BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/BM/RK/2024-25/31033]

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

In respect of

Name of the Entity	Registration Number	PAN
RELIANCE SECURITIES LIMITED	INZ000172433	AADCR0260P

In the matter of

Inspection of Reliance Securities Limited

Background

1) Securities and Exchange Board of India ("**SEBI**") and exchanges viz, National Stock Exchange ("**NSE**") and Bombay Stock Exchange("**BSE**") had conducted a thematic on-site inspection of the books of accounts, records and other documents of Authorized Persons (**APs**) of Reliance Securities Limited (hereinafter referred to as the **"Noticee/ RSL**"), registered with SEBI as a Stock Broker since September 09, 2005 bearing Registration No. INZ000172433. The inspection was conducted on January 10, 2024 & January 11, 2024 to ascertain whether the same are being maintained in the manner required by the Noticee, with respect to provisions of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**SEBI Act**"), SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as the **"Stock Brokers Regulations**"), National Stock Exchange of India Regulations- Part A (Capital Market Segment) (hereinafter referred to as the "**NSEIL CM Regulations**") , National Stock Exchange (Future & Options) Trading Regulations (hereinafter referred to as the "**NSEIL FO**

Regulations") and applicable Circulars issued thereunder. The inspection was conducted for the period beginning from April 01, 2022 to December 31, 2023 (hereinafter referred to as **"Inspection period/IP**").

2) The inspection findings were communicated to the Noticee vide SEBI letter dated March 21, 2024. After examining the reply submitted by the Noticee vide letter dated April 19, 2024, it had been alleged that the Noticee contravened various provisions of the securities law in respect of the activities carried out by it. The summary of the violations alleged to have been committed by the Noticee and corresponding provisions of the securities law are given in the table 1 below :-

<u>Table 1:</u>

Sr No.	**Alleged Violations (Summarized)**	**Regulatory Provisions**
1.	Non-maintenance of adequate systems for recording of order placement by clients.	Clause III of SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018. Regulation 3.2.1 of NSEIL CM Regulation, Regulation 3.4.1 of NSEIL FO Regulation.
2.	Discrepancy w.r.t existence of terminal at inspection location Vis a Vis information reported to exchange by the Noticee.	Annexure I - Clause 7 sub with Annexure I-Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with clause 2 of Exchange's circular no. NSE/MEMB/7400 dated April 20, 2006, Exchange's circular no. NSE/MEMB/3574 dated 29-Aug-02, NSE/MEMB/3635 dated 25-Sep-02 and Clause D(a) and D(b) of Point No.2 of NSE/MA/22732 dated 13-Feb-2013.

		SEBI Master Circular SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2023/71 dated May 17, 2023 (Clause No. 32.7.1 & 32.7.2). Exchange Notice No. 20171023-30 dated October 23, 2017. Exchange Notice No. 20131224-7 dated December 24, 2013, and Exchange Notice No. 20140205-25 dated February 5, 2014.
3.	No proper segregation and demarcation maintained at the AP office.	Clause 7 sub clause (a) of Annexure 1 of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with point 19 of NSE/INSP/42448 dated October 18, 2019 read with Clauses 1,2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of Stock Brokers Regulations, 1992
4.	Failure of the Noticee in ensuring that its Authorized Persons are engaged only in permitted activities.	Clause 7 sub-clause (a) of Annexure 1 of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with Clause 1 of Exchange circular NSE/COMP/48536 dated June 09, 2021. Clause 5 of Exchange circular NSE/COMP/50030 dated October 11, 2021 and point 3 of Exchange circular NSE/INSP/42448 dated October 18,2019 read with Clauses 1,2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.
5.	Failure of the Noticee to inspect the books of active registered	Annexure 1- Clause 7(e) of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009

	Authorised Person as per the applicable guidelines.	read with Clauses 12, 17 and 22 of Annexure 6A of Exchange circular NSE/INSP/42448 dated October 18,2019. SEBI Master Circular SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2023/71 dated May 17, 2023 (Clause No. 32.7.5) Exchange Circular No. 20191018-43 dated October 18, 2019.
6.	Non-reporting of details of active clients mapped to Authorized Persons.	Annexure 1- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 and Exchange circular NSE/COMP/49509 dated September 03, 2021 read with Clauses 1, 2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.
7.	Entrusting the CTCL/dealer terminals to its clients other than Approved Persons.	Annexure 1- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 & Clause 2 SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with clause User Management page no.7 Applicable Observances – Trading member- b) point of the Exchange circular no. NSE/MSD/34638 dated April 13, 2017 and para 3 of NSE/MSD/56778 dated May 22, 2023.
8.	Inadequate supervision of AP's by the Noticee.	Annexure I - Clause 7 sub clause (a) of SEBI Circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with point 7 of Exchange circular no. NSE/INSP/42448 dated October 18, 2019 and para 3 of NSE/MSD/56778 dated May 22, 2023.

3) In view of the above, adjudication proceedings was initiated against the Noticee.

APPOINTMENT OF ADJUDICATING OFFICER

4) SEBI, vide order dated July 15, 2024, communicated vide communiqué dated August 23, 2024, appointed undersigned as the Adjudicating Officer (AO) under Section 19 of the SEBI Act read with Sub-Section (1) of Section 15I of the SEBI Act and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**SEBI Adjudication Rules'**) to inquire into and adjudge under the provisions of Section 15HB and 15A(b) of the SEBI Act for the aforesaid alleged violations by the Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

5) A Show Cause Notice (**"SCN"**) No SEBI/HO/EAD/EAD3/P/OW/2024/0000027569/1 dated August 30, 2024 was issued to the Noticee in terms Rule 4(1) of SEBI Adjudication Rules to show cause as to why an inquiry should not be initiated against it and why penalty, if any, be not imposed upon it under the following Sections of SEBI Act:

    a) Section 15HB of the SEBI Act for alleged violations 1-5 and 7 and 8 in table 1 above.
    b) Section 15A(b) of the SEBI Act for alleged violation 6 in table 1 above.

6) SCN dated August 30, 2024 was sent to the Noticee through Speed Post AD and via digitally signed email dated August 30, 2024, which was duly delivered on the same day. The proof of service is on record. Noticee vide its email dated September 19, 2024 sought more time to file reply in the matter. Accordingly, vide email dated September 20, 2024, Noticee was advised to submit reply to the SCN in the matter latest by September 27, 2024. In response, Noticee vide email dated September 27, 2024 submitted its reply in the matter. Noticee also made additional submissions in the

matter vide email dated October 09, 2024.The submissions made by the Noticee vide its email dated September 27, 2024 and October 09, 2024 are summarized as under:

Submissions of Noticee

1. *Noticee submitted that it has provided voice recording system (Nexus Application) to all its APs and the back-up of the VR data is also kept on its cloud-based servers.*

2. *It submitted that compliance on voice recording system is covered in its inspection reporting format and had provided sample of voice recordings to NSE as per data sought by NSE.*

3. *As regards its AP, Naitik Shah (NS), it submitted that he is already maintaining the visitor register along with purpose of visit and complaint register and submitted that he has also started maintaining order slips in addition to the trade confirmation records, which has been verified by the independent CA.*

4. *With respect to AP, Jitendra Kambad (JK), it submitted that out of total 14 clients of JK, 9 clients use its online trading app for trading, which does not require any physical intervention for placements of orders by clients and the 2 clients having client codes N00064498 and M002632, are his family members. These clients had also received contract note from it and there has been no dispute from them against the AP*

5. *It submitted that it has advised JK to ensure order placement slip for all clients mapped to him.*

6. *Wrt AP (NS), unapproved users of AP CTCL ID- 364001525006 (user ID 37175 AND 20117) in the name of Mr Jayeshbhai Jayantilal Ahalpara, which was logged in by Mr Pankaj Lakhajibhai Gohel, for corrective measures, Noticee submitted that both the user IDs were deactivated w.e.f. March 13, 2024.*

7. *W.r.t 6 CTCL IDs wehere IDs were not found at the registered location, Noticee submitted as under table 2:*

8. *W.r.t AP JK, regrading unapproved users of the said AP on 5 CTCL IDs in different locations, Noticee submitted that the said AP has confirmed that this was one of the instance and not a regular practice followed by it and on the day of SEBI inspection there was a user login issue at his office and different users were logged i.e. his employee (User ID- 10824- Biren Trivedi))and his father (User Id- 43408- Manji Bhai Kambad)*

9. *For location mismatch, w.r.t the AP (JK), Noticee has submitted dealer creation form of one Mr Parth Trivedi, CTCL ID- 364005938003 mentioning the AP address as Mahuva, Bhavnagar. It further submitted that inadvertently, the said dealer was created at the default location of AP having address as Shivalik Shramjivi Scoiety and as a corrective measure, the User ID 37174(CM) CTCL Id- 36005938003 has been deactivated on April 05, 2024.*

10. *W.r.t allegation of non-segregation on Noticee regarding AP NS, it submitted the dealer in the name of Jayeshbhai Jayantilal Ahalpara (37175 and 20117) who was having access to another terminal has been deactivated on March 13, 2024 and the said dealer is no longer associated with the said AP ands there is no trading activity carried out from the same desktop.*

11. *Further, as per the observation at Kaveri complex, Bhavnagar where back office of AP was located there was also CTCL ID of Jainam Broking in the name of Tejal Hardik Rajyaguru, the same has been shifted to maintain the segregation.*

12. *W.r.t AP JK, Noticee submitted that the AP has confirmed that on the date of inspection also there was proper segregation and demarcation of both the offices (between Jitendra Kambad and Ravi Kambad).*

