the absence of requisite NISM certification, the said RA was not qualified.

- (ii) It was observed that TSL had deputed 3 individual employees viz, Noticee 2, Noticee 3 and Pranay Guha as RAs without ensuring that they bear the requisite qualifications under the RA Regulations. Accordingly, it was alleged that Noticee 1 has violated the provisions of regulations 6(v), 7(1), 7(2), 24(5) and clauses 7 and 8 of the CoC under RA Regulations.

7.4 Alleged violation 4 by Noticee 1: Non-segregation of RA activities/operations from other business /activities

- (i) TSL *vide* its letter dated November 18, 2019 submitted that RA services are provided as add-on services to the clients availing broking services of TSL. The clients who have been active in the last 3 months or new clients added by sales team in the last one month are shortlisted for providing research reports and calls. The shortlisted clients are added in the whatsapp and mailer list.
- (ii) It was observed that TSL has not kept appropriate fields in its client induction form/account opening form for providing RA services and has nowhere mentioned its activity/registration as a RA in the form. Also, the research team of TSL was not handling clients directly and client requests and queries were resolved through a common helpdesk which receives all requests, complaints and queries including related to stock broking services. Further, TSL has not taken SCORES authentication during the Inspection Period and hence, there was no separate complaint redressal mechanism put in place for complaints related to RA services.
- (iii) In view of the above, it was alleged that Noticee 1 by not segregating its RA activities/operations from other business, had violated the provisions of regulations 13(iii), 15(2), 24(1), and clauses 3, 7 and 8 of CoC under RA Regulations.

7.5 Alleged violation 5 by Noticee 1: Failure in framing/adopting internal policies and control procedures governing the dealing and trading by RAs and ensuring monitoring and approval of trades of its RAs

- (i) TSL in its reply to pre-inspection questionnaire had provided an undated internal policy document covering various aspects including limitation on trading by its RAs. It was observed that the above undated document though signed by Mr. Vinay Kumar Gupta, director of Noticee 1, it does

not mention relevant details *viz.*, when the above policy was adopted by Noticee 1.

- (ii) Contrary to the above submissions, TSL, in its subsequent written submissions dated November 18, 2019 made during the inspection has submitted that it does not have internal policy(ies) in place regarding trading/investment of its RAs, there is no mechanism to monitor their trading and it will formulate such a policy in future. Noticee 1 also submitted that it has not maintained proper records and not monitored the trading activities of the individuals employed as RAs.
- (iii) In view of the above, it was alleged that Noticee 1 has failed to put in place internal policies and control procedures governing the dealing and trading of its RAs, and ensuring monitoring and approval of trades of its RAs. Accordingly, it was alleged that Noticee 1 has violated the provisions of regulation 15(1), 16(1), and clauses 7 and 8 of CoC under RA Regulations.

7.6 Alleged violation 6 by Noticees 1, 2 and 3: Lack of restriction on the individuals employed by the TSL as RAs from trading in a certain manner

- (i) Noticee 1 during the inspection had submitted demat statements, ledger statements and declarations related to the trading activities of its RAs. From the trading details of the RAs obtained from National Stock Exchange of India Limited (hereinafter referred to as “**NSE**”) and BSE Limited (hereinafter referred to as “**BSE**”), the trading details of the RAs who had made recommendations were perused *vis-à-vis* the research recommendations/calls made by such RAs to check compliance with regulation 16(2) to 16(5) of RA Regulations. The findings from the aforesaid exercise are furnished hereunder:
- (ii) Compliance check of TSL (Noticee 1)
 - (a) All the dealings of Noticee 1 in (i) stock based future contracts on NSE; (ii) top 20 scrips based on traded value in cash segment on

NSE (which constitute 5840 out of 6128 transactions on NSE); (iii) cash segment on BSE; and (iv) currency futures of USD/INR on NSE were analysed on sample basis.

(b) From the perusal of the above samples *vis-à-vis* the recommendations made by RAs of TSL in cash, futures and options and currency segments following non-compliances were observed:

(b.1) In cash segment, in 59 instances of recommendations made by the RA of TSL, TSL traded in shares of such companies between thirty days before and five days after the recommendation and in 1 instance of recommendation made by the RA of TSL, it traded in shares of such companies in a manner contrary to its own RAs recommendations.

(b.2) In futures and options segment, in 12 instances of recommendations made by the RA of TSL, TSL traded in futures contract of such companies between thirty days before and five days after the recommendation and in 1 instance of recommendation made by of TSL, it traded in futures contract of such companies in a manner contrary to its own RAs recommendations.

(b.3) In currency derivative segment, in 52 instances of recommendations made by the RAs of TSL, TSL traded in such currency derivatives between thirty days before and five days after the recommendations and in 9 instances of recommendations made by the RA of TSL, it traded in such currency derivatives in a manner contrary to its own RAs recommendations.

- (iii) Compliance check of Palak Gupta (Noticee 2): The trading details as submitted by Noticee 2 during the inspection and her trading details as obtained from NSE and BSE were examined *vis-à-vis* the research reports published by her in which the following non-compliances were observed:
- (a) In 3 instances of 47 research reports published by Noticee 2, she traded in shares of such companies between thirty days before and five days after the publication of a research report.
 - (b) Further, during the inspection she had provided a write up declaring her trading activity which contained only four transactions, however, upon perusal of the trading statement provided by the exchanges total of seventeen transactions were found.
- (iv) Compliance check of Siddhartha Chatterjee (Noticee 3): The ledger and demat statements of Noticee 3 as submitted by TSL and his dealings in futures and options segment as obtained from NSE were examined *vis-à-vis* the recommendations made by him in which the following non-compliances were observed:
- (a) In 18 instances of recommendations made by Noticee 3 in media, he traded in shares/securities of such companies between thirty days before and five days after the recommendations.
 - (b) In 1 instance of recommendation made by Noticee 3 in media, he traded in shares of such companies in a manner contrary to his own recommendations.
- (v) By failing to abide by the applicable trading restrictions as mentioned above, it was alleged that Noticee 1 and Noticee 3 have violated the provisions of regulations 16(2), 16(3) and clauses 3, 7 and 8 of the CoC under RA Regulations.

- (vi) By failing to abide by the applicable trading restrictions as mentioned above and by furnishing false information, it was alleged that Noticee 2 has violated the provisions of regulation 16(2) and clauses 1, 3, 7 and 8 of the CoC under RA Regulations.

7.7 Alleged violation 7 by Noticee 1: Failure to make necessary disclosures in research reports

- (i) It was observed from 47 research reports of Noticee 1, that the following standard disclosure was made:

“We/I, (name of RA) - (Qualification), author and the name subscribed to this report, hereby certify that all of the view expressed in this report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report. Trustline Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report”

- (ii) It was observed that though few of the requisite disclosures under regulation 19 were made, however, disclosures required under regulation 19(i)(a), (ii)(b)(c)(d)(e), and (v) of the RA Regulations were not made.
- (iii) In view of the above, it was alleged that Noticee 1 had failed to make the aforesaid requisite disclosures and violated regulation 19(i)(a),

(ii)(b)(c)(d)(e), and (v), and clauses 3, 6, 7 and 8 of the CoC under RA Regulations.

7.8 Alleged violation 8 by Noticee 1: Failure to make necessary disclosures in public appearance

- (i) From the records provided by TSL in reply to pre-inspection questionnaire and further information provided in its email dated February 25, 2020, it was observed that Noticee 3, employed as RA of TSL had made various recommendations/trading calls in public appearance on total 123 days on youtube and in regional media.
- (ii) Upon perusal of the aforesaid records provided by TSL, it was observed that requisite disclosures under regulation 19(i)(iii) and 21(1) were not made while making appearance in media. Therefore, it was alleged that Noticee 1's failure to make the requisite disclosures has resulted into violation of the provisions of regulation 21(1) and 24(2) read with clauses 2, 6, 7 and 8 of the CoC under RA Regulations.

7.9 Alleged violation 9 by Noticee 1: Absence of SCORES authentication and complaint redressal system

- (i) As per written submission dated November 18, 2019 made during the inspection, TSL had stated that it had not obtained SCORES authentication. It had also stated in aforesaid submissions that its research team was not handling clients directly and client requests and queries were resolved through a common helpdesk which received all the requests and queries. Further, TSL submitted that no investor complaint has been received by it during the Inspection Period.
- (ii) It was observed that TSL had failed to obtain SCORES authentication. From the above submissions, it was also observed that TSL has failed to put in place a separate grievance redressal system for its RA activities

as the same was being handled through the grievance redress mechanism meant for its stock broking activities.

- (iii) In view of the above, it was alleged that Noticee 1 has violated the provisions of SEBI circular no. CIR/OIAE/1/2014 dated December 18, 2014, and clause 7 and 8 of the CoC under RA Regulations.

7.10 Alleged violation 10 by Noticee 1: Failure to conduct appropriate internal audit

- (i) As per the submission of TSL, it had conducted internal audit exercise for FY 2018-19 *i.e.*, for the entire Inspection Period, and in this regard it submitted a copy of internal audit report prepared and signed by CA Sunil Patel (reg. no.535954) dated April 03, 2019. Upon perusal of the aforesaid internal audit report, it was observed that it merely confirms compliance in respect of all the aspects covered in the report *viz*, maintenance of records, engagement of employees in other activities, qualification of RAs, internal policies *etc.*, though apparent irregularities have been found in the same as brought out in the aforementioned points.
- (ii) Further, conspicuously, audit report does not mention the details of records relied upon by the auditors for their findings. The above suggests that Noticee 1 failed to conduct appropriate internal audit. Accordingly, it was observed that upon failure to conduct an appropriate annual internal audit exercise, Noticee 1 has violated the provisions of regulation 25(3) and clauses 7 and 8 of the CoC under RA Regulations.

- 8. The Noticees submitted a common reply to the SCN *vide* email sent on August 30, 2021 (hereinafter referred to as “**August 2021 Reply**”). The submissions of the Noticees are summarized hereunder:

8.1 There has been no violation of the RA Regulations as alleged in the SCN.

8.2 Alleged violation 1 by Noticee 1: Non-maintenance of records in respect of recommendations/calls made through whatsapp/e-mail/terminal

- (i) With respect to the alleged violation, Noticee 1 has already submitted its reply *vide* its letter dated September 01, 2020.
- (ii) There was duplicity in maintaining an excel-sheet of trading calls. Hence, there may be some instances of recommendations not shown.
- (iii) Further, some calls in the call log report were recorded on different dates because they were mentioned both on the recommendation date and also on exit date.
- (iv) A copy the rationale in word format and call logs in excel format has been attached.

8.3 Alleged violation 2 by Noticee 1: Non-maintenance of records in respect of recommendations made to public through media

- (i) *Vide* letter dated September 01, 2020, Noticee 1 had informed that Noticee 3 was a RA during the Inspection Period but he was not involved in RA activities as he had given the declaration to SEBI that his educational programs in youtube/media were only to educate and guide the investors. A copy of declaration of Noticee 3 stating the aforesaid has been furnished.
- (ii) Noticee 3 used to only forward the calls generated by head office research desk to public media.
- (iii) *Vide* the aforesaid letter, Noticee 1 had also informed that they had taken action immediately and re-designated Noticee 3 and he is not a RA since then and therefore not a part of the research desk of Noticee 1.
- (iv) Further, compliance officer of TSL is now maintaining the requisite information as per the RA Regulations.

8.4 Alleged violation 3 by Noticee 1: Non-fulfilment of qualification/certification requirements by RAs of TSL

- (i) RAs of TSL have been requested to complete the requirement of obtaining NISM qualification.
- (ii) Since Mr. Pranay Guha did not have the requisite qualifications, Noticee 1 has re-designated him as research associate with effect from December 01, 2019 till the completion of his NISM certification.
- (iii) Further, Noticee 3 has also been separated from the research department of TSL which was informed to SEBI *vide* letter dated September 01, 2020.

8.5 Alleged violation 4 by Noticee 1: Non-segregation of RA activities/operations from other business/activities

- (i) *Vide* letter dated September 01, 2020, Noticee 1 had already informed that there is complete segregation of RA activities and operations from other business/activities.
- (ii) Noticee 1 has complied with regulation 15(2) of RA Regulations.
- (iii) Noticee 1 is not charging any fee/payment from any of its clients. Therefore, there is no requirement to take a separate client registration form from the clients to avail its research services as the research services are provided complementary to all clients. The Noticee has incorporated the above in its KYC form and has provided a copy of the same.
- (iv) Noticee 1 has complied with regulation 24(1) of RA Regulations as the research department is functioning from a separate block with a china wall policy in place.
- (v) Noticee 1 is now authenticated on SCORES portal of SEBI. A copy of the screenshot of the landing page after logging into SCORES ID of Noticee 1 has been provided. Noticee 1 has not received any complaint

regarding its research activities since beginning. However, the research department sometimes receives only general queries over the phone which are independently handled by the research department of TSL. Therefore, the research department of TSL has a separate mechanism for complaint redressal/grievances completely different from TSL stock broking activities in this respect.