13. *It further submitted that Mr Vinubhai Chauhan was carrying out the back office activities from same desktop due to internet issue on the date of inspection and it submitted that JK has confirmed that it was only one of instance and not a regular practice.*

14. *Noticee submitted that in the case of AP JK, observation pertaining to client code D149854 were in the nature of transaction between the client and AP and the client' account has been closed on October 17, 2022. The transaction done in November 2023 between AP and the said client is not related to trading activity. Noticee further submitted that AP has submitted vouchers maintained at his end to substantiate that the activities were not related to trading activities impacting its registration with exchange.*

15. *W.r.t 23 clients, Noticee submitted that the nature of transactions as informed by AP were that they were his friends and family accounts only and now it has discontinued any such transaction with them.*

16. *Noticee submitted that it disagrees and denied the allegation on its part to inspect the books of active registered APs as per the applicable guidelines.*

17. *It further submitted that the branch/AP had not dealt with any other trading member/AP on behalf of its clients/self on the same stock exchange and asserted that in its inspection report a clause "" was already present.*

18. *That trading activities/turnover at the AP/ Branch location is monitored and necessary actions/investigations are undertaken in case of inactive AP/Branch location. Member shall, wherever required, de-activate all trading terminals extended to AP/Branch location which are inactive for more than 6 months & update exchange reocrds. Appropriate due diligence to be undertaken in case of re-activation of such terminals.*

19. *Noticee submitted that the above disseminates that there is continuous analysis of inactive APs and consequently, deactivation is done to curb the risk of illegal activities being carried out by the APs. Also this parameter is not part of AP inspection report, as this is undertaken on ongoing basis for data analysis and corrective actions.*

20. *Noticee submitted that it does not agree with the allegation on non-reporting of details of active clients mapped to its APs and submitted that as per its set process and regulatory requirement, clients mapped to APs are uploaded on Exchange portal on weekly basis by dedicated team under KYC function. It further submitted that it had reported the mapped clients to APs to NSE and BSE.*

21. *That at the time of inspection, the clientele data at NSE portal was not getting correctly uploaded due to incorrect field value in the uploaded file. The uploaded files were rejected by NSE portal and inadvertently these files were not re-uploaded, Hence, its was technical issue for NSE uploading only, which was later on rectified.*

22. *Noticee submitted that in case of AP (NS)- UCC- K00073698, S057452, J00054696 (deactivated on 04/04/2024) are clients and have not traded since 2023 and continued to be only dealers of the said AP. Hence, it requested to drop this observation.*

23. *Noticee submitted that it does not agree with the allegation on inadequate supervision of AP's by itself, it submitted that before allocating CTCL terminals, APs are required to submit dealer creation form along with requisite details and based on the same a CTCL user ID is allotted to the respective users and complete database of the CTCL users is maintained and regularly reconciled with the exchange records.*

24. *It further submitted that w.r.t AP (NS), CTCL ID of Jayeshbhai Jayantilal Ahalpara (CTCL ID-364001525006) had been deactivated on March 13, 2024 as the user was not the employee of AP and in case of AP (JK) , Noticee submitted that as per the old format of Dealer creation form "relationship" with the said AP was not specified hence by virtue of which, Mr Parth Trivedi was mapped as an "employee of the AP". It further added that the same was informed to AP for immediate corrective action and subsequently, the CTCL Id- (364005938003) was deactivated on April 05, 2024.*

25. Noticee also provided with a certificate dated September 27, 2024 from a Chartered Accountant duly certifying that the visitor register was maintained with time, date, in time, out time, Signature & purpose of visit available in the register, pre-trade order slip, proof of having maintained the display board provide by the AP (JK).

26. Noticee also provided with a certificate September 21, 2024 from a Chartered Accountant duly certifying that the visitor register was maintained with time, date, in time, out time, Signature & purpose of visit available in the register, pre-trade order slip, proof of having maintained the display board provide by the AP (NS).

7) In the interest of natural justice and in order to conduct inquiry in terms of Rule 4(3) of the SEBI Adjudication Rules, an opportunity of hearing was granted to the Noticee on October 18, 2024 vide hearing Notice dated October 04, 2024. In response, Noticee vide email dated October 15, 2024 requested to reschedule the hearing to a later date and accordingly, vide email dated October 17, 2024, the said hearing was rescheduled to November 05, 2024. The said hearing was attended to by the Authorized Representative (AR) of the Noticee who reiterated the submissions made by the Noticee vide its letter dated September 27, 2024 and October 09, 2024. During the course of hearing, Noticee was advised to provide documentary evidence in support of the following:

   a) *Receiving of mutual fund commission/other charges by an Authorized Person is allowed in terms of Exchange circulars;*

   b) *Reporting of Noticee's back office operation carried out by AP, Naitik Shah at 15, Kaveri complex and of Jainam Broking at 14, Kaveri Complex as submitted during the course of hearing, to NSE.*

   c) *Details of AP/branch trading terminals that were de-activated, which are inactive for more than 6 months & proof of having updated the same on Exchange records.*

   d) *Confirmation that the 3 clients who were operating the terminals of AP Naitik Shah were also dealers and the date from which they ceased to be clients along with the ledger statements.*

e) *Weekly reporting of details of active clients mapped to AP, Naitik Shah and Jitendra Kambad to NSE in terms of NSE Circular NSE/COMP/49509 dated September 03, 2021.*

8) In response to the above, Noticee made following additional submissions vide email dated November 14, 2024, and provided with screenshots of the office of its AP, Natik Shah (Shah Investment Concultant), AMFI ID Card of its AP, Jitendra Kambad, a letter dated November 06, 2024 from NSE mentioning the address of AP, Naitik Shah as 11, Kaveri Complex, Navapara, Bhavnagar, Gujarat-364001, details of certain terminals deactivated by it and details of the 3 clients whose CTCL terminals were deactivated by the Noticee :

8.1 As regards the allegation that the back office of Naitik Shah which was located at Kaveri Complex had the board of Jainam Broking, Noticee submitted that there was a back office at 15 Kaveri Complex. There was no trading activity from this office and that of Jainam Broking was registered at 14, Kaveri Complex. Both the offices were separate and in fact Jainam Broking had shifted out from their office and 15 – Kaveri Complex, is only additional office for back office work and there is no terminal located at this location. Furthermore, at 14 Kaveri Complex, there used to be Jainam broking office which is not closed and shifted to other office no. at 23 – 24, Kaveri Complex which is under the same premises

8.2 Noticee submitted that users were appointed on commission basis & that they were not employees was not disclosed to it and accordingly, the terminals were also deactivated.

8.3 That NSE Circulars dated 13.2.2013 and 13.4.2017 had stipulated that a CTCL may also be operated by a duly certified person who is not an employee of the AP and such person would be treated as "Approved person of Authorized person". It was only by the NSE Circular dated 22.5.2023 that it was implied that the CTCL terminals should only be operated by employees of the AP and time for compliance was by 31.8.2023 which was extended to 30.10.2023 and the inspection period is 1.4.2022 – 31.12 2023.

8.4 That as per NSE circular dated 6.11.2009 and SEBI Master Circular 17.5.2023, AP can also receive "commission" and therefore so can all other dealers of the AP. There is no prohibition from dealers being paid on commission basis [very common that jobbers, arbitrageurs etc. are professionals & paid on commission basis.

8.5 It further submitted that all terminal users have to be 'approved" by the stock exchange, for which applications had to be made in the format stipulated by the Exchange which did not have any such stipulation that the approved person must be an employee and cannot receive any commission.

8.6 That Jitendra Kambad is having approved ARN Code as issued by Association of Mutual Funds In India (AMFI).

9) It is noted that inspection findings are based on analysis of samples and test checking of various books and other records maintained by the Noticee, as well as written/oral submissions of the Noticee & its officials to the inspection team. Consequently, the instances of irregularities/observations pointed out in inspection report are illustrative in nature and are not all-inclusive.

CONSIDERATION OF ISSUES, EVIDENCE AND FINDINGS

10) The charges levelled against the Noticee, its reply and the documents/ material available on record have been carefully perused. The issues that arise for consideration in the present case are:

ISSUE I- Whether Noticee has violated provisions of Stock Brokers Regulations, NSEL CM & FO Regulations, SEBI Circulars and Exchange circulars as mentioned at table 1 above?

ISSUE II- Does the violation, if any, on the part of the Noticee attract monetary penalty under Sections 15HB and 15A(b) of the SEBI Act, as applicable?

ISSUE III- If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of the SEBI Act?

11) Before proceeding further, the relevant provisions of law are as under:

Relevant provisions of Stock-Brokers Regulations, 1992

Conditions of registration.

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

(a) *the stock broker holds the membership of any stock exchange;*

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

(c) *where the stock broker proposes change in control, he shall obtain prior approval of the Board for continuing to act as such after the change;*

(d) *he shall pay fees charged by the Board in the manner provided in these regulations;*

(e) *he shall take adequate steps for redressal of grievances, of the investors within [twentyone calendar days] of the date of receipt of the complaint and inform the Board as and when required by the Board;*

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

(g) *he shall at all times maintain the minimum networth as specified in Schedule VI.*

(h) *Every stock broker who act as an underwriter shall enter into a valid agreement with the body corporate on whose behalf it is acting as underwriter and shall abide by the regulations made under the Act in respect of the activities carried on by it as underwriter.*

(i) *Every Stock Broker shall be entitled to act as an underwriter only out of its own net worth/funds as may be prescribed from time to time.]*

Obligations of stock-broker on inspection by the Board

21(1) *It shall be the duty of every director, proprietor, partner, officer and employee of the stock-broker, who is being inspected, to produce to the inspecting authority such books, accounts and other documents in his custody or control and furnish him with the statements and information relating to the transactions in securities market within such time as the said officer may require.*

SCHEDULE III

Securities and Exchange Board of India
(Stock Brokers, Regulations, 1992)

CODE OF CONDUCT FOR STOCK BROKERS

[Regulation 9]

A.General

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

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

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

Relevant provisions of SEBI Circulars

SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009

2. Appointment of Authorised Person

A stock broker may appoint one or more authorised person(s) after obtaining specific prior approval from the stock exchange concerned for each such person. The approval as well as the appointment shall be for specific segment of the exchange.

7.Obligations of Stock Broker

a) The stock broker shall be responsible for all acts of omission and commission of his authorised person(s) and/or their employees, including liabilities arising there from.

b) If any trading terminal is provided by the stock broker to an authorised person, the place where such trading terminal is located shall be treated as branch office of the stock broker.

c) Stock broker shall display at each branch office additional information such as particulars of authorised person in charge of that branch, time lines for dealing through authorised person, etc., as may be specified by the stock exchange.

d) Stock broker shall notify changes, if any, in the authorised person to all registered clients of that branch at least thirty days before the change.

e) Stock broker shall conduct periodic inspection of branches assigned to authorised persons and records of the operations carried out by them.

f) The client shall be registered with stock broker only. The funds and securities of the clients shall be settled directly between stock broker and client and all documents like contract note, statement of funds and securities would be issued to client by stock broker. Authorised person may provide administrative assistance in procurement of documents and settlement, but shall not issue any document to client in its own name. No fund/securities of clients shall go to account of authorized person.

g) On noticing irregularities, if any, in the operations of authorised person, stock broker shall seek withdrawal of approval, withhold all moneys due to authorised person till resolution of investor problems, alert investors in the location where authorised person operates, file a complaint with the police, and take all measures required to protect the interest of investors and market.

SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018

***III** To further strengthen regulatory provisions against un-authorized trades and also to harmonise the requirements across markets, it has now been decided that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, which could be, inter alia, in the form of:*

a. Physical record written & signed by client,

b. Telephone recording,

c. Email from authorized email id,

d. Log for internet transactions,

e. Record of messages through mobile phones,

f. Any other legally verifiable record.

When a dispute arises, the broker shall produce the above mentioned records for the disputed trades. However for exceptional cases such as technical failure etc. where broker fails to produce order placing evidences, the broker shall justify with reasons for the same and depending upon merit of the same, other appropriate evidences like post trade confirmation by client, receipt/payment of funds/securities by client in respect of disputed trade, etc. shall also be considered.

SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2023/71 dated May 17, 2023

32.7 Obligations of Stock Broker

***32.7.1** The stock broker shall be responsible for all acts of omission and commission of his authorised person(s) and/or their employees, including liabilities arising there from.*

***32.7.2** If any trading terminal is provided by the stock broker to an authorised person, the place where such trading terminal is located shall be treated as branch office of the stock broker.*

***32.7.5** Stock Broker shall conduct periodic inspection of branches assigned to authorised persons and records of the operations carried out by them.*

National Stock Exchange of India Limited Regulations – Part A (Capital Market Segment)

TRADE OPERATIONS

3.2.1 *Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the system and shall keep relevant records or documents of the same and of the completion or otherwise of these orders thereof*

National Stock Exchange of India Limited Regulations (F&O Segment)

3.4 TRADE OPERATIONS

3.4.1 *Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the NEAT system and shall keep relevant records or documents of the same and of the completion or otherwise of these orders thereof.*

Notwithstanding the above, wherever the order instructions are received from clients through the telephone, Members shall mandatorily use telephone recording system to record the instructions and maintain telephone recordings as part of its records.

Relevant Provisions of NSE Circulars

NSE circular no. NSE/MEMB/3574 dated 29-Aug-02

MEMBERSHIP DEPARTMENT

Circular No. 282

Ref. NSE/MEM/3574 August 29, 2002

Dear Members,

Sub: Guidelines for location of CTCL terminals and usage thereof.

Trading Members availing of the CTCL facility for trading on the Capital Market and / or Futures and Options Segment of the Exchange are hereby advised to be guided by the following requirements while installing and using CTCL terminals:

1. CTCL facility has been provided to the Trading Members to facilitate their business expansion needs.

2. The persons who handle each CTCL terminal of the Trading Member are known as Approved Persons (refer to para (c) of the CTCL agreement). Necessary prior approval of the Exchange is required to be obtained before any CTCL terminal is entrusted to an Approved Person (refer point 1 of the CTCL agreement) failing which it shall be treated as a violation.

3. CTCL terminals need to be located only in the office of the Trading Member or in the office of their registered sub-brokers.

4. If it is found that the CTCL terminal is at a place which is not the office of their registered sub-broker, such a place shall be deemed to be the office of the Trading Member.

5. The provisions of Circular 163 (NSE/MEM/1591) dated April 20, 2000 relating to placing of a Notice Board are applicable to every place where one of the CTCL terminals is located.

6. Trading Members shall not entrust the CTCL terminals to their clients or to any unregistered intermediary (refer points 1 and 5 of Circular 163) other than Approved Persons. Approved Person may be an employee of the Trading Member, a registered sub-broker, an Approved User or an Authorised Person who has been approved by the Exchange.

The following time limits may be followed while seeking approval for 'Approved Persons':

Sr. No.	Category of Approved Persons	Data to be submitted at the time of seeking approval	Time Limit within which the data should be sent to the Exchange
1.	In case of all existing 'Approved Persons' to whom CTCL terminals have been allotted.	Annexure 1 and Annexure 2	The manner and the time for submitting this information in electronic form would be intimated by September 16, 2002.
2.	In case of any CTCL terminal that is proposed to be allotted to an 'Approved Person' in future.	Annexure 2	Prior approval to be sought.
3.	Withdrawal of any existing CTCL terminal or any Approved Person.	Annexure 2	Within 10 calendar days of effecting withdrawal.

7. Annexure 1 shall contain the location of the CTCL server and the details of the user id allotted by the Exchange which is being used to connect the CTCL server to the Exchange.

8. Annexure 2 shall contain the details of the CTCL network i.e., details of the location of each CTCL terminal, mode of connectivity as well as details of each Approved Person handling the terminals.

9. It may be noted that the manner and the time limit within which the submission of data in an electronic form about all the existing CTCL terminals allotted prior to August 30, 2002 would be intimated to the Trading Members by September 16, 2002.

10. Trading Members may once again note that no CTCL terminal(s) shall be allotted by them hereafter without the prior approval of the Exchange and if not sought, such use of terminal(s) shall be treated as Unauthorised and in violation of the requirements. Such violation by any Trading Member shall render the concerned Trading Member liable for such disciplinary action as the Exchange may deem fit including forthwith withdrawal of the User ID that is granted to the CTCL server from which the Trading Member has extended the CTCL trading facility to such locations, without notice and / or reference.

This circular shall come into effect w.e.f. August 30, 2002.

For National Stock Exchange of India Ltd.

Joseph H Bosco
Asst.Vice President

<u>NSE Circular No- NSE/MEMB/3635 dated 25-Sep-02</u>

MEMBERSHIP DEPARTMENT

Circular No. 292

Ref. NSE/MEM/3635 September 25, 2002

Dear Members,

<u>Sub: File format for reporting location of CTCL terminals</u>

This is further to circular no. 282 (NSE/MEM/3574) dated August 29, 2002 whereby Trading Members availing of CTCL facility were informed that the file format which would enable them to communicate details of their terminals on the CTCL network would be made available to them shortly.

The Exchange has finalised the file structure and the methodology for reporting the details of the location of the CTCL terminals. The general instructions and the file format are enclosed as Annexure 1 and Annexure 2 respectively.

Trading Members who are using the CTCL facility shall submit all the relevant information in respect of their existing CTCL terminals to the Exchange latest by October 31, 2002 in the prescribed file format. This file shall be uploaded by the Trading Members on the extranet in the folder titled <Member code>/MEMCTCL/UPLD. A hard copy of this same form, duly signed (as prescribed vide our circular No. 282) should also be submitted to the Exchange immediately thereof.

Henceforth, prior to allotment of any CTCL terminal by a Trading Member to an 'Approved Person' or the withdrawal of any existing CTCL terminal / 'Approved Person' status by a Trading Member shall be communicated to the Exchange in the same file format. Simultaneously, application in the physical format as prescribed in circular no. 282 should also be submitted.

All Trading Members availing of the CTCL facility are requested to take note of the above and ensure compliance by October 31, 2002 so as to avoid any disciplinary action.

For National Stock Exchange of India Ltd.