8.6 Alleged violation 5 by Noticee 1: Failure in framing/adopting internal policies and control procedures governing the dealing and trading by its RA and ensuring monitoring and approval of trades of its RAs

- (i) Noticee 1 has amended the policy comprehensively. Noticee 1 should be given an opportunity to improve its systems to comply with the regulation. Noticee 1 hopes that it should be excused from any violation in this regard.
- (ii) Noticee 1 has framed the internal policy which was provided to the inspection team during their visit. The same was also approved by the board of TSL in its meeting held on June 29, 2015. A certified true copy of the aforesaid board resolution has been provided.
- (iii) Further, TSL has formulated the policy for trading/investment by RAs after getting the observations from the inspection team.

8.7 Alleged violation 6 by Noticee 1, 2 and 3: Lack of restriction on the individuals employed by TSL as RAs from trading in a certain manner

- (i) Alleged violation by Noticee 1:
 - (a) TSL research desk and TSL trading desk are independent and separate departments. There is no common employee and no inherent connection with TSL trading desk and both are maintaining arms-length distance. TSL trading desk has its own specific strategies and it has nothing to do with the research desk calls.

- (b) Most of the calls by TSL research desk are intra-day which mostly get expired/closed on the same day. These calls generated by research desk are technical view based (*i.e*, technical analysis tools are used to scrutinize the way the supply and demand from a security will affect changes in price, volume and implied volatility). As opposed to that, the trades of TSL trading desk are based on their own strategy.
- (c) TSL trading desk has traded in currency options strategy and used currency future for hedging purposes only. Research desk has recommended currency calls for intra-day only on technical view basis (*i.e*, demand, supply, volume, open interest and price action). The trades executed by TSL trading desk are based on their own specific strategies. Rationale for all calls where trading in violation of RA Regulations has been alleged is attached.

(ii) Alleged violation by Noticee 2:

- (a) The compliance officer of TSL was not aware regarding the trades executed by Noticee 2.
- (b) After scrutinizing the trade details of Noticee 2, it was found that the trading volume of the trades was negligible. This itself indicates that there was no malafide intention behind these trades for any windfall gains. Trading details and financial ledger for FY 18-19 of Noticee 2 has been attached.
- (c) Noticee 1 has warned her to stop trading in the recommended scrips in the future to comply the internal policy and control procedures of TSL.
- (d) After receiving observations, Noticee 2 has been re-designated.

(iii) Alleged violation by Noticee 3:

- (a) The compliance officer of TSL was not aware regarding the trades executed by Noticee 3.
- (b) After scrutinizing the trade details of Noticee 3, it is found that the trading volume of the trades are very low and most of the trades were intraday that have been squared off with marginal price difference. This itself indicates that there was no malafide intention behind these trades for any windfall gains. Trading details, financial ledger and profit and loss statement for FY 18-19 is annexed.
- (c) Noticee 3 is no longer a part of research desk of TSL.

8.8 Alleged violation 7 by Noticee 1: Failure to make necessary disclosures in research reports

- (i) TSL has made disclosures in all its research reports which was provided to the inspection team.
- (ii) TSL is not involved in investment banking, market making, IPO, merchant banking etc. activities. Further, it has incorporated all the recommended clauses in the disclosure section of its research reports. Copy of the revised disclosure clause is annexed.

8.9 Alleged violation 8 by Noticee 1: Failure to make necessary disclosures in public appearance

- (i) *Vide* its letter dated September 01, 2020, Noticee 1 had informed that Noticee 3 has been separated from its research desk with effect from December 10, 2019, and is not part of the research team since then.
- (ii) Further, Noticee 3 has also given the following declaration to SEBI *“my educational programs in YouTube/media belongs to education to*

investors/guidance only.” This itself clarifies that he is not doing this activity for generating any revenue for him or for TSL.

8.10 Alleged violation 9 by Noticee 1: Absence of complaint redressal system and SCORES authentication

- (i) Noticee 1 is now authenticated on SCORES portal of SEBI. A copy of the screenshot of the landing page after logging into SCORES ID of Noticee 1 has been provided.
- (ii) Noticee 1 is not charging any fee/payment from any of its clients.
- (iii) Further, it has not received any complaint regarding its research activities since the beginning. However, the research department sometimes receives general queries over the phone which are handled by its research department only. Therefore, research department of Noticee 1 has its own separate mechanism of complaint redressal which is separate from its stock broking activities in this respect.

8.11 Alleged violation 10 by Noticee 1: Failure to conduct appropriate internal audit

- (i) Noticee 1 has been audited by an internal auditor as per the report provided by the internal auditor.
- (ii) Noticee 1 has its own compliance department and the issues are also taken care of by the senior officials of Noticee 1 in proper manner. Noticee 1 will strengthen its systems and procedures to overcome such type of occurrence in future.

9. After considering the facts and circumstances of the case, the undersigned granted an opportunity of personal hearing to the Noticees on September 21, 2021 *vide* notice of hearing sent *vide* email on September 14, 2021. In view of the prevailing circumstances owing to COVID-19, the hearing was scheduled through video conferencing on cisco webex platform. *Vide* email

sent on September 18, 2021, the authorized representatives of the Noticees (hereinafter referred to as “**ARs**”) informed the undersigned that they have been recently briefed in the matter, and requested for rescheduling the hearing granted to the Noticees to 2nd week of October, 2021 or anytime thereafter. The aforesaid request was accepted. Subsequently, *vide* email sent on March 31, 2022, the Noticee was informed that the aforesaid hearing opportunity has been rescheduled to April 07, 2022. *Vide* email sent on the same day, the ARs informed the undersigned that they desire a physical hearing in the said matter, which was also acceded to. On April 07, 2022, the ARs, Mr Moulik Kansal and Mr. Vinay Kumar Gupta, directors of Noticee 1 appeared before me, and reiterated the submissions contained in the reply sent by the Noticees *vide* email on August 30, 2021. The ARs requested for further time till April 13, 2022 for making additional submissions, which was accepted.

10. Further, Noticee 1 made its additional submissions *vide* email sent on April 14, 2022. The same has been summarized below:

- 10.1 Corrective steps and remedial measures taken by Noticee 1

- (i) Post inspection, findings of inspection were placed before the board of directors and key management personnel of Noticee 1. The aforesaid persons were also apprised of necessary corrective steps and remedial measures taken by management of Noticee 1.
- (ii) On consideration of corrective steps and remedial measures taken in the context of findings of inspection, the board of directors of Noticee 1 have expressed their satisfaction on the same.

- 10.2 Alleged violation 1 by Noticee 1: Non-maintenance of records in respect of recommendations/calls made through whatsapp/e-mail/terminal

- (i) To ensure compliance regarding maintenance of trading calls and rationale records, as per board guidance and approval, Noticee 1 has created and implemented a maker and checker system wherein records

are maintained and checked every day by research team and audited by the compliance officer after every 15 days. The said policy is introduced to that ensure such violations, if any, do not recur.

- (ii) In view of the above, Noticee 1 is now in compliance with provisions of regulations 25(1)(iii), and clauses 2, 7 and 8 of the CoC under RA Regulations.

10.3 Alleged violation 2 by Noticee 1: Non-maintenance of records in respect of recommendations made to public through media

- (i) In relation to the aforesaid alleged violation, as corrective measure, Noticee 1 had taken action immediately and re-designated Noticee 3 with effect from December 10, 2019.
- (ii) Presently, Noticee 3 is not part of the research desk of Noticee 1.
- (iii) Noticee 1 has reiterated the compliance system adopted by it as discussed in paragraph 10.2(i) above.
- (iv) Taking the aforesaid into account, Noticee 1 is now in compliance with provisions of regulations 25(1)(iii), 25(1)(iv) and clauses 2, 7 and 8 of CoC under RA Regulations.

10.4 Alleged violation 3 by Noticee 1: Non-fulfilment of qualification/certification requirements by RAs of TSL

- (i) In view of the inspection findings, the following corrective steps were taken by Noticee 1: (a) Noticee 2 and Mr. Pranay Guha were re-designated as research associate with effect from February 01, 2020 and December 01, 2019, respectively; (b) Noticee 3 was separated from research department with effect from December 10, 2019 and he is no longer associated with the RA team of Noticee 1.

- (ii) Current list of RAs of Noticee 1 meeting requisite NISM qualification are detailed below:

#	Name of RA	Appointment date	Educational qualification	NISM validity
1.	Ms. Aprajita Saxena	09.01.2017	PGDM	03.04.2025
2.	Mr. Ankur Saraswat	17.06.2019	MBA	20.12.2022

- (iii) Thus, Noticee 1 has ensured that its employees have requisite qualification under RA Regulations, and therefore, it is not in violation of provisions of regulations 6(v), 7(1), 7 (2), 24 (5) and clauses 7 and 8 of CoC under RA Regulations.

10.5 Alleged violation 4 by Noticee 1: Non-segregation of RA activities/operations from other business/activities

- (i) There is complete segregation of RA activities and operations from other businesses/activities of Noticee 1 as mentioned in its internal policy under objective no.4, by the heading "*Management of Conflict of Interest and Disclosure Requirements*" and point no. viii under the heading "*Limitations on Trading by Research Analyst*".
- (ii) The research department of TSL has been maintaining an arms-length relationship between its research activity and other activities in the following manner:
- (a) Research department is functioning from a separate floor with chinese wall policy.
- (b) Pro-desk room accessibility is restricted to pro-desk team, directors and management. There is also a bio-metric door lock system installed. Further, research department room accessibility is restricted to research department team members and compliance officer. Both the aforesaid rooms have bio-metric door lock system installed.

- (c) Pro-desk has been trading through NEAT software whereas research department flashes trading calls through NEST software for clients.
 - (d) Use of personal mobile in research department and pro-desk is prohibited and they are kept in mobile lockers allotted at ground floor.
 - (e) Firewall is installed on all of the floors, whereby access of unwanted websites is restricted.
 - (f) Further, with regards to handling clients directly by research department, Noticee 1 has installed an IVR dialling system having phone no. 0120-4613800 whereby client calls directly reach its research team by following certain instructions.
 - (g) In order to strengthen its internal system, Noticee 1 has incorporated a separate field in its account opening form regarding RA services offered by it. Post inspection, it has also authenticated itself on SEBI SCORES portal.
- (iii) Therefore, Noticee 1 is in full compliance of the provisions of regulations 13(iii), 15(2), 24(1), and clauses 3, 7 and 8 of CoC under RA Regulations.

10.6 Alleged violation 5 by Noticee 1: Failure in framing/adopting internal policies and control procedures governing the dealing and trading by RAs and ensuring monitoring and approval of trades of its RAs

- (i) Post inspection, detailed trading policy/procedure has been formulated and approved by board of directors of Noticee 1 to ensure implementation and monitoring of the RA activity and seeking prior approval of the compliance officer/director for the trades proposed to be executed by RAs.

- (ii) Noticee 1 has amended the policy comprehensively and has put in place internal policies and control procedures governing the dealing and trading by its RAs. In view thereof, Noticee 1 is now in compliance of provisions of regulation 15(1), 16 (1) and clauses 7 and 8 of CoC under RA Regulations.

10.7 Alleged violation 6 by Noticee 1, 2 and 3: Lack of restriction on the individuals employed by TSL as RAs from trading in a certain manner

- (i) In addition to the explanation furnished by Noticee 1 as provided in paragraph 8.7(i)(a) above, the research department and trading desk of TSL maintain a virtual barrier which prohibits exchange of material information that could cause conflict of interest.
- (ii) Herein, Noticee 1 has also reiterated the detailed trading policy/procedure formulated by it as reproduced in paragraph 10.6(i) above.
- (iii) Noticee 1 has abided by all the trading rules and has not given any false information. Thus, Noticee 1 is not in violation of the provisions of Regulation 16(2), 16(3) and clauses 1, 3, 7 and 8 of CoC under RA Regulations.