Joseph H Bosco
Asst. Vice President

Exchange's Circular no. NSE/MEMB/7400 dated April 20, 2006

LOCATION OF TRADING TERMINAL

2.*Trading members shall note that if any terminal is found located at a place other than what is declared to the Exchange pursuant to the above, in violation of this circular, then a fine @0.25% calculated on the value of trades done through the location during the period of violation subject to a minimum of Rs.25000 per location, shall be levied as fine. Moreover, it is re-iterated that the trading members shall continue to be responsible for all obligations arising out of their terminals.*

NSE Circular No. NSE/MA/22732 dated 13-Feb-2013

https://nsearchives.nseindia.com/content/circulars/MA22732.pdf

2. User Management

D. Applicable observances

Trading terminals

a) Location: *The location of the trading terminal is required to be only in the main/branch offices or in the office of the registered Sub-broker (only in CM segment) / approved Authorised Person (CM / FNO / CD Segment) of the trading member or at the co-location facility provided by the Exchange or at the Third party data centres/service providers site. However, internet trading terminal used by the clients for sourcing information or order placing may be located at the premises of the clients. No bills / contract notes etc. should be issued by such clients from their premises. For this purpose, a client is a person who buys and sells securities on his own account.*

Note:

- *Co-location facility can be used only for DMA, Algo and Smart Order Routing.*
- *Third party data centre/ service provider site can host Trading/ Internet/ CTCL server of the member.*

b) Control: *The trading terminals are required to be under the direct control of the trading member and be managed either by an authorized employee or by a registered Sub-broker / approved Authorised Person of the trading member.*

NSE Circular no. NSE/MSD/34638 dated April 13, 2017

b) Dealings: *No trading member shall deal through any unregistered intermediary, Further, trading members shall entrust CTCL terminals only to Approved person and not to any unregistered intermediary or clients. For this purpose, the persons who handle each CTCL terminal of the Trading Member are known as Approved Persons. Approved Person may be an employee of the Trading Member, a registered Sub-broker, an Approved User or an Authorised Person who has been approved by the Exchange. In case the unregistered intermediary is allowed to trade / deal by any trading member, such trading member shall be fully responsible for all the sale and/or purchase contracts, whether contract notes or (purchase / sale notes) issued or not, and for all the acts of commission and/or omission. Further, such trading members shall render themselves liable for non-compliance in terms of fines, penalty and/or other disciplinary action as may be deemed necessary by the relevant authority.*

NSE/INSP/42448 dated October 18,2019

3. *There is no movement of Funds and securities between the client and AP/branch official for settlement of trades on the Exchange. Demat statement and bank accounts of the AP to be examined to verify such instances.*

1. *Trading terminals situated at the place of inspection are operated by approved and certified users.*

12.*The Branch/AP has not dealt with any other trading member/AP on behalf of its clients /self on the same Stock Exchange.*

17.*Trading activities/Turnover at the AP/Branch location is monitored and necessary actions/investigations are undertaken in case of inactive AP/Branch location. Member shall, wherever required, de-activate all trading terminals extended to AP/Branch location which are inactive for more than 6 months & update Exchange records. Appropriate due diligence to be undertaken in case of re-activation of such terminals*

19. *Proper segregation and demarcation is maintained at AP/Branch office in case terminal of a different Member is operated or any permissible activity other than the broking business is carried out.*

22*.The Report of Inspection shall, in addition to the above clearly comment on the following:-*

> ***a)*** *The functioning of the AP/Branch. The various activities undertaken by the AP/Branch.*
> ***b)*** *Number of Employees of the AP/Branch.*
> ***c)*** *Number of clients mapped to the AP/Branch.*
> ***d)*** *Process of Client registration and on boarding.*

__e)__ Order placing mechanism at AP /Branch level.
__f)__ Role of Branches/APs with respect to pay-in & pay-out of funds/securities with clients.

Members shall retain the report of the inspection/visit conducted for a period of not less than five years. The inspection reports shall be made available for verification by SEBI/Exchanges as and when required including any related information/details that may be sought.

NSE Circular No.NSE/COMP/48536 dated June 09, 2021

https://nsearchives.nseindia.com/content/circulars/COMP48536.pdf

NSE Circular NSE/COMP/50030 dated October 11, 2021

***5.** As stipulated in Exchange circular NSE/COMP/48536 dated June 09, 2021, it is re-iterated that APs are not permitted to undertake activities such as providing assured/guaranteed return schemes, unauthorised portfolio management & investment schemes etc. as well as directly accepting or paying/delivering any funds and securities from/to the clients/investors. It is responsibility of the Members to ensure that all APs registered with them are complying with the regulatory requirements.*

NSE Circular NSE/MSD/56778 dated May 22, 2023

Exchange has in the recent past observed instances, that the terminals are being operated by users other than employees. In this regard, it is re-iterated that all trading terminals allotted by members, which are enabled/activated for trading shall be operated/accessed only through User Ids allotted to Approved Persons namely employees of trading member, partner/proprietor/director(s), registered authorized persons (AP) or employee of an AP. No other person shall operate or place orders from such trading terminals. Trading Members shall not entrust the CTCL/dealer terminals to their clients or to any unregistered intermediary other than Approved Persons.

Link to various provisions of BSE Circulars

Exchange Notice No. 20171023-30 dated October 23, 2017

https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20171023-30

Exchange Notice No. 20131224-7 dated December 24, 2013

https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20131224-7

Exchange Notice No. 20140205-25 dated February 5, 2014

https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20140205-25

Exchange Circular No. 20191018-43 dated October 18, 2019

https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20191018-43

FINDINGS

On perusal of the material available on record and giving regard to the facts and submission of the Noticee and circumstances of the case, the findings are recorded hereunder:

ISSUE I: Whether Noticee has violated provisions of Stock Brokers Regulations, NSEL CM & FO Regulations, SEBI Circulars and Exchange circulars as mentioned at table 1 above?

Alleged Violation 1: Non-maintenance of adequate systems for recording of order placement by clients

12) As per Clause III of SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, stock Brokers are required to execute trades of clients only after keeping evidence of the client placing such order, which could be, inter alia in the form of following:

a) Physical record written & signed by client,
b) Telephone recording,
c) Email from authorized email ID,
d) Log for internet transactions,
e) Record of messages through mobile phones,
f) Any other legally verifiable record,

13) In this regard, it was observed that the Noticee failed to provide the order slips w.r.t the orders placed by the 2 offline clients mapped to the AP namely Jitendra Kambad and

all walk-in clients (off-line clients) mapped to AP, Naitik Shah who had placed the orders offline during the IP. Further, it was observed that both the said APs allegedly did not follow the practice of maintaining order slips for offline clients.

14) In view of the above alleged failure to maintain order slips w.r.t offline clients by the APs of the Noticee, it is alleged that the Noticee has violated Clause III of SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, Regulation 3.2.1 of NSEL CM Regulation and Regulation 3.4.1 of NSEL FO Regulation.

15) As regards its AP, Naitik Shah (NS), Noticee submitted that NS is already maintaining a visitor register along with purpose of visit and complaint register and that he has also started maintaining order slips in addition to the trade confirmation records, which has been verified by the independent CA.

16) With respect to AP, Jitendra Kambad (JK), it submitted that out of total 14 clients of JK, 9 clients use its online app for trading, which does not require any physical intervention for placements of orders by clients and the 2 clients having client codes N00064498 and M002632, are his family members. These clients had also received contract note from it and there has been no dispute from them against the AP

17) From the above submissions of the Noticee, it is noted that admittedly, its AP (NS) was not maintaining any order slips w.r.t orders placed by all his walk-in clients. Similarly, its AP(JK) also didn’t maintain order slips w.r.t two client codes viz, N00064498 and M002632 and the same was also admitted by the Noticee in its response to inspection findings. The proof of order placement is required to be maintained under all circumstance in terms of Clause III of SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018 and Regulation 3.2.1 of NSEL CM Regulation, which read as mentioned below:

SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018

> ***III*** *To further strengthen regulatory provisions against un-authorized trades and also to harmonise the requirements across markets, it has now been decided that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, which could be, inter alia, in the form of:*
>
> *a. Physical record written & signed by client,*
> *b. Telephone recording,*
> *c. Email from authorized email id,*
> *d. Log for internet transactions,*
> *e. Record of messages through mobile phones,*
> *f. Any other legally verifiable record.*
>
> *When a dispute arises, the broker shall produce the above mentioned records for the disputed trades. However, for exceptional cases such as technical failure etc. where broker fails to produce order placing evidences, the broker shall justify with reasons for the same and depending upon merit of the same, other appropriate evidences like post trade confirmation by client, receipt/payment of funds/securities by client in respect of disputed trade, etc. shall also be considered.*

National Stock Exchange of India Limited Regulations – Part A (Capital Market Segment)

TRADE OPERATIONS

> ***3.2.1*** *Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the system and shall keep relevant records or documents of the same and of the completion or otherwise of these orders thereof*

18) From the above, it is noted that the aforementioned provisions provide for duly maintaining the relevant record/documents w.r.t orders placed by the brokers on behalf of clients before execution of the trades, which the Noticee failed to do in the instant case. Further, receiving of contract notes by the clients does not serve as an alternative to the proof of order placement clients. Thus, submission of the Noticee is bereft of merits.

19) Accordingly, in view of the above mentioned failure on the part of Noticee to maintain adequate systems for recording of order placement by clients, it stands established

that it has violated Clause III of SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018, Regulation 3.2.1 of NSEL CM Regulation and Regulation 3.4.1 of NSEL FO Regulation.

Alleged Violation 2: Discrepancy w.r.t existence of terminal at inspection location vis a vis information reported to exchange by the Noticee.

20) As regards captioned allegation, it was observed that there were 6 terminals of NSE allocated to the AP, Jitendra Kambad as per the exchange records. Out of these 6 terminals, only 5 were present at registered location and the said terminals were not being operated by the approved person. Similarly, there were 20 NSE terminals mapped to the AP, Mr Naitik Shah. Out of these 20 terminals, only 14 terminals were found by the team at the registered location. Further, it was observed that out of these 14 terminals, 2 were found to be operated by the person other than the approved user. W.r.t BSE terminals, it was observed that out of total 4 terminals mapped to AP Mr Jitendra Kambad, only 3 were found at the registered location and the remaining 1 terminal was operated from location other than the registered location and out of these 3 terminals, 2 terminals were found to be operated by the person other than the approved user.

21) Similarly, it was observed that out of total 15 BSE terminals mapped to AP Mr Naitik Shah, only 11 terminals were found at the registered location and the remaining 4 were being operated from the location other than the registered location.

22) Accordingly, in view of the above irregularities, it is alleged that the Noticee has violated Annexure I - Clause 7 sub with Annexure I- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with clause 2 of Exchange's circular no. NSE/MEMB/7400 dated April 20, 2006, Exchange's circular no. NSE/MEMB/3574 dated 29-Aug-02, NSE/MEMB/3635 dated 25-Sep-02 and Clause D(a) and D(b) of Point No.2 of NSE/MA/22732 dated 13-Feb-2013 and SEBI Master Circular SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2023/71 dated May 17, 2023 (Clause No. 32.7.1 & 32.7.2), Exchange Notice No. 20171023-30 dated October 23, 2017,

Exchange Notice No. 20131224-7 dated December 24, 2013, and Exchange Notice No. 20140205-25 dated February 5, 2014.

23) Noticee submitted that unapproved users with CTCL ID- 364001525006 (user ID 37175 AND 20117) mapped to AP (NS) in the name of Mr Jayeshbhai Jayantilal Ahalpara, which was logged in by Mr Pankaj Lakhajibhai Gohel, were deactivated w.e.f. March 13, 2024.

24) It further submitted that inadvertently the CTCL_IDs – 364001525005, 364001525003, 364001525018 in CM segment were created at the registered office address of NS.

25) W.r.t AP(JK), it submitted regrading unapproved users of the said AP on 5 CTCL IDs in different locations that the said AP has confirmed that it was one of the instance and not a regular practice followed by it and on the day of SEBI inspection there was a user login issue at his office and that is why different users were logged i.e. AP(JK's) employee (User ID- 10824- Biren Trivedi) and AP(JK's) father (User Id- 43408- Manji Bhai Kambad).

26) W.r.t location mismatch of terminals mapped to AP (JK), Noticee submitted the dealer creation form of one Mr Parth Trivedi, CTCL ID- 364005938003 mentioned the AP address as Mahuva, Bhavnagar. It further submitted that inadvertently, the said dealer was created at the default location of AP having address as Shivalik Shramjivi Society and as a corrective measure, the User ID 37174(CM) CTCL Id- 36005938003 has been deactivated on April 05, 2024.

27) From the above submissions of the Noticee, it is noted that admittedly unapproved users were operating the terminals of the Noticee, which is evident from the subsequent deactivation of terminals by the Noticee. Further, the terminals mapped to both the APs viz, (JK) and (NS) were also not available at the location of the APs visited by the inspection team. The details of which is given in the table 2 below:

Table 2:

Authorised Persons mapped to the Noticee	**Total Number of Unapproved Users (BSE terminals)**	**Total Terminals not present at location (BSE terminals)**	**Total Number of Unapproved Users (NSE terminals)**	**Total Terminals not present at location (NSE terminals)**
Jitendra Kambad	2	1	5	1
Naitik Shah	0	4	2	6

28) From the above table, it is noted that there were total 9 unapproved users, who were operating terminals in contravention to points 2, 6 and 10 of NSE Circular NSE/MEM/3574 dated August 29, 2002, which reads as mentioned below:

NSE Circular NSE/MEM/3574 dated August 29, 2002

2. *The persons who handle each CTCL terminal of the Trading Member are known as Approved Persons (refer to para (c) of the CTCL agreement). Necessary prior approval of the Exchange is required to be obtained before any CTCL terminal is entrusted to an Approved Person (refer point 1 of the CTCL agreement) failing which it shall be treated as a violation*

6. *Trading Members shall not entrust the CTCL terminals to their clients or to any unregistered intermediary other than Approved Persons. Approved Person may be an employee of the Trading Member, a registered sub-broker, an Approved User or an Authorised Person who has been approved by the Exchange.*

***10** Trading Members may once again note that no CTCL terminal(s) shall be allotted by them hereafter without the prior approval of the Exchange and if not sought, such use of terminal(s) shall be treated as Unauthorised and in violation of the requirements. Such violation by any Trading Member shall render the concerned Trading Member liable for such disciplinary action as the Exchange may deem fit including forthwith withdrawal of the User ID that is granted to the CTCL server from which the Trading Member has extended the CTCL trading facility to such locations, without notice and / or reference.*

29) Thus, from the above, it is noted that Noticee was required to communicate to exchange regarding change of user in terms NSE Circular NSE/MEMB/3635 dated 25-Sep-02 dated September 25, 2002, which provides for communication to exchange in case there is a change in the status of the approved person operating the CTCL terminal and in terms of NSE Circular NSE/MEM/3574 dated August 29, 2002, Noticee was not supposed to entrust the CTCL terminals other than the approved user. The said provisions under no circumstance provide flexibility to brokers/APs to allow operations of terminals to users other than the approved user whether relative or any other employee. Thus, the submission of the Noticee is bereft of merits.

30) Admittedly, there were total 12 terminals which were not found at the location of AP (JK & NS) inspected by the inspection team as detailed in the chart above. In this regard, it is noted that in terms of Clause D(a) and D(b) of Point No. 2 of of NSE/MA/22732 dated 13-Feb-2013, the location of a trading terminals should be main/branch office of the registered Sub-broker/ approved AP and the trading terminals are requied to be under the direct control of the broker and the same should be managed by the authorized employee. The relevant provisions are mentioned below:

D. Applicable observances

Trading terminals

a) <u>Location</u>: *The location of the trading terminal is required to be only in the main/branch offices or in the office of the registered Sub-broker (only in CM segment) / approved Authorised Person (CM / FNO / CD Segment) of the trading member or at the co-location facility provided by the Exchange or at the Third party data centres/service providers site. However, internet trading terminal used by the clients for sourcing information or order placing may be located at the premises of the clients. No bills / contract notes etc. should be issued by such clients from their premises. For this purpose, a client is a person who buys and sells securities on his own account.*

b) <u>Control:</u> *The trading terminals are required to be under the direct control of the trading member and be managed either by an authorized employee or by a registered Sub-broker / approved Authorised Person of the trading member.*

31) In view of the above, it stands established that the Noticee has violated Clause 7 sub with Annexure I- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with clause 2 of Exchange's circular no. NSE/MEMB/7400 dated April 20, 2006, Exchange's circular no. NSE/MEMB/3574 dated 29-Aug-02, NSE/MEMB/3635 dated 25-Sep-02 and Clause D(a) and D(b) of Point No.2 of NSE/MA/22732 dated 13-Feb-2013 and SEBI Master Circular SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2023/71 dated May 17, 2023 (Clause No. 32.7.1 & 32.7.2), Exchange Notice No. 20171023-30 dated October 23, 2017, Exchange Notice No. 20131224-7 dated December 24, 2013, and Exchange Notice No. 20140205-25 dated February 5, 2014.

<u>Alleged Violation 3: No proper segregation and demarcation maintained at the AP office</u>

32) As regards captioned allegation, it is observed that AP of the Noticee viz, Mr. Jitendra Kambad and his brother Mr Ravi Kambad who is an AP of Jainam Broking Ltd were operating from the same location. Further, one Mr. Vinubhai Chauhan was carrying on the activities of both the APs i.e Jitendra Kambad of the Noticee and Ravi Kambad of Jainam Broking Ltd from the same desktop**.**

33) Further, it was observed during inspection of one terminal of the Noticee allocated to AP Mr Naitik Shah (Shah Investment Consultant) located at Vartej Highway, Vartaj Dist Bhavnagar that one Mr.Jayeshbhai Jayantilal Ahalpara (dealer of the Noticee) was also registered as an AP of Angel One Ltd. Further, one Mr. Pankaj L Gohel, an employee of Mr.Jayeshbhai Jayatilal Ahalpara had access to the terminals of both the Noticee as well as of Angel One Ltd.

34) It was observed that the back-office of the AP, Mr Naitik Shah was located at 15, Kaveri Complex, Navapara, Bhavnagar – 364001 where board of Jainam Broking Ltd. was found. Upon verification of the address from CTCL data of Jainam Broking Ltd, it was observed that one terminal was located at the said address under AP Tejal Hardik Rajyaguru (Tejal) who was registered as an AP of Jainam Broking Ltd. Thus, allegedly there was no physical segregation and demarcation in the premises.

35) Accordingly, in view of the above, it is alleged that the Noticee has violated Clause 7 sub clause (a) of Annexure 1 of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with point 19 of NSE/INSP/42448 dated October 18, 2019 read with Clauses 1,2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of Stock Brokers Regulations, 1992.

36) Noticee submitted regarding AP (NS) that the dealer in the name of Jayeshbhai Jayantilal Ahalpara (37175 and 20117), who was having access to another terminal had been deactivated on March 13, 2024 and the said dealer is no longer associated with the said AP and there had been no trading activity carried out from the same desktop.

37) Further, as per the observation at Kaveri complex, Bhavnagar where back office of AP was located, the CTCL ID of Jainam Broking in the name of Tejal Hardik Rajyaguru, has been shifted to maintain the segregation.

38) W.r.t AP (JK), Noticee submitted that the AP has confirmed that on the date of inspection also there was proper segregation and demarcation of both the offices (between Jitendra Kambad and Ravi Kambad).