10.8 Alleged violation 7 by Noticee 1: Failure to make necessary disclosures in research reports

- (i) As a corrective measure, Noticee 1 has taken action and incorporated all the recommended clauses in the disclosure section of its research reports.
- (ii) Thus, Noticee 1 has now made requisite disclosures under the provisions of regulation 19(i)(a), (ii)(b)(c)(d)(e) and (v) and clauses 3, 6, 7 and 8 of CoC under RA Regulations.

10.9 Alleged violation 8 by Noticee 1: Failure to make necessary disclosures in public appearance

- (i) Noticee 1 has started making necessary disclosures in public media. Thus, Noticee 1 is now making requisite disclosures under regulations 19(i)(iii) and 21(1) while making appearance in media.
- (ii) Hence, Noticee 1 is complying with the provisions of regulation 21(1) and 24(2) read with clauses 2, 6, 7 and 8 of CoC under RA Regulations.

10.10 Alleged violation 9 by Noticee 1: Absence of complaint redressal system and SCORES authentication

- (i) As a group, Noticee 1 has installed an IVR bearing number 0120-4613800 whereby clients calls land directly with its research team by following certain instructions. It does not pass through layers and clients can communicate with the research team directly.
- (ii) Post inspection, as a corrective measure, Noticee 1 has taken necessary steps to be authenticated on SCORES portal of SEBI.
- (iii) Thus, as on date Noticee 1 is not in violation of SEBI circular no. CIR/OIAE/1/2014 dated December 18, 2014 and clauses 7 and 8 of the CoC under RA Regulations.

10.11 Alleged violation 10 by Noticee 1: Failure to conduct appropriate internal audit

- (i) SCN itself mentions in paragraph 27 on page 11 that the internal audit report “.....it merely confirms the compliance in respect of all the aspects covered in report.....”. Thus, no allegation should be levelled against Noticee 1.

- (ii) Therefore, Noticee 1 has conducted appropriate annual internal audit exercise and has not violated provisions of regulation 25(3) and clauses 7 and 8 of CoC under RA Regulations.

10.12 In support of the submissions above, Noticee 1 has relied upon the following orders of Hon'ble Securities Appellate Tribunal:

- (i) Religare Securities Limited vs. SEBI (Appeal no. 23 of 2011) dated June 16, 2011.
- (ii) UPSE Securities Limited vs. SEBI (Appeal no. 109 of 2011) dated July 25, 2011.
- (iii) M/s. DSE Financial Services Ltd. vs. SEBI (Appeal no. 153 of 2012) dated September 11, 2012.

10.13 Lastly, Noticee 1 has submitted that the following mitigating factors should be given due regard in the present case:

- (i) Post inspection, Noticee 1 has taken all necessary corrective steps and remedial measures to ensure that lapses, if any, found during the inspection do not recur.
- (ii) No harm, injury or loss has been caused or suffered by any investor of securities market.
- (iii) Noticee 1 has not derived any disproportionate gain or otherwise on the subject matter of present proceedings.
- (iv) Lapses, if any, are non-repetitive in nature.
- (v) There is no investor complaint in respect of the findings of inspection based on which SCN was issued.

11. Noticee 2 submitted her additional reply vide email sent on April 14, 2022, the relevant extract of the same has been reproduced below verbatim:

“1. I am graduated in B. Com (Hons.) and cleared CFA level 1 in 2018 and CFA level 2 in 2022, also appeared for M. Com final year exam in 2022, result awaited.

2. I would like to submit that I was working as an equity research analyst in Trustline Securities Limited from 17.07.2018 to 28.06.2021. I have generated 47 recommendations during the inspection period of 2018-19. I was studying the stocks on fundamentals and was suggesting to the clients.

3. Incidentally due to omission on my part I bought few shares valued at Rs. 2787.45 from Zerodha Broking Ltd as per detail below:

S. No.	Recommended Scrip	Report date	Trade date	Buy/Sell	Qty.	Price	Value (In Rs.)
1	Dabur	29-03-2019	06-03-2019	Buy	4	443.00	1772
2	Dabur	29-03-2019	25-03-2019	Buy	1	420.00	420
3	Gujarat Alkali	05-10-2018	05-10-2018	Buy	1	595.45	595.45
	Total =						2787.45

Pertinently as on date, I still hold Dabur Shares. However I have sold Gujarat Alkali share as 04.09.2020 at the rate of Rs 348.30 and thereby incurred loss of around Rs 250/-

4. I would like to submit that above act was not intentional, and it was due to omission and non-understanding of the prevailing laws as provided by the regulator. My intention has always been to comply all the guidelines and the rules and procedures of regulatory bodies, but the above omission happened due to oversight and would request to be forgiven for these deeds amongst others on the miniscule value of shares purchased by me as long term investments.

Please consider my request humbly and avoid any penal action for the same.”

12. Noticee 3 submitted his additional reply vide email sent on April 14, 2022, the relevant extract of the same has been reproduced below verbatim:

“1. I am a Chartered Accountant by profession and have been in Securities business for more than two decades .I have been involved in writing books on various subjects and also being member of different societies in West Bengal

2. I would like to humbly submit that when the new regulations for getting the NISM certification were introduced then it contained provision for relaxations for two years , and by oversight and omission on my part the same certification was not taken by me even in the allowed time limit.

3. It is humbly submitted that I was advising to buy different stocks on the basis of my knowledge and research to the clients without realizing that once I advised the clients , I cannot participate to buy or sell the same securities in my own account. Be that as it may, I would like to submit that on perusal of the consolidated statement of my account your kind selves can very well make out that in the capital market cash segment I had incurred a loss of Rs 14552 in all the transactions relating to the stocks recommended by me during the said period and in the F&O segment the net gain for Rs. 5823.75. A copy of my consolidated accounts statements are attached hereto marked Annexure " 1 " and Annexure " 2 "

4. I can make out that being a professional Chartered Accountant it is not enough to submit that the acts on my part were out of ignorance and omission , but I can humbly submit that there was nothing intentional and the same has happened due to lack of knowledge and ignorance on rules and procedure of regulatory body , while the intention has never been to work against the rules and regulations including the procedures provided by the regulatory body of that market

5. Notably I do not charge fees for recommendations since I do not carry out said activities with a view to earn money. Besides I state that I carry out my activities mainly to impart education and guidance for share trading

activities through Books / electronic media /Investor awareness programme etc

6. I hope that on consideration of aforesaid facts I will get pardon from your high offices

in true sense of justice and would request to avoid penal action against me because it may result in a big disrespect to my unblemished professional career.”

D. CONSIDERATION OF ISSUES AND FINDINGS

13. I have taken into consideration the material available on record. The issues that arise for consideration in the present case are as follows:

I. Whether Noticee 1 has violated the following provisions of the RA Regulations?

(I.1) Regulation 25(1)(iii) and clauses 2, 7 and 8 of CoC under RA Regulations by not maintaining records in respect of recommendations/calls made through whatsapp/email /terminal?

(I.2) Regulations 25(1)(iii), 25(1)(iv), 29(1), 29(2) and clauses 2, 7 and 8 of CoC under RA Regulations by not maintaining records in respect of recommendations made to public through media, not co-operating and furnishing false information?

(I.3) Regulations 6(v), 7(1), 7(2), 24(5) and clauses 7 and 8 of the CoC under RA Regulations by employing RAs who have not fulfilled qualifications/certification requirements?

- (I.4) Regulations 13(iii), 15(2), 24(1) and clauses 3, 7 and 8 of the CoC under RA Regulations by not segregating RA activities/operations from other business/activities?
- (I.5) Regulations 15(1), 16(1) and clauses 7 and 8 of the CoC under RA Regulations by failing to frame/adopt internal policies and control procedures governing the dealing and trading by RAs and ensuring monitoring and approval of trades of its RAs?
- (I.6) Regulations 16(2), 16(3) and clauses 3, 7 and 8 of the CoC under RA Regulations by trading during prohibited period and trading contrary to recommendations given by its own RAs?
- (I.7) Regulations 19(i)(a),19(ii)(b),(c),(d),(e), 19(v) and clauses 3, 6, 7 and 8 of the CoC under RA Regulations by failing to make necessary disclosures in research reports?
- (I.8) Regulations 21(1) and 24(2) read with clauses 2, 6, 7 and 8 of the CoC under RA Regulations by failing to make necessary disclosures in public appearances?
- (I.9) SEBI circular no. CIR/OIAE/1/2014 dated December 18, 2014 and clause 7 and 8 of the CoC under RA Regulations by failing to obtain SCORES authentication and put in place a complaint redressal system?
- (I.10) Regulation 25(3) and clauses 7 and 8 of the CoC under RA Regulations by failing to conduct appropriate internal audit?

- II. Whether Noticee 2 has violated regulation 16(2), and clauses 1, 3, 7 and 8 of the CoC under RA Regulations by trading during prohibited period?
- III. Whether Noticee 3 has violated regulations 16(2), 16(3) and clauses 3, 7 and 8 of the CoC under RA Regulations by trading during prohibited period and trading contrary to his own given recommendations?
- IV. Does the violation, if any, attract monetary penalty under sections 15A(a), 15A(c) and 15EB of the SEBI Act?
- V. If the answer to Issue No. IV is in affirmative, then what should be the quantum of monetary penalty?

(I.1) Whether Noticee 1 has violated regulation 25(1)(iii) and clauses 2, 7 and 8 of CoC under RA Regulations by not maintaining records in respect of recommendations/calls made through whatsapp /email /terminal?

- 14. Before moving forward, it is pertinent to refer to the provisions of the RA Regulations which are alleged to have been violated by Noticee 1 in relation to this issue. The said provisions are provided below:

CHAPTER III MANAGEMENT OF CONFLICTS OF INTEREST AND DISCLOSURE REQUIREMENTS

Maintenance of records.

25. (1) Research analyst or research entity shall maintain the following records:

(i)....

(ii)....

(iii) rationale for arriving at research recommendation;

(iv)....

THIRD SCHEDULE

[See sub-regulation (2) of regulation 24]

CODE OF CONDUCT FOR RESEARCH ANALYST

2. Diligence Research analyst or research entity shall act with due skill, care and diligence and shall ensure that the research report is prepared after thorough analysis.

7. Compliance Research analyst or research entity shall comply with all regulatory requirements applicable to the conduct of its business activities.

8. Responsibility of senior management The senior management of research analyst or research entity shall bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures.

15. The SCN alleges that out of total 6463 recommendations/calls made during the Inspection Period by Noticee 1, in 308 instances of recommendations/trading calls, it was found that rationale has not been recorded. Further, it alleges that in 64 instances, recommendations have not been recorded. Thus, it is alleged that non-compliance with respect to record maintenance has been found in approximately 6% of total instances.
16. As noted above, the findings of the inspection were shared with Noticee, and *vide* letter dated September 01, 2020, the Noticee had furnished its explanation regarding the findings. In the explanation, Noticee 1 claimed that certain recommendations are not being reflected either due to (i) duplicity in maintaining records on account of an error in maintaining excel sheet of trading calls, rationale etc; or (ii) few calls being recorded on multiple dates due to difference in recommendation date and exit date. Further, Noticee 1 had furnished corrected rationale and call logs. The rationale and call logs were analysed and it was observed that rationale of 21 recommendations were not provided by Noticee 1. The detailed analysis is tabulated below:

Data provided to inspection team post inspection <i>vide</i> letter dated September 01, 2020											
	Equity Stocks/Derivative			Commodity Derivative			Currency Derivative			Total	
Month	No of Recommendations	No of rationales provided	Rationales/Recommendations (-) not recorded	No of Recommendations	No of rationales provided	Rationales/Recommendations (-) not recorded	No of Recommendations	No of rationales provided	Rationales/Recommendations (-) not recorded	Total recommendations	Rationales/Recommendations (-) not recorded
April	410	410	0	311	311	0	31	31	0	752	0
May	340	339	1	306	306	0	27	27	0	673	1
June	319	317	2	258	258	0	25	25	0	602	2
July	276	270	6	315	315	0	18	18	0	609	6
August	180	180	0	322	322	0	10	10	0	512	0
September	237	237	0	267	267	0	5	5	0	509	0
October	313	313	0	292	292	0	24	24	0	629	0
November	180	180	0	247	247	0	6	6	0	433	0
December	183	183	0	290	290	0	7	7	0	480	0
January	186	186	0	234	234	0	11	11	0	431	0
February	268	268	0	237	237	0	7	7	0	512	0
March	119	119	0	246	246	12	14	14	0	391	12
Total	3011	3002	9	3337	3325	12	185	185	0	6533	21