39) It further submitted that Mr Vinubhai Chauhan was carrying out the back office activities from same desktop due to internet issue on the date of inspection and it submitted that JK has confirmed that it was only one of instance and not a regular practice.

40) Noticee at the time of hearing submitted that its back office operations were being carried out by AP, Naitik Shah at 15, Kaveri complex and of Jainam Broking at 14, Kaveri Complex. In this this regard, it was advised to provide the documentary evidence. However, Noticee has failed to provide any such evidence in support of its claim. Further, as observed during the inspection, AP (NS) and AP(Tejal) of Jainam were from operating from 15, Kaveri Complex. Thus, there was no segregation and demarcation in the premises. The above submission of the Noticee that it has deactivated the terminal, which was being operated by Pankaj L Gohel, an employee of Jayeshbhai Jayantilal Ahalpara (dealer of the Noticee and AP of Angel One) and further shifting of the office of Tejal Hardik Rajyaguru (AP) of Jainam Broking from 15 Kaveri Complex shows tacit admission on the part of that there was no segregation of the activities maintained at the office of the AP (NS), which was required to be done in terms of NSE Circular NSE/INSP/42448 dated October 18, 2019, which reads as mentioned below:

> ***19.*** *Proper segregation and demarcation is maintained at AP/Branch office in case terminal of a different Member is operated or any permissible activity other than the broking business is carried out.*

41) Further, Noticee’s submission w.r.t AP(JK) that Mr Vinubhai Chauhan was carrying out the back office activities from same desktop due to internet issue shows admittedly there was no segregation of activities maintained by the said AP in accordance with the provisions of the October 18, 2019 circular. Thus, submissions of the Noticee are bereft of merits.

42) In view of the above, it stands established that the Noticee has violated Clause 7 sub clause (a) of Annexure 1 of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with point 19 of NSE/INSP/42448 dated October 18, 2019 read with Clauses 1,2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of Stock Brokers Regulations, 1992.

Alleged Violation 4: Failure of the Noticee in ensuring that its Authorized Persons are engaged only in permitted activities

43) In terms of NSE Circular NSE/COMP/48536 dated June 09, 2021 an, AP is prohibited from accepting any receipt or payment/delivery of funds & securities of the clients. An AP is also not required to collect or receive any funds or securities from the clients and should not charge any amount from the clients, directly or indirectly, for the services rendered on behalf of the Member as an agent in terms of the said circular.

44) In this regard, it is observed from the bank account statement of AP of the Noticee namely Jitendra Kambad that he was receiving and making payments in 23 out of 31 instances wherein the transactions between the said AP and his clients were in the nature of loan, mutual fund commission etc. Further, it was observed that there were transactions between the said AP and a client Durgesh Khodidasbhai Patel, (UCC-D149854) in the nature of loans and mutual fund commission during the IP in 7 instances even though the demat account of the said client having UCC- D149854 was closed on October 17, 2022. However, the transactions in the account were appearing till November 2023.

45) In view of the above, it is alleged that the Noticee has violated Clause 7 sub-clause (a) of Annexure 1 of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with Clause 1 of Exchange circular NSE/COMP/48536 dated June 09, 2021 and Clause 5 of Exchange circular NSE/COMP/50030 dated October 11, 2021 and point 3 of Exchange circular NSE/INSP/42448 dated October 18, 2019 read with Clauses 1,2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.

46) Noticee submitted that in the case of AP (JK), transactions pertaining to client code D149854 were in the nature of transaction between a client and AP and the client's account had been closed on October 17, 2022 and the transactions done in November 2023 between AP and the said client is not related to trading activity. Noticee further submitted that AP had submitted vouchers maintained at his end to substantiate that the activities were not related to trading activities impacting its registration with exchange.

47) W.r.t 23 clients, Noticee submitted that the nature of transactions as informed by AP were that they were his friends and family accounts and now it has discontinued any such transaction with them.

48) As regards submission of the Noticee that it had submitted vouchers to substantiate that the funds received were not related to trading activities, it is noted from the material available on record that no such vouchers were provided by the Noticee. Further, that at the time of hearing, Noticee was advised to provide documentary evidence in support of its understanding/interpretation that receiving of mutual fund commission/other charges by an Authorized Person is allowed in terms of Exchange circulars. In response, Noticee placed its reliance on para 32.5 of SEBI Master Circular dated May 17, 2023 and NSE Circular dated November 06, 2009 and submitted that in terms of the said circulars AP can receive commission and therefore, all other dealers of the AP can also receive the same. In this regard, it is pertinent to refer to para 32.5 of the SEBI Master Circular dated May 17, 2023, which reads as mentioned below:

32.5 Conditions of Appointment

32.5.1 The following are the conditions of appointment of an authorised person:

> ***c.*** *The authorized person shall not receive or pay any money or securities in its own name or account. All receipts and payments of securities and funds shall be in the name or account of stock broker**.***
>
> ***d.*** *The authorised person shall receive his remuneration -fees, charges, commission, salary, etc. -for his services only from the stock broker and he shall not charge any amount from the clients*

49) From the above Clause 35.5.1(d), it is clear that the AP can receive remuneration-fees, charges, commission, salary, etc, for its services only from the stock broker and is strictly restricted from charging any amount from the clients, which in the instant case AP(JK) received from its clients whereas transaction were there between AP(JK) and his 21 clients, which were in the nature of loan, mutual fund commission, etc. Thus, Noticee has misconstrued the said provision of the circulars.

50) Further, as regards submission of the Noticee that the transaction were between AP(JK) and its clients, family and friends and AP(JK) was having AMFI Registration code through which he received mutual fund commission in his account, it may be noted that the AP was receiving mutual fund commission in the account which was related to his business account pertaining to his activities as AP. Thus, AP(JK) was engaged in other activities also. As stated above, in terms of SEBI Master circular dated May 17, 2023, AP can receive salary, commission only from its broker, which in the instant case was not complied with.

51) As per the NSE Circular dated No. NSE/COMP/48536 dated June 09, 2021, it is the responsibility of the Members, Noticee in the instant case to ensure that all APs registered with them are complying with the regulatory requirements .Accordingly, in view of the above failure on the part of the Noticee in ensuring that its Authorized

Persons were engaged only in permitted activities, it stands established that the Noticee has violated Clause 7 sub-clause (a) of Annexure 1 of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with Clause 1 of Exchange circular NSE/COMP/48536 dated June 09, 2021 and Clause 5 of Exchange circular NSE/COMP/50030 dated October 11, 2021 and point 3 of Exchange circular NSE/INSP/42448 dated October 18, 2019 read with Clauses 1,2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.

Alleged Violation 5: Failure of the Noticee to inspect the books of active registered Authorised Person as per the applicable guidelines

52) It was observed that Noticee had conducted the inspection of both the APs viz, JK & NS. However, 3 parameters were not verified by the Noticee as observed from their inspection reports.

53) Accordingly, in view of the above, it is alleged that the Noticee has violated Annexure 1- Clause 7(e) of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with Clauses 12, 17 and 22 of Annexure A of Exchange circular NSE/INSP/42448 dated October 18, 2019 and SEBI Master Circular SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2023/71 dated May 17, 2023 (Clause No. 32.7.5) Exchange Circular No. 20191018-43 dated October 18, 2019 by having failed to inspect the books of active registered Authorised Person as per the applicable guidelines.

54) Noticee submitted that the branch/AP had not dealt with any other trading member/AP on behalf of its clients/self on the same stock exchange and asserted that in its inspection report a clause *"No trading Terminals of other broker, to indicate that the Authorized Person is associated with any other broker"* was already present.

55) It further submitted that it is an ongoing activity to deactivate the activities of AP in case when an AP is not active and trading with it, which shows that there is continuous

analysis of inactive APs and deactivation is done to curb the risk of illegal activities being carried out by the APs.

56) It submitted that while allocating/re-allocating the trading terminals necessary due diligence is carried out viz, submission of dealer creation form, valid NISM certification and installing of voice recording system at APs location. Appropriate due diligence to be undertaken in case of re-activation of such terminals.

57) It further added that the reporting format is periodically reviewed and the points mentioned in the third inspection parameter have been incorporated in its inspection questionnaire.

58) It is pertinent to refer to the 3 inspection parameters which were allegedly not verified by the Noticee in terms of Clauses 12, 17 and 22 of NSE Circular NSE NSE/INSP/42448 dated October 18,2019 w.r.t its APs (JK & NS) and the same read as mentioned below:

Parameters

1. *The Branch/AP has not dealt with any other trading member/AP on behalf of its clients / self on the same Stock Exchange.*

2. *Trading activities/Turnover at the AP/Branch location is monitored and necessary actions/investigations are undertaken in case of inactive AP/Branch location. Member shall, wherever required, de-activate all trading terminals extended to AP/Branch location which are inactive for more than 6 months & update Exchange records. Appropriate due diligence to be undertaken in case of re-activation of such terminals.*

3. *The Report of Inspection shall, in addition to the above clearly comment on the following:-*
   a) The functioning of the AP/Branch. The various activities undertaken by the AP/Branch.
   b) Number of clients mapped to the AP/Branch.
   c) Process of Client registration and on boarding.
   d) Order placing mechanism at AP /Branch level.

e) Role of Branches/APs with respect to pay-in & pay-out of funds/securities with clients.

59) As regards first inspection parameter, the inspection report provided by the Noticee on record shows that the Noticee had incorporated a Clause in its inspection report as "*No trading Terminals of other broker, to indicate that the Authorized Person is associated with any other broker"* and also submitted that the APs had not dealt with other stock brokers on the same stock exchange. Thus, the submission of the Noticee is acceptable.