17. In the August 2021 Reply, with respect to the present allegation, Noticee 1 has cited the same reasons as furnished to the inspection team *vide* letter dated September 01, 2020. Noticee 1 has also provided revised data. On perusal of the revised data, I note that Noticee 1 has only furnished data with respect to equity stocks. The analysis of the data provided by Noticee 1 during current adjudication proceedings is tabulated below:

Data provided with August 2021 Reply											
	Equity Stocks/Derivative			Commodity Derivative			Currency Derivative			Total	
Month	No of Recommendations	No of ratios provided	Rational es/Recommendations (-) not recorded	No of Recommendations	No of ratios provided	Rational es/Recommendations (-) not recorded	No of Recommendations	No of ratios provided	Rational es/Recommendations (-) not recorded	Total recommendations	Rational es/Recommendations (-) not recorded
April	388	388	0	No data provided	No data provided	Cannot be computed in absence of complete data	No data provided	No data provided	Cannot be computed in absence of complete data	Cannot be computed in absence of complete data	Cannot be computed in absence of complete data
May	333	333	0								
June	293	293	0								
July	269	269	0								
August	173	173	0								
September	262	262	0								
October	301	301	0								
November	158	158	0								
December	130	130	0								
January	177	177	0								
February	258	258	0								
March	110	110	0								
Total	2852	2852									

18. The table above suggests that rationale has been maintained with respect to entire 2852 equity stocks recommendations. However, as tabulated in paragraph 16 above, based on the response given by Noticee 1 to inspection findings, it was observed that rationale was not maintained by Noticee 1 with respect to 12 commodity derivatives recommendations given during March, 2019. Noticee 1 has not provided any explanation with respect to the aforesaid 12 commodity derivatives recommendations in its August 2021 Reply or its additional submissions. In this regard, regulation 25(1)(iii) provides that a RA

is required to maintain records of rationale for arriving at a research recommendation.

19. Noticee 1 has also submitted that it has created and implemented a maker and checker system wherein records are maintained and checked every day by research team and audited by the compliance officer after every 15 days to that ensure such violations do not recur. I find that the aforesaid measure taken can at best be considered as a mitigating factor. Thus, I find that by not maintaining rationale for 12 commodity derivatives recommendations given by it during the Inspection Period, Noticee 1 has not acted with due skill, care and diligence. Further, I find that senior management of Noticee 1 bore the primary onus to set appropriate standards to ensure that recommendation and rationale for such recommendations were recorded, however, it failed to discharge the said onus. Taking the aforesaid into account, even though there has been substantial compliance as only rationale for 12 recommendations out of 6463 recommendations have not been maintained, I find that Noticee has violated regulation 25(1)(iii) and clauses 2, 7 and 8 of CoC of RA Regulations.

(I.2) Whether Noticee 1 has violated regulations 25(1)(iii), 25(1)(iv), 29(1), 29(2) and clauses 2, 7 and 8 of CoC under RA Regulations by not maintaining records in respect of recommendations made to public through media, by not co-operating and furnishing false information?

20. The provisions of the RA Regulations relevant to the present issue alleged to have been violated by Noticee 1 are reproduced below. Further, clause 2, 7 and 8 of the CoC of RA Regulations have already been provided at paragraph 14 above, thus, for brevity, the same are not repeated herein.

CHAPTER III MANAGEMENT OF CONFLICTS OF INTEREST AND DISCLOSURE REQUIREMENTS

Maintenance of records.

- 25. (1) Research analyst or research entity shall maintain the following records:***

- (i)....*
- (ii)....*
- (iii) rationale for arriving at research recommendation;*
- (iv) record of public appearance.*

CHAPTER IV INSPECTION

Obligation of research analyst on inspection. 29.

(1) It shall be the duty of every research analyst or research entity in respect of whom an inspection has been ordered under the regulation 27 and any other associate person who is in possession of relevant information pertaining to conduct and affairs of such research analyst or research entity including their representative, if any, to produce to the inspecting authority such books, accounts and other documents in his custody or control and furnish him with such statements and information as the inspecting authority may require for the purposes of inspection.

(2) It shall be the duty of research analyst or research entity and any other associate person who is in possession of relevant information pertaining to conduct and affairs of the research analyst to give to the inspecting authority all such assistance and shall extend all such co-operation as may be required in connection with the inspection and shall furnish such information as sought by the inspecting authority in connection with the inspection.

21. I note that SCN alleges that Noticee 3 has made various recommendations/trading calls on total 123 days through youtube and regional media during the Inspection Period. It also alleges that merely gist of the recommendations/trading calls made through media were recorded, however, records have not been maintained with regard to the rationale of such recommendations, and no details have been maintained by Noticee 1 stating which form of media a particular recommendation/trading call was made. Further, SCN alleges that no records have been maintained and furnished by Noticee 1 with respect to recommendations/trading calls made by Noticee 3

through his Twitter profile “@SiddharthaTopse” where he has declared himself as a SEBI registered investment advisor and has not provided details of his association with Noticee 1.

22. With respect to the aforesaid allegation, Noticee 1 in August 2021 Reply has argued that *vide* letter dated September 01, 2020, Noticee 1 had informed that Noticee 3 was a RA during the Inspection Period but he was not involved in RA activities as he had given the declaration to SEBI that his educational programs in youtube/media were only to educate and guide the investors. Further, it has argued that Noticee 3 used to only forward the recommendations generated by head office research desk to public media. *Vide* the aforesaid letter, Noticee 1 had also informed that they had taken action immediately and re-designated Noticee 3 and he is not a RA since then and therefore not a part of the research desk of Noticee 1.
23. I find that in its pre-inspection questionnaire Noticee 1 had stated that Noticee 3 was a RA during the Inspection Period, however, during inspection, Noticee declared that Noticee 3 is a RA but is not involved in RA activities. Contrary to above, Noticee 1 was specifically asked about who had made recommendations submitted in the folder titled “10. SC_Media_Log_18_19” in response of pre-inspection questionnaire, Noticee 1 *vide* email dated February 25, 2020 informed the inspection team that Noticee 3 had made the said recommendations. In the August 2021 Reply, Noticee 1 has again pleaded that Noticee 3 was a RA but was not involved in RA activities, and he had only forwarded the calls generated from its head office to public media. I find the inconsistent responses of Noticee 1 with respect to Noticee 3 unseemly. As to whether Noticee 3 was involved in RA activities or not, it becomes pertinent to refer to the definition of “research analyst “ under RA Regulations. Regulation 2(1)(u) reads as follows:

“research analyst” means a person who is primarily responsible for,-

i. preparation or publication of the content of the research report; or

ii. providing research report; or

iii. making 'buy/sell/hold' recommendation; or

iv. giving price target; or
v. offering an opinion concerning public offer,
with respect to securities that are listed or to be listed in a stock exchange,
whether or not any such person has the job title of 'research analyst' and
includes any other entities engaged in issuance of research report or research
analysis.

*Explanation.-The term also includes any associated person who reports
directly or indirectly to such a research analyst in connection with activities
provided above;*

24. On a plain reading of the definition provided above, I find that it is clear that Noticee 3 was a RA involved in RA activities as he was *inter alia* (i) making “buy/sell/hold” recommendations; and (ii) an associated person who reported directly to Noticee 1 who is a RA carrying out research activities. Further, Noticee 1 has relied upon a declaration given by Noticee 3 to the inspection team which reads as follows:

“It is hereby informed that I, Siddhartha Chatterjee, imparting education related to share trading through books/electronic media/ investors awareness programme/SEBI/Stock Exchange etc. Further, it is declared that I am not involved in any RA activities since 01.04.2018 to 31.03.2019. My educational programs in Youtube/media belongs to education to investors/guidance only.

Further, it is declared that the said activities are not concern with a view to earning purpose and not related to the activities of Research Analyst as mentioned in the regulations thereof. “

25. I have reviewed a copy of an undated appointment letter of Noticee 3 issued by Noticee 1 (in its former name K&A Securities Pvt. Ltd.), and I find it necessary to refer and rely on the same to determine if Noticee 1 had violated the said regulations:

“1. Date of Joining

This appointment will commence from the date of your joining i.e. 01/12/2006.....

Further, on acceptance of this Letter of Appointment in the manner described hereinabove, the provisions of this Letter of Appointment shall be binding on you.

2. Designation

*You shall be designated as **COUNTRY HEAD** in **REGIONAL OFFICE** Department.....*

8. Conduct & Discipline

b) You will not (except in the normal course of the Company's business) publish any article or statement, deliver any lecture or broadcast or make any communication to the press, including magazine publication relating to the Company's products or to any matter with which the Company may be concerned, unless you have previously applied to and obtained the written permission from the Company;

e) As a company personnel, you are a full-time employee and will not undertake any other business, work or public office, honorary or remunerating post / assignment whether with or without consideration except with the written permission of the management in each case

9. Secrecy

b) Any work/ project / assignment handled/ developed by you individually or as part of a group during your employment with the company, will be exclusive property of the company and all rights, tangible or intangible, shall hereby stand assigned to the company and you will not have any rights to it, whatsoever. You shall execute all such documents as may be required from time to time to secure this right of the company.

11. General rules

(d) The terms and conditions set forth hereinabove are final and shall supersede all written and oral arrangements, if any, made prior to the date of

signing this Letter of Appointment. Any changes in the terms and conditions of this Letter of Appointment shall be notified in writing by the company.”
(emphasis supplied)

26. I note that clause 8(b) of the said appointment letter clearly states that Noticee 3 cannot make any public appearance regarding any matter which may concern Noticee 1 unless it has obtained prior written approval of Noticee 1 except if it is in normal course of business of Noticee 1. Further, clause 9(b) states that any work developed by Noticee 3 during his employment with Noticee 1, is the exclusive property of Noticee 1 and all the rights to the said work shall belong to Noticee 1. After reviewing the employment terms of Noticee 3, I am not convinced by Noticee 1's argument that the public appearances made by Noticee 3 were in his personal capacity as his employment terms explicitly state that all work done by him during his employment belongs to Noticee 1. Thus, given that Noticee 3's position with Noticee 1 is/was "Country head", I cannot resist the implication that he represented the public face of Noticee 1 and any statement made by Noticee 3 could reasonably be interpreted as opinion of Noticee 1.
27. At this stage, it would also be appropriate to discuss the declaration given by Noticee 3 which Noticee 1 has relied upon. I note that the declarations states that Noticee 3 has not involved himself in any RA activity during the Inspection Period (*i.e.*, April 01, 2018 to March 31, 2019). Further, it states that Noticee 3's educational programs on media are for the purposes of education and only to guide investors. I do not find the aforesaid statements to be true. On reviewing the twitter profile of Noticee 3 (*i.e.*, @SiddharthaTopse), I find that during the entire Inspection Period, he was making buy/hold/sell recommendations through twitter as well as appearing live on youtube. The said tweets do not appear to be in the nature of education, rather they appear to be recommendations. Few relevant screenshots from his twitter profile are provided below:

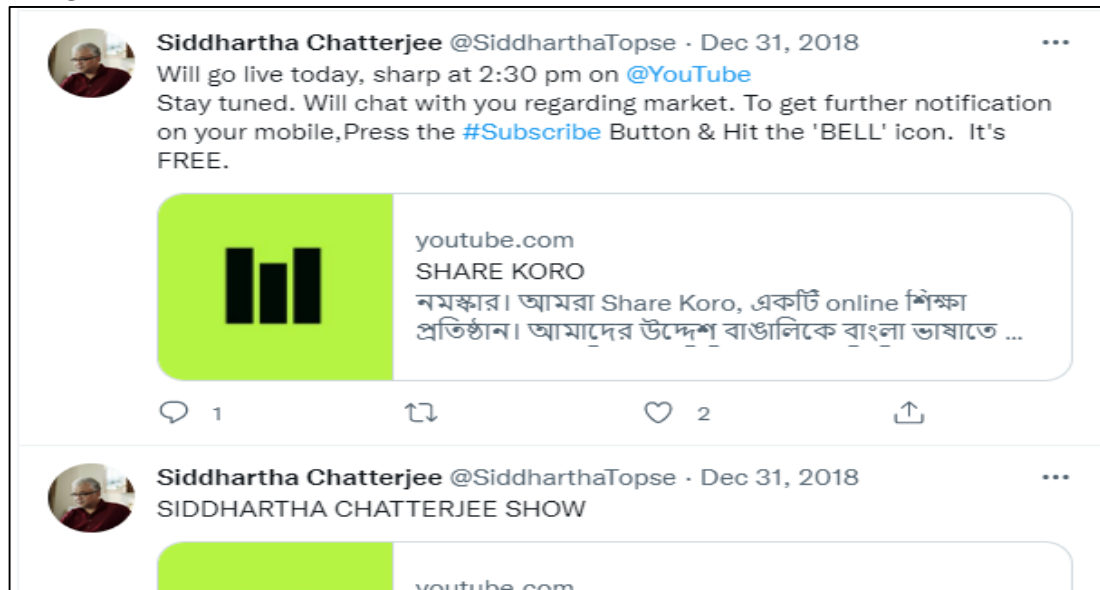
Image 1: Tweets from March 26, 2019 to March 29, 2019



Image 2: Tweets from February 13, 2019 to February 14, 2019



Image 3: Tweets from December, 2018



28. Further, I find that even though the name of Noticee 1 does not appear directly on Noticee 3's twitter page, however, his twitter bio contains a link which lands on his website. The landing page of his website contains a clickable link with his picture which states "COUNTRY HEAD – TRUSTLINE". After clicking on the aforesaid link, I was directed to a page which contains details of Noticee 1. Given the above, I cannot come to a conclusion that Noticee 3 was making public appearances in his personal capacity only. The relevant screenshots are provided below:

Image 4: Twitter bio of Noticee 3



Image 5: Landing page of Noticee 3's website

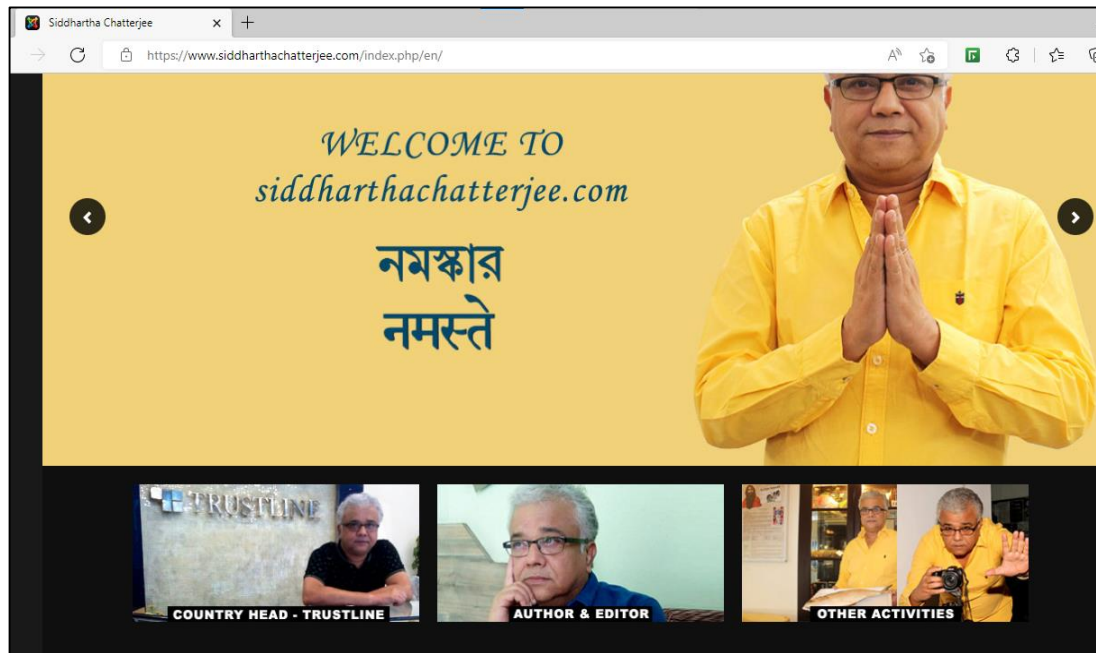
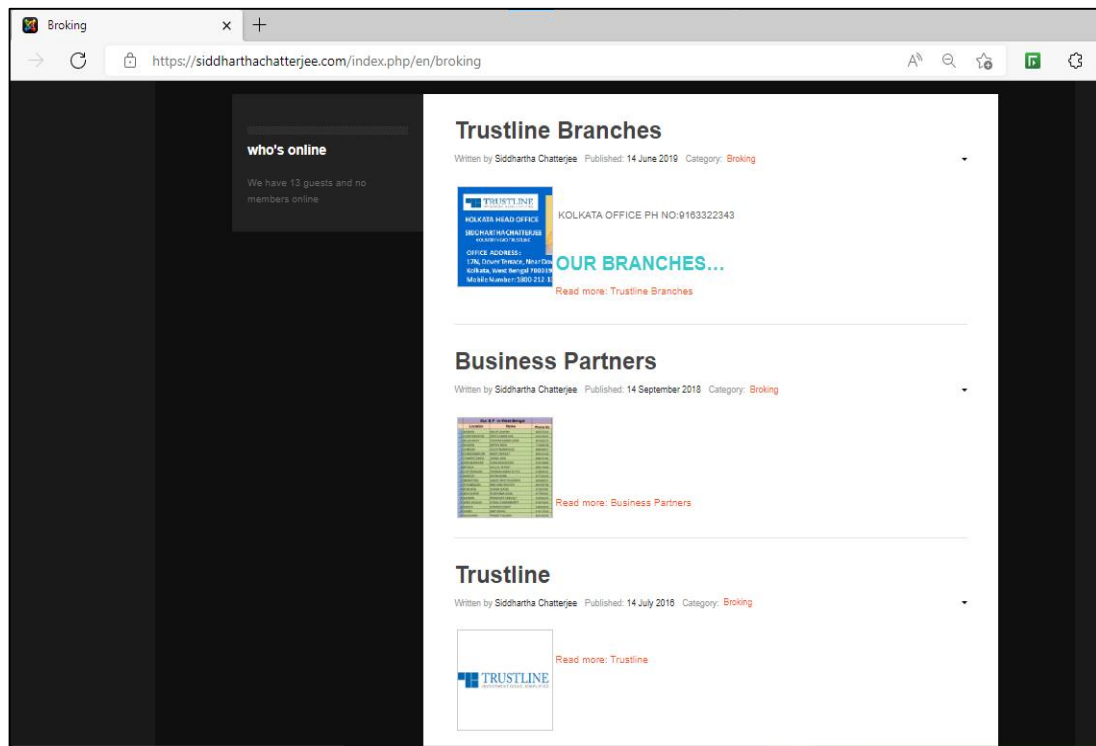


Image 6: Details of Noticee 1 available on Noticee 3's website



29. As noted above, Noticee 1 has claimed that Noticee 3 was only forwarding calls generated by its research desk. In this regard, I note that a comparison on sample basis was carried out by the inspection team of recommendations in cash segment made by Ms. Aprajita Saxena who was also a RA employed with Noticee 1 *vis-à-vis* recommendations in cash segment made by Noticee 3. The dates selected for comparison were two dates in first month of each quarter. On comparison, it was found that none of the recommendations of Noticee 3 corresponded with the recommendations made by Ms. Aprajita Saxena. For instance, on April 20, 2018, Noticee 3 made a recommendation as follows: *“BUY Ashok Leyland, Buy Tata Motors and Buy Bank Nifty”*, however, the same recommendation was not found to be given by Ms. Aprajita Saxena. Further, when reports published by Noticee 2 during the Inspection Period were compared with recommendations of Noticee 3 in cash segment, it was observed that Noticee 3 had not recommended the stocks concerned in reports of Noticee 2 on the said dates. The above two comparisons show that Noticee 3 was not forwarding calls generated by its research desk as claimed by Noticee 1.
30. Noticee 1 has claimed that compliance officer of Noticee 1 is now maintaining the requisite information as per RA Regulations. Irrespective of the fact that no evidence has been furnished with respect to the aforesaid statement, I find that the aforesaid action taken can be considered as a mitigating factor only. Lastly, in its additional submissions, Noticee 1 has put forth that as corrective measure, Noticee 1 had taken action immediately and re-designated Noticee 3 with effect from December 10, 2019 and that currently, Noticee 3 does not form part of the research desk of Noticee 1. I find that it is again important to refer to the definition of the term “research analyst” under RA Regulations which explicitly states that *“whether or not any such person has the job title of ‘research analyst’”*, thus, research analyst means a person falling under any of the categories provided in sub-regulation (i) to (v) of the said definition notwithstanding if the person has not been designated as “research analyst”. As already noted multiple times above, Noticee 3 was giving buy/sell/hold recommendations and was directly reporting to Noticee 1, consequently, he would be covered within the purview of “research analyst” under RA

Regulations, regardless of the fact that he had been re-designated as “research associate” and that presently, he is not part of the research desk of Noticee 1. Further, the employment terms of Noticee 3 clearly state that all work developed by Noticee 3 during his employment with Noticee 1 shall belong to Noticee 1, thus, it was the responsibility of Noticee 1 to maintain records of rationale of recommendations given by Noticee 3 and public appearances made by Noticee 3.

31. In view of the above, I find that by not maintaining complete records of (i) rationale of recommendations given by Noticee 3 in public media; and (ii) public appearance of Noticee 3, Noticee 1 has violated regulations 25(1)(iii) and 25(1)(iv) of RA Regulations. Further, by giving inconsistent replies with respect to activities of Noticee 3 as a RA, Noticee 1 has not co-operated with the inspection team, thus, it has violated regulation 29(1) and 29(2) of RA Regulations. Similar to Issue (I.1), the aforesaid conduct demonstrates that Noticee 1 has not acted with due skill, care and diligence. The contrary replies of Noticee 1 with respect to Noticee 3 leaves no ambiguity that the senior management of Noticee 1 has given scant regard to set proper standards of conduct and procedure. In conclusion, I find that Noticee 1 has also violated clauses 2, 7 and 8 of CoC of RA Regulations.

(I.3) Whether Noticee 1 has violated regulations 6(v), 7(1), 7(2), 24(5) and clauses 7 and 8 of the CoC under RA Regulations by employing RAs who have not fulfilled qualifications/certification requirements?

32. Text of regulations 6(v), 7(1), 7(2) and 24(5) of the RA Regulations has been provided below. The text of clauses 7 and 8 of CoC of RA Regulations has already been reproduced in paragraph 14 above.

CHAPTER II REGISTRATION OF RESEARCH ANALYSTS

Consideration of application and eligibility criteria.

6. For the purpose of the grant of certificate the Board shall take into account all matters which are relevant to the grant of certificate of registration and in particular the following, namely:-

(v) whether in case the applicant is a research entity, the individuals employed as research analyst are qualified and certified as specified in regulation 7;

Qualification and certification requirement.

7.(1) An individual registered as research analyst under these regulations, individuals employed as research analyst and partners of a research analyst, if any, engaged in preparation and/or publication of research report or research analysis shall have the following minimum qualifications, at all times:

(i) A professional qualification or post-graduate degree or post graduate diploma in finance, accountancy, business management, commerce, economics, capital market, financial services or markets provided by:

(a) a university which is recognized by University Grants Commission or by any other commission/council/board/body established under an Act of Parliament in India for the purpose; or

(b) an institute/association affiliated with such university; or

(c) an institute/ association/university established by the central government or state government; or

(d) autonomous institute falling under administrative control of Government of India; or

(ii) professional qualification or post-graduate degree or post graduate diploma which is accredited by All Indian Council for Technical Education, National Assessment and Accreditation Council or National Board of Accreditation or any other council/board/body set up under an Act of Parliament in India for the purpose; or

**[(iii) a professional qualification by completing a Post Graduate Program in the Securities Market (Research Analysis) from NISM of a duration not less than one year; or]*

*** [(iv)] a graduate in any discipline with an experience of at least five years in activities relating to financial products or markets or securities or fund or asset or portfolio management.*

(2) An individual registered as research analyst under these regulations, individuals employed as research analyst and partners of a research analyst,

if any, shall have, at all times, a NISM certification for research analysts as specified by the Board or other certification recognized by the Board from time to time:

Provided that research analyst or research entity already engaged in issuance of research report or research analysis seeking registration under these regulations shall ensure that it or the individuals employed by it as research analyst and/or its partners obtain such certification within two years from the date of commencement of these regulations:

Provided further that fresh certification must be obtained before expiry of the validity of the existing certification to ensure continuity in compliance with certification requirements.