60) Further, as regards second inspection parameter, during the course of hearing, Noticee was advised to provide the details of AP/branch trading terminals that were de-activated, which were inactive for more than 6 months & proof of having updated the same on exchange records. In this regard, Noticee's submission that the deactivation of inactive clients is an ongoing activity and it keeps on timely deactivating does not stand as the Noticee in its reply dated November 14, 2024 submitted that in the FY 23-24 and FY 24-25, 20 and 24 terminals respectively were deactivated but provided screenshots of deactivation request for 11 terminals i.e., for 1 terminal on March 24, 2019, March 04, 2020, June 08, 2020, 3 terminals on April 11, 2024, 1 terminal on May 17, 2024 and 1 terminal on June 25, 2024 ,August 18, 2024, September 26, 2024. Thus, the Noticee failed to provide any documentary evidence to substantiate its claim of having deactivated 20 and 24 terminals in the respective financial years. Further, Noticee had not included the second inspection parameter in its report. Thus, submission of the Noticee is bereft of merits.

61) It is also noted from the aforementioned submission of the Noticee that admittedly 3rd inspection parameter viz, Clause 22 was not incorporated and verified by it in the inspection report of its APs during the IP as the inspection report format has been revised now by it after the inspection by including the 3rd parameter. Thus, from the above, it is noted that the 2nd and 3rd parameters were not verified by the Noticee while inspecting its AP.

62) Accordingly, in view of the above, it stands established that the Noticee has violated Annexure 1- Clause 7(e) of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with Clauses 12, 17 and 22 of Annexure A of Exchange circular NSE/INSP/42448 dated October 18, 2019 and SEBI Master Circular SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2023/71 dated May 17, 2023 (Clause No. 32.7.5) Exchange Circular No. 20191018-43 dated October 18, 2019 by having failed to inspect the books of active registered Authorised Person as per the applicable guidelines

Alleged Violation 6: Non-reporting of details of active clients mapped to Authorized Persons

63) In terms of NSE Circular NSE/COMP/49509 dated September 03, 2021, the trading members are required to obtain and maintain the details of the clients that are mapped to the respective registered APs and are also required to upload the details of such clients, if any, against the respective APs in the Exchange database, as per the following timelines:

> *a) Members shall be required to upload, latest by November 05, 2021, the details of all the clients (registered upto October 31, 2021) and mapped to AP, if any.*
>
> *b) For new clients registered w.e.f. November 01, 2021, the details shall be uploaded on a weekly basis, on or before the next 2 trading days of subsequent week. For e.g., the clients registered from November 01, 2021, to November 05, 2021, shall be uploaded by November 09, 2021, and for the week ending November 12, 2021, by November 16, 2021, and so on.*

64) In this regard, it is observed that the APs namely, Jitendra Kambad and Naitik Shah had provided during the inspection that there were 3179 and 13085 active clients, respectively. However, it was observed that there was NIL reporting by the Noticee. Thus, allegedly there was no reporting of the clients mapped to the APs by the Noticee to the exchange.

65) Accordingly, in view of the above, it is alleged that the Noticee has violated Annexure 1- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 and Exchange circular NSE/COMP/49509 dated September 03, 2021 read with Clauses 1, 2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.

66) Noticee submitted that as per its set process and regulatory requirement, clients mapped to APs are uploaded on Exchange portal on weekly basis by dedicated team under KYC function. It further submitted that it had reported the mapped clients to APs to NSE and BSE.

67) It further submitted that at the time of inspection, the clientele data at NSE portal was not getting correctly uploaded due to incorrect field value in the uploaded file owing to which the uploaded files were rejected by NSE portal and inadvertently those files were not re-uploaded and it was a technical issue w.r.t uploading on NSE, which was later on rectified.

68) During the course of hearing, Noticee was advised to provide the documentary evidence of weekly reporting of details of active clients mapped to AP, Naitik Shah and Jitendra Kambad to NSE in terms of NSE Circular NSE/COMP/49509 dated September 03, 2021. In this regard, it is noted that the Noticee has not provided any documentary evidence in support of its said claim rather provided with a copy of email dated April 01, 2024 sent by it to NSE raising the issue of clients data not getting downloaded. It is noted from the said email communication that in response, NSE vide email dated April 02, 2024 arranged a team call with its IT Team for the resolution of the issue. Vide another email on the same day NSE advised the Noticee to use the word "Addition" for addition of clients and "deletion" for deletion of clients. In response, Noticee vide its email dated April 02, 2024 thanked NSE for resolution. Vide its email dated November 14, 2024, it provided with a screenshot dated April 02, 2024, which shows a pop-up message as "*File Successfully uploaded Addition Count 0 Deletion Count 0*". Thus, this shows that the Noticee initiated the process of uploading from April

01, 2024 after the same was pointed out by the inspection team and failed to provide any proof of having uploaded the details of 3179 and 13085 clients mapped to AP JK & NS respectively on weekly basis during the IP.

69) Accordingly, in view of the above, it stands established that the Noticee has violated Annexure 1- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 and Exchange circular NSE/COMP/49509 dated September 03, 2021 read with Clauses 1, 2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.

Alleged Violation 7: Entrusting the CTCL/dealer terminals to its clients other than Approved Persons

70) It is observed that in terms of NSE Circular NSE/MSD/56778 dated May 22, 2023, it was directed to all the brokers that all trading terminals allotted by them, which are enabled/activated for trading should be operated/accessed only through User Ids allotted to Approved Persons namely employees of trading member, partner/proprietor/director(s), registered authorized persons (AP) or employee of an AP and no other person should operate or place orders from such trading terminals. Further, it was directed that the trading Members should not entrust the CTCL/dealer terminals to their clients or to any unregistered intermediary other than Approved Persons.

71) In this regard, it is observed that in respect of the AP namely Mr Naitik Shah, the Noticee had allegedly entrusted the 5 CTCL/dealer terminals to its clients.

72) Accordingly, in view of the above, it is alleged that the Noticee has violated Annexure 1- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 & Clause 2 SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with Clause User Management page no.7 Applicable Observances – Trading member- b) point of the Exchange circular no. NSE/MSD/34638 dated April 13, 2017 and para 3 of NSE/MSD/56778 dated May 22, 2023.

73) Noticee submitted that in case of AP (NS)- UCC- K00073698, S057452, J00054696 (deactivated on 04/04/2024) were clients and had not traded since 2023 and continued to be only dealers of the said AP and requested to drop this observation.

74) During the course of hearing, Noticee was advised to confirm that the 3 clients who were operating the terminals of AP Naitik Shah were also dealers and provide the documentary evidence in support of the date from which they ceased to be clients along with the ledger statements.

75) In this regard, it is noted that the Noticee vide its email dated November 14, 2024 has confirmed that the 3 clients were also its dealers and provided a screenshot showing the date of disablement of CTCL terminals, claimed to be allocated to Mr. Jayeshbhai Jayantilal Ahalpara, Mr Kishore Durgadas Jetawani and Mr Sandeep Harendrakumar Andharia and the date of disabling of the said terminals is mentioned as March 13, 2024, September 19, 2024, Jun 09, 2016 & April 17, 2019 respectively. However, Noticee failed to provide any evidence to substantiate that they ceased to be the clients. Further, from the above, it is noted that the two terminals were disabled in the year 2024, which was post inspection. This, shows that the Noticee only made a blanket statement that the 3 clients were also dealers. The material available on record shows that the 3 clients viz, Mr Kishore Durgadas Jetawani, Mr Sandeep Harendrakumar Andharia and Mr. Jayeshbhai Jayantilal Ahalpara were entrusted with 5 CTCL terminals by the Noticee, which was not in accordance with NSE Circular NSE/MSD/56778 dated May 22, 2023.

76) The provisions of the circular provides that the CTCL terminals should not be entrusted to anyone else other than the approved user. As brought out above, the said terminals were entrusted to 3 clients who were not the approved users. Thus, submission of the Noticee is devoid of merits.

77) Accordingly, in view of the above, it stands established that the Noticee has violated Annexure 1- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 & Clause 2 SEBI circular MIRSD/DR-1/Cir-16/09 dated November

06, 2009 read with Clause User Management page no.7 Applicable Observances – Trading member- b) point of the Exchange circular no. NSE/MSD/34638 dated April 13, 2017 and para 3 of NSE/MSD/56778 dated May 22, 2023.

Alleged Violation 8: Inadequate supervision of AP's by the Noticee

78) It is observed that the Noticee updated CTCL users' details with the exchange without adequate supervision as the CTCL users were not employees of the APs of the Noticee. In this regard, it is observed that one Mr Parth Trivedi, who was not an employee of the AP, Jitendra Kambad was working on commission basis and was an approved user as per exchange records. Similarly, there were 3 persons who were not employees of the AP, Naitik Shah, were working on commission basis and had access to the 5 CTCL terminals.

79) Further, it was observed that one terminal mapped to AP, Mr. Naitik Shah, was located at Vartej Highway, Vartaj Dist Bhavnagar, in the name Mr. Jayeshbhai Jayantilal Ahalpara (dealer of the Noticee) who is also a registered AP of Angel One Ltd and one Mr. Pankaj L Gohel who was employee of Mr. Jayeshbhai Jayatilal Ahalpara had access to the terminal of the Noticee as well as of Angel One Ltd.