Inserted by the Securities and Exchange Board of India (Research Analysts) (Amendment) Regulations, 2021 w.e.f 16.03.2021 (hereinafter referred to as **“RA Amendment Regulations 2021”)*

***Substituted for “(iii)” by RA Amendment Regulations 2021.*

CHAPTER III MANAGEMENT OF CONFLICTS OF INTEREST AND DISCLOSURE REQUIREMENTS

General responsibility.

24. (1)....

(5) It shall be the responsibility of the research analyst or research entity to ensure that its employees or partners, as may be applicable, comply with the certification and qualification requirements under regulation 7 at all times.

33. The SCN alleges that Noticee 1 had employed 3 RAs namely, Noticee 2, Noticee 3, and one Mr. Pranay Guha during the Inspection Period who did not bear the requisite qualifications required as per the RA Regulations. With respect to Noticee 2, it was observed that she did not fulfil the minimum qualification which is required at all times as per regulation 7(1) of the RA Regulations. Further, it was observed that she had not obtained NISM certification for RAs as prescribed under regulation 7(2) of RA Regulations. As regards to Noticee 3 and Mr. Pranay Guha, it was observed that they had not

obtained NISM certification for RAs mandated by regulation 7(2) of RA Regulations.

34. In August 2021 Reply and its additional submissions, Noticee 1 has stated that it had taken the following actions with respect to its RAs: (i) requested its RAs to obtain NISM certification; (ii) re-designated Noticee 2 as research associate with effect from February 01, 2020; (iii) separated Noticee 3 from research desk with effect from December 10, 2019; and (iv) re-designated Mr. Pranay Guha as research associate with effect from December 01, 2019. Similar to the reasoning provided in issue (I.2) above, re-designating individuals carrying out RA activities as “research associate” is merely a change in nomenclature and a person carrying out RA activities who is not designated as a RA will fall under the purview of RAs under RA Regulations, and consequently, the requisite qualification for such individuals as per the RA Regulations would have to be obtained. Noticee 1 has not pleaded that Noticee 2 and Mr. Pranay Guha were not carrying out RA activities, thus, re-designating the individuals post the Inspection Period does not mean that a violation has not occurred. With respect to Noticee 3, it has already been discussed in issue (I.2) above how he was carrying out RA activities, similarly, re-designating him does not mean that violation is rectified. Further, Noticee 1 has submitted that the current RAs employed by it meet the requisite NISM certification requirement. In this regard, I find that the current Inspection Period is confined to the period from April 01, 2018 to March 31, 2019, thus, the qualification status of its current RAs is outside the scope of the instant adjudication proceedings.

35. In light of the above, I find that violation of regulations 6(v), 7(1), 7 (2), 24 (5) and clauses 7 and 8 of CoC under RA Regulations by Noticee 1 is clearly established.

(I.4) Whether Noticee 1 has violated regulations 13(iii), 15(2), 24(1) and clauses 3, 7 and 8 of the CoC under RA Regulations by not segregating RA activities/operations from other business/activities?

36. The relevant regulations pertaining to this issue alleged to have been violated by Noticee 1 are reproduced below. Further, clauses 7 and 8 of CoC of RA Regulations has already been provided in paragraph 14 above.

CHAPTER II REGISTRATION OF RESEARCH ANALYSTS

Conditions of certificate.

13. *The certificate granted under regulation 9 shall, inter alia, be subject to the following conditions:-*

(iii) research analyst registered under these regulations shall use the term 'research analyst' in all correspondences with its clients.

CHAPTER III MANAGEMENT OF CONFLICTS OF INTEREST AND DISCLOSURE REQUIREMENTS

Establishing Internal policies and procedures.

15. *(2) Research analyst or research entity shall have in place appropriate mechanisms to ensure independence of its research activities from its other business activities.*

General responsibility.

24. *(1) Research analyst or research entity shall maintain an arms-length relationship between its research activity and other activities.*

THIRD SCHEDULE

[See sub-regulation (2) of regulation 24]

CODE OF CONDUCT FOR RESEARCH ANALYST

3. *Conflict of Interest Research analyst or research entity shall effectively address conflict of interest which may affect the impartiality of its research analysis and research report and shall make appropriate disclosures to address the same.*

37. The SCN alleges that Noticee 1 had not kept appropriate fields in its client induction form/account opening form for providing RA services and did not mention its activity/registration as a RA in the said forms. Further, the SCN alleges that the research team of Noticee 1 was not handling clients directly,

and all client requests and queries were being resolved through a common helpdesk which receives all the requests, complaints and queries including relating to its stock broking services. The SCN also alleges that Noticee 1 had not obtained SCORES authentication during the Inspection Period and therefore, there was no separate complaint redressal mechanism put in place for complaints related to its RA services.

38. In August 2021 Reply, Noticee 1 has argued that it has complied with the provisions of regulation 15(2) of RA Regulations. It has claimed that since it was not charging any fee/payment from any of its clients, therefore, it was not required to take a separate client registration form from its clients to avail its research services as the research services were provided complementary to all clients. The Noticee has now incorporated its research activities in its KYC form. Further, Noticee 1 has submitted that it has complied with regulation 24(1) of RA Regulations as the research department is functioning from a separate block with a china wall policy in place. As regards to the complaint redressal mechanism, Noticee 1 is now authenticated on SCORES portal of SEBI. Noticee 1 has not received any complaint regarding the research activities since beginning. Noticee 1 has explained that its research department has separate mechanism for complaint redressal/grievances completely different from its stock broking activities as the research department sometimes receives only general queries over the phone which were being independently handled by the research department of Noticee 1.
39. In its additional submissions, Noticee 1 has further argued that there is there is complete segregation of RA activities and operations from its other businesses/activities as mentioned in its internal policy under objective no.4, by the heading "*Management of Conflict of Interest and Disclosure Requirements*" and point no. viii under the heading "*Limitations on Trading by Research Analyst*". It has further listed down methods as provided in paragraph 10.5(ii) above, by which the research department of Noticee 1 has maintained an arms-length relationship with its other activities.

40. I have perused the induction form/account opening form given by Noticee 1 to the inspection team. I agree with the finding of the inspection team that it does not mention anywhere that Noticee 1 is registered as a RA or it provides RA services. In this regard, I note that regulation 13(iii) of the RA Regulations provides that a RA is required to use the term “research analyst” in all its correspondences with its clients. The defence taken by Noticee 1 that it is providing complementary RA services without charging any fees, thus, it is not required to comply with the aforesaid regulations is completely baseless. The aforesaid regulation does not carve out any such exception. Further, I note that regulation 15(2) requires the research entity to put in place appropriate mechanisms to ensure independence of its research activities from its other business activities. By not indicating in its account opening form that it is offering RA services, I cannot come to a conclusion that Noticee 1 has failed to segregate its RA activities from its other activities. I note that post inspection Noticee 1 has inserted a page 40 in its account opening form which states that Noticee 1 is registered as a RA and it provides research facility free to its clients, and that the concerned client is required to give his/her consent if it wishes to opt for the said facility.
41. As regards to the submission of Noticee 1 that it had not received any complaint relating to its research activities and queries relating to research activities were being redirected to the research team from the common helpdesk, therefore, there was no violation of regulation 13(iii) and 15(2) of the RA Regulations, I find that a research entity/RA having a common helpdesk for resolving queries/complaints with respect to its research activities is in a position to misuse its discretion and use the opportunity for promoting its stock broking activities/other business activities. My aforesaid reasoning finds more strength from the fact that during Inspection Period Noticee 1 did not have a SCORES user ID for itself, thus, any individual was at the mercy of common helpdesk of Noticee 1 for its queries/complaints which could be abused. However, only because of the aforesaid factor, I find it difficult to hold that Noticee 1 had not segregated its research activities from its other activities. Further, with respect to the manner in which Noticee 1 has segregated its activities as enumerated in paragraph 10.5(ii) above, I find that none of the

points mentioned therein were brought to the notice of inspection team, accordingly, the veracity of those points cannot be checked at this stage. I note that as corrective steps, which can be considered as mitigating factors, Noticee 1 has installed an IVR dialling system which directly connects the user to the research desk after following certain instructions and has also obtained SCORES authentication. Noticee 1 has further cited that its internal policy under objective no.4, by the heading "*Management of Conflict of Interest and Disclosure Requirements*" and point no. viii under the heading "*Limitations on Trading by Research Analyst*" shows that there was complete segregation of its RA activities from its other operations. I find it difficult to rely on the internal policy of Noticee 1 to conclusively hold that Noticee 1 was segregating its activities as it merely states that Noticee 1 maintains segregation of activities. I find that an internal policy which is a piece of writing cannot give insights into the actual operations taking place.

42. In light of the paragraphs above, I find that by not having appropriate fields in its account opening form for its RA activities, Noticee 1 has violated regulations 13(iii), 7 and 8 of CoC under RA Regulations. However, with respect to violation of regulation 15(2), 24(1), and clause 3 of CoC under RA Regulations, I am giving benefit of doubt to Noticee 1 by holding that allegation of violation of non-segregation of activities does not stand established.

(I.5) Whether Noticee 1 has violated regulations 15(1), 16(1) and clauses 7 and 8 of the CoC under RA Regulations by failing to frame/adopt internal policies and control procedures governing the dealing and trading by any RA and ensuring monitoring and approval of trades of its RAs?

43. Before proceeding further, it would be apposite to refer to the relevant provisions alleged to have been violated by Noticee 1 in this issue. Clause 7 and 8 of CoC under RA Regulations has already been replicated in paragraph 14 above.

CHAPTER III MANAGEMENT OF CONFLICTS OF INTEREST AND DISCLOSURE REQUIREMENTS

Establishing Internal policies and procedures. 15.

(1) Research analyst or research entity shall have written internal policies and control procedures governing the dealing and trading by any research analyst for:

- (i) addressing actual or potential conflict of interest arising from such dealings or trading of securities of subject company;*
- (ii) promoting objective and reliable research that reflects the unbiased view of research analyst; and*
- (iii) preventing the use of research report or research analysis to manipulate the securities market.*

Limitations on trading by research analysts.

16. (1) Personal trading activities of the individuals employed as research analyst by research entity shall be monitored, recorded and wherever necessary, shall be subject to a formal approval process.

44. The SCN alleges that Noticee 1 in reply to pre-inspection questionnaire had provided an internal policy document which *inter alia* dealt with limitation on trading by its RA, however, the said policy did not bear the date when it was actually approved. To complicate matters, during inspection, Noticee 1 in its written submissions dated November 18, 2019 stated the following:

“As on date, we do not have any written policy regarding trading/investment by our research analysts. Our RAs, undersigned and Shri Siddhartha Chatterjee, are involved in trading/investment in securities market. Further, I do not have any knowledge about trading activities of Ms. Palak Gupta and Shri Pranay Guha while being employed with Trustline Securities Limited. As on date, the trading activities are not being monitored, nor are being recorded and we do not have any provision of any prior-approval or intimation process. However we will formulate a policy and ensure compliance for the same in due course of time.”

45. Thereafter, in its reply to inspection findings, *vide* letter dated September 01, 2020, Noticee 1 again reversed its position, and stated that it has a policy in place and provided a copy of the said policy. In August 2021 Reply, Noticee 1 has stated it has an internal policy and provided a copy of the said policy along with a copy of board resolution dated June 29, 2015 which approves the said policy. In its additional submissions, Noticee 1 stated that it had submitted internal policy to the inspection team during their visit in November, 2019, which is incorrect as per the inspection report. It has also stated that post inspection, it has framed the detailed trading policy/procedure. To check the genuineness of the board resolution submitted, the undersigned requested Noticee 1 to submit (i) copy of the minutes book containing the minutes of the board meeting held on June 29, 2015; (ii) copy of the agenda of the board meeting held on June 29, 2015; (iii) copy of notices sent to the directors with respect to the board meeting held on June 29, 2015. On perusal of the aforesaid documents and in light of subsequent submissions, I am inclined to grant benefit of doubt to Noticee 1 and accept that it had an internal policy in place disregarding the submission made by it *vide* letter dated November 18, 2019 wherein it denied the fact that it had an internal policy.
46. Coming to the contents of the internal policy of Noticee 1, I note that regulation 15(1) of RA Regulations requires a research entity to have written internal policies and control procedures which govern the dealing and trading by any RA for the purposes listed in sub-regulation (i) to (iii) therein. Regulation 15(1)(i) states that the said policy should address actual or potential conflict of interest arising from dealings or trading of securities of subject company. In this regard, the internal policy of Noticee 1 *inter alia* under the heading “*Disclosures in Research Report*” provides that RAs of Noticee 1 who are engaged in research activity and preparing research report shall disclose all material information about himself or Noticee 1 including details with respect to ownership and material conflict of interest. As regards to regulation 15(1)(ii) which states that the said policy should promote objective and reliable research that reflects unbiased view of the RA, I find that the internal policy of Noticee 1 *inter alia* under the heading “*Management of Conflict of Interest and Disclosure Requirements*” provides that “*iv. The Research Report issued by*

Research Analysts of the Company shall be based on adequate documentary research evidence” and “vii. Research Analysts shall have adequate documentary basis, supported by research, for preparing a research report”. I note that regulation 15(1)(iii) provides that the internal policy should prevent the use of research report or research analysis to manipulate the securities market. In relation to the above, I find that internal policy of Noticee 1 *inter alia* states under the heading “*Distribution of research reports*” that “*i. A research report shall not be made available selectively to internal trading personnel or a particular client or class of clients in advance of other clients who are entitled to receive the research report*”. Basis the above, I find that internal policy of Noticee 1 is broadly compliant with requirements of regulation 15(1) of RA Regulations. Accompanying its August 2021 Reply, Noticee 1 has furnished certified true copy of board resolution dated December 20, 2019 wherein its board has approved human resources policy for its research department along with a copy of the said policy. Since the aforesaid policy was approved after the Inspection Period, I do not find it necessary to examine the said policy.

47. Further, regulation 16(1) requires a research entity to monitor, record and wherever necessary grant formal approval to personal trading of RAs under its employment. I note that under the heading “*Management of Conflict of Interest and Disclosure Requirements*” of the internal policy of Noticee 1 there is a sub-heading “*Limitations on trading by research analysts*”, which as the title indicates *inter alia* lists down circumstances in which RAs shall not trade. However, Noticee 1 has not furnished any evidence along with its August 2021 Reply or its additional submissions as to whether the limitations put on the trading by its RAs are actually implemented. The lack of documentary evidence coupled with the fact that Noticee 1 in its November 18, 2019 written submission had stated that they do not monitor trading activities of its RA, record such trades or have any provision of any prior approval, I am constrained to observe that Noticee 1 has violated regulation 16(1) as well as clauses 7 and 8 of the CoC of RA Regulations. However, with respect to violation of regulation 15(1), I am granting benefit of doubt to Noticee 1 and accepting that it had an internal policy in place broadly in compliance with the requirements of sub-regulation (i) to (iii) of regulation 15(1).

(I.6) Whether Noticee 1 has violated regulations 16(2), 16(3) and clauses 3, 7 and 8 of the CoC under RA Regulations by trading in securities contrary to its own given recommendations?

48. The text of relevant regulations except clauses 3, 7 and 8 of CoC of RA Regulations (as the aforesaid clauses have been reproduced in paragraphs 14 and 36 above) are provided hereunder:

CHAPTER III MANAGEMENT OF CONFLICTS OF INTEREST AND DISCLOSURE REQUIREMENTS

16 (2) Independent research analysts, individuals employed as research analyst by research entity or their associates shall not deal or trade in securities that the research analyst recommends or follows within thirty days before and five days after the publication of a research report.

(3) Independent research analysts, individuals employed as research analysts by research entity or their associates shall not deal or trade directly or indirectly in securities that he reviews in a manner contrary to his given recommendation.

At this juncture, it is also relevant to refer to regulation 16(5) of the RA Regulations, which reads as follows:

(5) Provisions of sub-regulations (2) to (4) shall apply mutatis mutandis to a research entity unless it has segregated its research activities from all other activities and maintained an arms-length relationship between such activities.

49. The SCN alleges that when trades of Noticee 1 were checked on sample basis, it was found that it had traded during the period prohibited under regulation 16(2) and contrary to its own recommendation in violation of regulation 16(3) of the RA Regulations. Specifically, it alleges that Noticee 1 had traded during the prohibited period in 59 instances in cash segment, in 12 instances in futures, and in 52 instances in currency derivatives. Further, it

alleges that it had traded contrary to its own RA's recommendations in 1 instance in cash segment, in 1 instance in futures and in 9 instances in currency derivatives.

50. Despite the fact that Noticee 1 had not submitted a response or refuted the aforesaid inspection finding in its letter dated September 01, 2020, in its August 2021 Reply, Noticee 1 has claimed that it maintains a strict separation between its research desk and its trading desk and they both operate independently. It has further claimed that its research desk arrives at recommendations after using technical analysis tools, whereas its trading desk uses its own strategy. To supplement the above, Noticee 1 has furnished rationale for sample dates wherein non-compliance of regulation 16(2) and 16(3) was alleged against Noticee 1. In its additional submissions, Noticee 1 has substantially reiterated the submissions made by it in its August 2021 Reply with respect to this issue. I find that regulation 16(5) of RA Regulations is critical here, since it provides that the restrictions applicable to RAs under regulation 16(2) and 16(3) become *mutatis mutandis* applicable to a research entity if it has not segregated its research activities from all its other activities. Basis my analysis in issue (1.4) above, I find that the charge that Noticee 1 has not segregated its research activities from its other businesses is not proved, thus, the question of investigating whether Noticee 1 was in violation of regulations 16(2) and 16(3) of RA Regulations does not arise, as compliance with the aforesaid regulations only becomes necessary if a research entity has not segregated its activities.

51. In view of the above, I find that Noticee 1 has not violated the provisions of regulation 16(2), 16(3) and clauses 3, 7 and 8 of CoC of RA Regulations.

(I.7) Whether Noticee 1 has violated regulations 19(i)(a),19(ii)(b),(c),(d),(e), 19(v) and clauses 3, 6, 7 and 8 of the CoC under RA Regulations by failing to make necessary disclosures in research reports?

52. The text of regulations 19(i)(a),19(ii)(b),(c),(d),(e), 19(v) and clause 6 of the CoC under RA Regulations is supplied below:

CHAPTER III MANAGEMENT OF CONFLICTS OF INTEREST AND DISCLOSURE REQUIREMENTS

Disclosures in research reports.

19. A research analyst or research entity shall disclose all material information about itself including its business activity, disciplinary history, the terms and conditions on which it offers research report, details of associates and such other information as is necessary to take an investment decision, including the following:

(i) Research analyst or research entity shall disclose the following in research report and in public appearance with regard to ownership and material conflicts of interest: (a) whether the research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest;

(ii) Research analyst or research entity shall disclose the following in research report with regard to receipt of compensation:

(b) whether it or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months;

(c) whether it or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months;

(d) whether it or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months;

(e) whether it or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report.

(v) whether the research analyst or research entity has been engaged in market making activity for the subject company;

THIRD SCHEDULE

[See sub-regulation (2) of regulation 24]

CODE OF CONDUCT FOR RESEARCH ANALYST

6. Professional Standard Research analyst or research entity or its employees engaged in research analysis shall observe high professional standard while preparing research report.

53. The SCN alleges that the disclosure made in the research reports of Noticee lacks the disclosures provided in the paragraph above. In this regard, Noticee 1 in its August 2021 Reply has stated that it has made disclosures in its research reports which was also provided to the inspection team during their visit. Further, it has stated that it is not involved in investment banking, market making, initial public offering, merchant banking etc activities. It has also stated that it has incorporated the relevant disclosures in its research reports and has provided an extract of such disclosures. In its additional submissions, Noticee 1 has submitted that it has already taken corrective measures and incorporated the relevant disclosures. On perusal of the disclosures in the research reports of Noticee 1 pertaining to the Inspection Period, I note that the said disclosures were incomplete, and did not contain the disclosures provided in paragraph above. Thus, I find that Noticee 1 has violated regulations 19(i)(a),19(ii)(b),(c),(d),(e), 19(v) and clauses 3, 6, 7 and 8 of the CoC under RA Regulations. I note from the extract of revised disclosures provided by Noticee 1 with its August 2021 Reply that I am in agreement with the statement of Noticee 1 that it has now taken corrective action basis the inspection findings and incorporated the necessary disclosures.

(I.8) Whether Noticee 1 has violated regulations 21(1) and 24(2) read with clauses 2, 6, 7 and 8 of the CoC under RA Regulations by failing to make necessary disclosures in public appearance?

54. The text of regulations 21(1) and 24(2) except clauses 2, 6, 7 and 8 of CoC of RA Regulations (as the aforesaid clauses have been reproduced in paragraphs 14 and 52 above) are provided hereunder:

CHAPTER III MANAGEMENT OF CONFLICTS OF INTEREST AND DISCLOSURE REQUIREMENTS

Recommendations in public media.

21. (1) Research analyst or research entity including its director or employee shall disclose the registration status and details of financial interest in the subject company, if he makes public appearance.

General responsibility.

24. (2) Research analyst or research entity shall abide by Code of Conduct as specified in Third Schedule.

55. The SCN alleges that Noticee 3 being a RA employed with Noticee 1 had made recommendations on total 123 days on youtube and in regional media. On perusal of the records maintained by Noticee 1, it was noted that requisite disclosures under regulation 19(i), 19(iii) and 21(1) were not made while appearing in public media. Taking the aforesaid into account, it has been alleged that Noticee 1 failed to make requisite disclosures, and violated regulation 21(1), 24(2) read with clauses 2,6,7, and 8 of CoC of RA Regulations.
56. In its August 2021 Reply, Noticee 1 has submitted that it has separated Noticee 3 from its research desk with effect from December 10, 2019. Further, it has relied upon a declaration given by Noticee 3 which has been reproduced in paragraph 24 above.
57. In its additional submissions, Noticee 1 has reiterated the submissions provided in the paragraph above and has added that the aforesaid declaration clarifies the fact that the public media appearance of Noticee 3 was in his personal capacity and Noticee 1 was not involved in the same.
58. From the replies of Noticee 1, I note that Noticee 1 has not disputed the existence of public appearance made by Noticee 3, however, it has pleaded that such public appearance was made by Noticee 3 in his personal capacity. I have already discussed in paragraphs 25 to 28 above how the appointment letter of Noticee 3 and his twitter profile shows that public appearances made by Noticee 3 were not completely in his personal capacity, the same reasoning is not duplicated here.

59. Taking into account the appointment letter of Noticee 3 and his twitter page, I do not agree with the contention of Noticee 1 that Noticee 3 was making public appearance in his own capacity without any involvement of Noticee 1. Thus, I find that Noticee 1 has violated regulations 21(1) and 24(2) read with clauses 2, 6, 7 and 8 of the CoC under RA Regulations.

(I.9) Whether Noticee 1 has violated SEBI circular no. CIR/OIAE/1/2014 dated December 18, 2014 and clause 7 and 8 of the CoC under RA Regulations by failing to obtain SCORES authentication and put in place a complaint redressal system?

60. The relevant text of SEBI circular no. CIR/OIAE/1/2014 dated December 18, 2014 is provided below for ease of reference:

“5.All newly listed companies and SEBI registered intermediaries (excluding Stock Brokers, Sub-Brokers and Depository Participants) are hereby advised to send their details as per Form-A and Form-B annexed to this Circular, respectively to SEBI in hard copy and by email to scores@sebi.gov.in and obtain SCORES user id and password immediately within a period of one month from the date of listing. The email id to be furnished by the listed company / SEBI registered intermediary for receiving SCORES user id and password from SEBI has to be preferably a corporate email id and necessarily a permanent one. Failure by any listed company or SEBI registered intermediary to obtain the SCORES user ID and password would not only be deemed as non-redressal of investor grievances but also indicate willful avoidance of the same. The existing listed companies which have failed to obtain authentication will be dealt with in accordance with para 15 below.

7.The registered intermediaries shall submit the details in hard copy (Form-B) to the Department/Division of SEBI which has granted them registration to operate in the securities market. SCORES user id and password of an intermediary shall be created only after receiving approval from the concerned Department/Division of SEBI.

14. The Board of Directors of the listed company or the Board of Directors/ Proprietor/ Partner of the registered intermediary shall be responsible for ensuring compliance with the provisions of this Circular.

16. All companies whose securities are listed on recognized Stock Exchanges and intermediaries registered with SEBI are advised to comply with this Circular.”

61. The SCN alleges that Noticee 1 did not obtain SCORES authentication and also that its research team was not handling clients directly. As noted above, Noticee 1 had a common helpdesk for receiving all requests and queries. In its August 2021 Reply, Noticee 1 has submitted that it has now authenticated itself on SCORES. Further, it has argued that it is not charging any fee for its RA activities, and its research team is handling queries relating to RA Regulations, thus, it has maintained a separate mechanism for complaint redressal. In its additional submissions, Noticee 1 has reiterated the fact that it has now obtained SCORES authentication and it has emphasised that it has installed an IVR dialling system through which client calls land directly with the research team.