80) Accordingly, in view of the above, it is alleged that the Noticee has violated Annexure I - Clause 7 sub clause (a) of SEBI Circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with point 7 of Exchange circular no. NSE/INSP/42448 dated October 18, 2019 and para 3 of NSE/MSD/56778 dated May 22, 2023.

81) Noticee submitted that before allocating CTCL terminals, APs are required to submit dealer creation form along with requisite details and based on the same a CTCL user ID is allotted to the respective users and complete database of the CTCL users is maintained and regularly reconciled with the exchange records.

82) It further submitted that w.r.t AP (NS), CTCL ID of Jayeshbhai Jayantilal Ahalpara (CTCL ID- 364001525006) had been deactivated on March 13, 2024 as the user was not the employee of AP and in case of AP (JK), it submitted that as per the old format

of Dealer creation form “relationship” with the said AP was not specified hence by virtue of which, Mr Parth Trivedi was mapped as an “employee of the AP”. It further added that the same was informed to AP for immediate corrective action and subsequently, the CTCL Id- (364005938003) was deactivated on April 05, 2024.

83) It is noted that in terms of point 7 of NSE Circular NSE/INSP/42448 dated October 18, 2019 and para 3 of NSE Circular NSE/MSD/56778 dated May 22, 2023, Noticee was under an obligation to ensure that the trading terminals are operated by the approved users only and not entrust the same to its clients.

84) In this regard, Mr Parth Trivedi, was an exchange approved user and was not and an employee of AP (JK) and the same was submitted to exchange owing to which he was operating the terminals. Similarly, as discussed and established between para 74-77 above, 3 clients had access to 5 CTCL terminals of AP NS and the operation of terminal mapped to AP NS at Vartej district by Jayeshbhai Jayanti Lal Ahlapara has been dealt with in paragraph 27-31 above, wherein it has already been established that the said terminal was admittedly being operated by an employee Mr Pankaj Gohel of Mr Jayeshbhai, which was in violation of the provision of the said circulars. Further, Noticee has also deactivated the CTCL IDs mapped to the said APs, which shows nothing but admission on the part of the Noticee that the said CTCL terminals were not being operated by the exchange approved users of the AP.

85) In view of the above, it stands established that the Noticee has violated Annexure I - Clause 7 sub clause (a) of SEBI Circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with point 7 of Exchange circular no. NSE/INSP/42448 dated October 18, 2019 and para 3 of NSE/MSD/56778 dated May 22, 2023.

ISSUE II- Does t violation, if any, on the part of the Noticee attract penalty under Sections 15HB and 15A(b) of the SEBI Act, as applicable?

86) As has been established above that Noticee is in violation of the following provisions of Stock Brokers Regulations, NSEL CM & FO Regulations, SEBI Circulars and Exchange circulars:

a) Clause III of SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018.

Regulation 3.2.1 of NSEIL CM Regulation,

Regulation 3.4.1 of NSEIL FO Regulation.

b) Annexure I - Clause 7 sub with Annexure I- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with clause 2 of Exchange's circular no. NSE/MEMB/7400 dated April 20, 2006,

Exchange's circular no. NSE/MEMB/3574 dated 29-Aug-02, NSE/MEMB/3635 dated 25-Sep-02 and Clause D(a) and D(b) of Point No.2 of NSE/MA/22732 dated 13-Feb-2013.

SEBI Master Circular SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2023/71 dated May 17, 2023 (Clause No. 32.7.1 & 32.7.2).

Exchange Notice No. 20171023-30 dated October 23, 2017.

Exchange Notice No. 20131224-7 dated December 24, 2013, and

Exchange Notice No. 20140205-25 dated February 5, 2014

c) Clause 7 sub clause (a) of Annexure 1 of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with point 19 of NSE/INSP/42448 dated October 18, 2019 read with Clauses 1,2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of Stock Brokers Regulations, 1992.

d) Clause 7 sub-clause (a) of Annexure 1 of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with Clause 1 of Exchange circular NSE/COMP/48536 dated June 09, 2021.

Clause 5 of Exchange circular NSE/COMP/50030 dated October 11, 2021 and point 3 of Exchange circular NSE/INSP/42448 dated October 18,2019 read with

Clauses 1,2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.

e) Annexure 1- Clause 7(e) of SEBI circular MIRSD/ DR-1/ Cir- 16 /09 November 06, 2009 read with Clauses 12, 17 and 22 of Annexure A of Exchange circular NSE/INSP/42448 dated October 18,2019.
SEBI Master Circular SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2023/71 dated May 17, 2023 (Clause No. 32.7.5) Exchange Circular No. 20191018-43 dated October 18, 2019.

f) Annexure 1- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 and Exchange circular NSE/COMP/49509 dated September 03, 2021 read with Clauses 1, 2 & 5 of Code of Conduct for Stock Brokers under Schedule II of Regulation 9 of SEBI (Stock Brokers) Regulations, 1992.

g) Annexure 1- Clause 7 sub clause (a) of SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 & Clause 2 SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with clause User Management page no.7 Applicable Observances – Trading member- b) point of the Exchange circular no. NSE/MSD/34638 dated April 13, 2017 and para 3 of NSE/MSD/56778 dated May 22, 2023.

h) Annexure I - Clause 7 sub clause (a) of SEBI Circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with point 7 of Exchange circular no. NSE/INSP/42448 dated October 18, 2019 and para 3 of NSE/MSD/56778 dated May 22, 2023.

87) In context of the above, it is pertinent to refer to the observations of Hon'ble Supreme Court in the matter of ***Chairman, SEBI vs. Shriram Mutual Fund*** *{[2006] 5 SCC 361}* wherein the Hon'ble Court had observed: *"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must made by the defaulter with guilty intention or not."*

88) Therefore, in view of the foregoing and placing reliance on the above judgement of the Hon'ble Apex Court, the Noticee is liable for monetary penalty under Sections 15HB of

the SEBI for the violations at para 86(a) – (e) & 86(g)-(h) and Section 15A(b) of the SEBI Act for the violation 86(f) mentioned at para 86 above, which are reproduced hereunder:

<u>Penalty for contravention where no separate penalty has been provided</u>

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

<u>Penalty for failure to furnish information, return, etc.</u>

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

***(b)** to file any return or furnish any information, books or other documents within the time specified therefor in the regulations, fails to file return or furnish the same within the time specified therefor in the regulations or who furnishes or files false, incorrect or*
incomplete information, return, report, books or other documents, he shall be liable to a 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;

ISSUE III- If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of the SEBI Act?

89) While determining the quantum of penalty under SEBI Act, it is important to consider the factors stipulated in Section 15J of the SEBI Act, which reads as under:

<u>Factors to be taken into account by the adjudicating officer under SEBI Act</u>

***15J.** While adjudging quantum of penalty under Section 15-I, the adjudicating officer shall have due regard to the following factors, namely:-*
(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

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

(c) the repetitive nature of the default

90) The material available on record has not quantified the amount of disproportionate gain or unfair advantage, if any, made by the Noticee and the loss, if any, suffered by the investors as a result of the Noticee's failure, nor the same has been alleged by SEBI. As regard to the repetitive nature of the default, it is noted that the Noticee has not been penalized by SEBI in the past.

91) The evidence/observations on record against Noticee, ostensibly suggest violations, which cannot be taken leniently and such violations deserve to be adequately penalized. Failure on the part of the Noticee as discussed in the pre-paragraphs, would compromise the regulatory framework and would defeat the purpose of measures provided in the various aforementioned SEBI Circulars/Regulations/ Act/Exchange Circulars. It cannot be ignored that the Noticee was under a statutory obligation to abide by the provisions of Stock Brokers Regulations, SEBI Circulars, Exchange Regulations/circulars issued thereunder, which it failed to do during the inspection period. Although the Noticee has stated that it is taking various corrective steps, irregularities were committed by the Noticee during the aforementioned IP.

ORDER

92) Having considered the facts and circumstances of the case, the material available on record, the factors mentioned in 15J of SEBI Act and also taking into account judgment of the ***Hon'ble Supreme Court in SEBI vs. Bhavesh Pabari*** (2019) 5 SCC 90 and in exercise of power conferred under Section 15I of the SEBI Act read with Rule 5 of the SEBI Adjudication Rules, the following penalty is hereby imposed under Sections 15HB and 15A(b) of the SEBI Act, as applicable on the Noticee:

Name of the Entity	**Penalty Provisions**	**Penalty (Rs.)**
Reliance Securities Limited (Noticee)	Section 15HB of the SEBI Act	Rs 7,00,000/- (Rupees Seven Lakhs Only)
	Section 15A(b) of the SEBI Act	Rs 2,00,000/- (Rupees Two Lakhs Only)
	TOTAL	**Rs 9,00,000/- (Rupees Nine Lakhs Only)**

93) The said penalty is commensurate with the lapse/omission on the part of the Noticee.

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

ENFORCEMENT → Orders → Orders of AO → PAY NOW.

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

96) The aforesaid Noticee shall forward the details / confirmation of penalty so paid to “The Division Chief (Enforcement Department 1 DRA-3), Securities and Exchange Board of India, SEBI Bhavan II, Plot No. C/7, “G” Block BKC, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051.”

97) In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

98) In terms of the provisions of Rule 6 of the SEBI Adjudication Rules, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

BARNALI MUKHERJEE

Digitally signed by BARNALI MUKHERJEE
Date: 2024.11.29 17:38:26 +05'30'

Date: November 29, 2024 **BARNALI MUKHERJEE**

Place: Mumbai **ADJUDICATING OFFICER**