62. I find that Noticee 1 has not disputed the allegation that it did not have SCORES authentication during the Inspection Period. Thus, violation of SEBI circular no. CIR/OIAE/1/2014 dated December 18, 2014 stands established. I find that violation of aforesaid circular also triggers clause 7 and 8 of CoC of RA Regulations. Further, as to whether Noticee 1 did not have separate grievance redressal mechanism in place for its RA activities, I am not able to arrive at a conclusion that merely because it had a common helpdesk, Noticee 1 did not have an independent grievance mechanism set up for its RA activities.

(I.10) Whether Noticee 1 has violated regulation 25(3) and clauses 7 and 8 of the CoC under RA Regulations by failing to conduct appropriate internal audit?

63. Regulation 25(3) of RA Regulations reads as follows:

Maintenance of records.

25. (3) Research analyst or research entity shall conduct annual audit in respect of compliance with these regulations from a member of Institute of Chartered Accountants of India or Institute of Company Secretaries of India.

64. The SCN alleges that Noticee 1 had conducted internal audit for the Inspection Period and submitted a copy of the audit report to the inspection team. However, the said audit report confirms compliance despite the fact that on inspection, inspection team of SEBI observed patent irregularities. It also alleges that Noticee 1 failed to conduct appropriate internal audit as the audit report lacks details of records relied upon by the auditors for their findings. In this regard, August 2021 Reply states that Noticee 1 has conducted internal audit. It further states that it will strengthen its procedures in future to avoid non-compliances. In its additional submissions, Noticee 1 has reiterated the submission made by it in August 2021 Reply.
65. I find that regulation 25(3) of the RA Regulations requires Noticee 1 to conduct annual audit with respect to compliance of RA Regulations from a member of Institute of Chartered Accountants of India or Institute of Company Secretaries of India. I note that Noticee 1 had appointed CA Sunil Patel (reg. no.535954) to conduct the audit exercise, pursuant to which, he submitted an audit report for the FY 2018-2019. I note that the audit report does not record any adverse findings. For instance, with respect to *“Whether the individuals employed as Research Analyst are qualified and certified as specified in regulation 7”*, it merely records a *“Yes”* when on simple fact checking the said CA would have been able to come to a conclusion that its RAs did not have the requisite NISM certification as noted in issue (I.3) above. Thus, coupled with the absence of records that were audited, I agree with the allegation levelled in the SCN that the audit undertaken appears to be a box-ticking exercise undertaken to purely be in compliance with the letter of regulation 25(3) and not its spirit. Notwithstanding the above, I note that no standard is prescribed for conducting audit under regulation 25(3) and in absence of any evidence

suggesting collusion between Noticee 1 and its auditor, I find that Noticee 1 cannot be held to be responsible for questionable audit conducted by a third-party. In view of the foregoing, alleged violation of regulation 25(3) and clauses 7 and 8 of the CoC of RA Regulations by Noticee 1 cannot be sustained.

II. Whether Noticee 2 has violated regulation 16(2), and clauses 1, 3, 7 and 8 of the CoC under RA Regulations by trading within prohibited period?

66. The concerned regulations in this issue have already been reproduced in paragraphs 14 and 36 above except clause 1 of CoC under RA Regulations. Thus, to avoid repetition, the same are not provided again.

THIRD SCHEDULE

[See sub-regulation (2) of regulation 24]

1. Honesty and Good Faith Research analyst or research entity shall act honestly and in good faith.

67. The SCN alleges that Noticee 2, in 3 instances out of 47 research reports made by her, traded in shares of companies between the period of thirty days before and five days after publication of research report. It also alleges that during inspection, she provided incomplete information as she declared only four transactions whereas the inspection team found that she had executed total seventeen transactions. The details regarding the aforesaid 3 instances is tabulated below:

S. no.	Recommended scrip	Report date	Trade date	Buy/sell
1	Dabur	29-03-2019	06-03-2019	Buy
2	Dabur	29-03-2019	25-03-2019	Buy
3	Gujarat Alkali	05-10-2018	05-10-2018	Buy

68. In August 2021 Reply, Noticee 2 has argued that her trading volume was negligible which indicates that there was no *malafide* intention behind the said trades. In her additional submission, Noticee 2 has admitted the said violation and pleaded that the said act was not intentional. I find that in all the 3 instances Noticee 2 has violated regulation 16(2) of RA Regulations. For

instance, as tabulated above, on October 05, 2018, Noticee 2 made a recommendation regarding a company and on the same date bought 1 share of the same company. Thus, I find that the aforesaid act is in clear non-compliance of regulation 16(2) of RA Regulations. As regards absence of intention on the part of Noticee 2, I find it relevant to refer to the landmark decision of ***The Chairman, SEBI vs. Shriram Mutual Fund and Ors.*** (Civil Appeal Nos. 9523-9524 of 2003), decided on May 23, 2006, wherein the Hon'ble Supreme Court has held that: *"The Scheme of the SEBI Act of imposing penalty is very clear. Chapter VI nowhere deals with criminal offences.....Therefore, there is no question of proof of intention or any mens rea by the appellants and it is not essential element for imposing penalty under SEBI Act and the Regulations."*

69. Further, I note that Noticee 2 had made wrong declaration regarding the transactions executed by her, which in turn violated clause 1 of CoC of RA Regulations. By trading within the period prohibited under regulation 16(2), Noticee 2 has also attracted clause 3 of CoC. Lastly, I find that Noticee 2 has also violated clause 7 of CoC which requires a RA to comply with all regulatory requirements. I do not find that Noticee 2 has violated clause 8 of CoC as it pertains to senior management of a company, and the inspection team has not brought on record the seniority of Noticee 2.

III. Whether Noticee 3 has violated regulations 16(2), 16(3) and clauses 3, 7 and 8 of the CoC under RA Regulations by trading within prohibited period and trading contrary to his own given recommendations?

70. For brevity, the concerned regulations in this issue are not repeated herein. The SCN alleges that Noticee 3, in 18 instances traded during thirty days before and five days after publication of research report. Further, it alleges that in 1 instance, he traded contrary to his own trading recommendation/calls. Noticee 3 in August 2021 Reply has pleaded that the trading volume of the trades were low, the said trades were intraday and they were squared off with marginal price difference which shows that there was no *malafide* intention. In his additional submissions, he has argued that due to the concerned

transactions in cash segment he had made a loss of Rs 14,552, and in futures and options segment, he had made net gain of Rs. 5823.75. Further, he has also submitted that the said violation occurred due to lack of knowledge. Lastly, he has submitted that he does not charge any fees for the recommendations he makes, and they are imparted for educational purposes.

71. I find the arguments of Noticee 3 untenable as he has himself admitted in his additional submissions that *“I can make out that being a professional Chartered Accountant it is not enough to submit that the acts on my part were out of ignorance and omission”*. Noticee 3 is not a layman and it is expected from a professional employed with an organization offering RA services that he should be conversant with the RA Regulations. I note from his appointment letter that he was appointed by Noticee 1 since 2006 and Noticee 1 obtained its RA registration in 2015, thus, by the time the inspection was conducted, Noticee 1 had been a RA for nearly 3 years. With respect to the submission of Noticee 3 that there was no *malafide* intention, I again find it appropriate to rely on the ratio of ***Shriram Mutual Fund and Ors.*** (*supra*). Noticee 3 has not been able to furnish a compelling reason for executing trades in violation of regulation 16(2) and 16(3) of RA Regulations, therefore, I hold that he had violated regulations 16(2), 16(3) and clauses 3, 7 and 8 of the CoC under RA Regulations.

IV. Does the violation, if any, attract monetary penalty under sections 15A(a), 15A(c) and 15EB of the SEBI Act?

V. If the answer to Issue No. IV is in affirmative, then what should be the quantum of monetary penalty?

72. I note that the Apex Court in the case of ***Shriram Mutual Fund and Ors.*** (*supra*) 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.”*

73. As discussed in issue no. I, II and III above, since it has been established that Noticees has violated the relevant regulations discussed above, I am of the view that a monetary penalty needs to be imposed upon the Noticees under sections 15A(a), 15A(c) and 15EB of the SEBI Act, which reads as under:

Penalty for failure to furnish information, return, etc.

15A. If any person, who is required under this Act or any rules or regulations made thereunder,—

(a) to furnish any document, return or report to the Board, fails to furnish the same ²[or who furnishes or files false, incorrect or incomplete information, return, report, books or other documents], he shall be liable to a penalty ¹[which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees];

(c) to maintain books of account or records, fails to maintain the same, he shall be liable to a penalty ¹[which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees].

²[Penalty for default in case of investment adviser and research analyst.

15EB. Where an investment adviser or a research analyst fails to comply with the regulations made by the Board or directions issued by the Board, such investment adviser or research analyst shall be liable to penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.]

¹ *Substituted for the words “of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less” by the Securities Laws (Amendment) Act, 2014, w.e.f. 08-09-2014*

² *Inserted by the Finance Act, 2018 w.e.f. 08-03-2019 (hereinafter referred to as “Finance Act 2018”).*

74. While determining the quantum of monetary penalty under the aforesaid sections of the SEBI Act, I have considered the factors stipulated in section 15J of the SEBI Act, which reads as under:

Factors to be taken into account while adjudging quantum of penalty

While adjudging quantum of penalty under ³[15-I or section 11 or section 11B, the Board 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.*

⁴[Explanation: For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.]

³ Substituted for the words "section 15-I, the adjudicating officer" by the Finance Act 2018.

⁴ Inserted by Part VIII of Chapter VI of the Finance Act, 2017 vide Gazette Notification No. 7, Extraordinary Part II Section 1 dated March 31, 2017. This shall come into force from April 26, 2017.

75. In the present matter, the facts of the case clearly establish that the Noticees have violated RA Regulations. Accordingly, I consider it necessary to impose a monetary penalty which would act as a deterrent to the Noticees in future. It is not possible from the material on record to quantify the amount of disproportionate gain or unfair advantage made by the Noticees due to the default. It is also not possible to assess the consequent loss caused to investors. With respect to the repetitive nature of the default, I find that no prior action has been taken in the past against any of the Noticees. Lastly, I have considered the cases cited by Noticees in paragraph 10.12 above as well as the mitigating factors submitted by the Noticee as summarized in paragraph

10.13 above. I have also considered the fact that majority of the violations alleged are under section 15EB of the SEBI Act which was operative from March 08, 2019 and the Inspection Period ends on March 31, 2019 and that the following was inserted in section 15A(a) effective from March 08, 2019 “*or who furnishes or files false, incorrect or incomplete information, return, report, books or other documents*”.

E. ORDER

76. After taking into consideration the nature and gravity of the violation established in the preceding paragraphs and in exercise of the powers conferred upon me under section 15-I of the SEBI Act read with rule 5 of the SEBI Adjudication Rules, I hereby impose a penalty of Rs 3,00,000 (Rupees Three Lakhs Only) on Noticee 1 *i.e*, Trustline Securities Ltd. under sections 15A(a), 15A(c) and 15EB of SEBI Act, Rs. 1,00,000 (Rupees One Lakh Only) on Noticee 2 *i.e*, Palak Gupta under sections 15A(a) and 15EB of SEBI Act and Rs. 1,00,000 (Rupees One Lakh Only) on Noticee 3 *i.e*, Siddhartha Chatterjee under sections 15A(a) and 15EB of SEBI Act. I am of the view that the penalty imposed on the Noticee is commensurate with the violation committed by them.
77. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of demand draft in favor of “SEBI - Penalties Remittable to Government of India”, payable at Mumbai, or through online payment facility available on the SEBI website www.sebi.gov.in on the following path by clicking on the payment link.

ENFORCEMENT→ ORDERS→ ORDERS OF AO → PAY NOW

78. The Noticee shall forward the said demand draft or the details / confirmation of penalty so paid through e-payment to the Division Chief, Enforcement Department-I, DRA-IV, SEBI, in the format given in table below:

Case name	
Name of payee	
Date of payment	
Amount paid	
Transaction no	
Bank details in which payment is made	
Payment is made for	Penalty

79. In terms of rule 6 of the SEBI Adjudication Rules, copies of this order are sent to the Noticee and SEBI.

Date: June 23, 2022
Place: Mumbai

PRASANTA MAHAPATRA
ADJUDICATING OFFICER