BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/BM/GN/2024-25/31011]

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

Noticee No.	Name of the Noticee	PAN
1	Angel One Limited	AAACM6094R

In the matter of

Inspection of Angel One Limited

Background

1. Securities and Exchange Board of India (hereinafter referred to as **'SEBI'**) conducted a Comprehensive inspection and Thematic Inspection on Technical Glitches with the exchanges of Angel One Limited (hereinafter referred to as **Noticee**) from January 15 to 19, 2024 and Thematic Inspection of Authorized Persons on July 10, July 12, July 14, July 18, September 22 and December 01 of 2023. The period covered in the inspection for Comprehensive Inspection was from June 01, 2022 to October 31, 2023 for Thematic inspection of Authorized Persons was from April 01, 2022 to October 31, 2023 and for Thematic inspection of Technical Glitches was from April 01, 2022 to February 12, 2024 (hereinafter referred to as **'Inspection Periods'**).

2. The scope of the inspection was to, inter alia, verify whether the Noticee had complied with the Regulations and Circulars issued in respect of the Stock Broking activities.

3. The Noticee is a SEBI-registered Stock Broker having SEBI registration number as INZ000161534. The Noticee is a trading member of Bombay Stock Exchange Ltd. (hereinafter referred to as **'BSE'**) and National Stock Exchange of India Ltd (hereinafter referred to as **'NSE'**), Multi Commodity Exchange of India Limited (hereinafter referred to as **MCX**), National Commodity and Derivatives Exchange Limited (hereinafter referred to

as **NCDEX**) and Metropolitan Stock Exchange of India Limited (hereinafter referred to as **MSEI**).

4. Based on the findings of Inspection conducted by SEBI and the response of the Noticee dated April 16, 2024, April 01, 2024 and May 03, 2024 submitted to SEBI, certain alleged non-compliances were observed of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as **Stock Brokers regulation**) and circulars issued by SEBI and NSE.

APPOINTMENT OF ADJUDICATING OFFICER

5. SEBI, vide communiqué dated July 11th, 2024, appointed the undersigned as the Adjudicating Officer to inquire into and adjudge under the provisions of Section 15HB of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as **SEBI Act**) for the following violations alleged to have been committed by the Noticee..

Sr. No.	**Alleged Violations (summarized)**	**Regulatory provisions**
1	Non-settlement of inactive clients	Clause 5.4, of SEBI circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 read with Clause 47.4 of SEBI Master circular for Stock Brokers dated May 17, 2023
2	Non-reporting of technical glitches	Clause 3.1 of SEBI circular: SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 dated November 25, 2022 read with Clause 61.3.1 of SEBI Master circular for Stock Brokers dated May 17, 2023
3	Lack of proper due diligence and control over Authorised Persons (APs) – • Non-compliances by APs were not observed in inspection conducted by the stock broker • Failure to maintain segregation and demarcation in the office of the AP(Balu Motiram Bharti)	• Clause 7(a) and 7(e) of Annexure 1 of SEBI Circular no. MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with Clauses 32.7.1 and 32.7.5 SEBI Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 • Clause 2, 7, 8, 9, 10, 16 and 19 of Annexure A of NSE Exchange circular no. NSE/INSP/42448 dated October 18, 2019

	• CTCL users were not the employees of the AP of the stock broker (Balu Motiram Bharti) • AP (Balu Motiram Bharti) has aided / dealt with an unregistered Investment Adviser (Ravindra Bharti Education Institute Private Limited)	and Clause 3 of NSE Exchange circular no. NSE/COMP/ 56947 dated June 02, 2023, Para III of NSE Exchange circular no. NSE/MSD/56778 dated May 22, 2023, read with Regulation 9 (b) and Clause A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Brokers) Regulations, 1992.

SHOW CAUSE NOTICE, REPLY AND HEARING

6. Show Cause Notice (hereinafter being referred to as the **"SCN"**) dated July 31, 2024 was issued to Noticee in terms Rule 4(1) of Adjudication Rules to show cause as to why an inquiry should not be initiated against Noticee and why penalty, if any, should not be imposed upon Noticee under Section 15HB of SEBI Act for the aforesaid alleged violations.

7. Following is allegation made against the Noticee in the SCN-

I. **Non-settlement of inactive clients**

i. On verification of client financial ledgers, month wise trading activities and ageing balances of the clients, it has been observed that in respect of 252 instances amounting to Rs.12.77 crore the funds of inactive clients were not settled / attempted to be settled within the stipulated timelines by the Noticee**.**

ii. In view of the above, it is alleged that the Noticee has violated Clause 5.4, of SEBI circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 read with Clause 47.4 of SEBI Master circular for Stock Brokers dated May 17, 2023.

II. Non-reporting of technical glitches

8. During inspection it was observed that in 14 instances clients faced frequent technical issues at trading platform of the Noticee. However, these technical glitch/technical issues were not reported by Noticee to exchanges.

9. Therefore, for the 14 instances it is alleged that the Noticee has violated Clause 3.1 of SEBI circular: SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 dated November 25, 2022 read with Clause 61.3.1 of SEBI Master Circular for Stock Brokers dated May 17, 2023.

III. Lack of proper due diligence and control over Authorised Persons (APs):

a) Non-compliances by APs were not observed in inspection conducted by the Noticee:

10. It is alleged that inspection of APs by the Noticee failed to observe non-maintenance of complaints register, non-display of mandatory requirements in office premises, non-segregation of AP business from other permitted business in the common premises, and operation of trading terminals by unapproved users. It was also observed that AP was utilising the services of employees of a related entity found to be involved in unregistered investment advisory services.

11. Therefore, it is alleged that the Noticee has not conducted inspection of its AP properly and thereby has failed to exercise adequate control and due diligence over the activities, conduct and transactions of its APs.

b) Failure to maintain segregation and demarcation in the office of the AP (Balu Motiram Bharti)

12. During inspection, it was observed that employees of Ravindra Bharti Education Institute Private Limited (RBEIPL) and R Bharti Wealth Private Limited were found to be seated within the AP's premises. Further, display boards for all the associated entities of the AP were put up outside the AP office. Thus, activities other than the broking business were conducted from the premises of AP.

13. In view of the above, it is alleged that Noticee has failed to ensure that proper segregation and demarcation was maintained in the office of the AP between broking and non-broking activities.

c) CTCL users were not the employees of the AP of the Noticee (Balu Motiram Bharti)

14. During inspection, it was observed that dealers of the AP (Mr. Balu Motiram Bharti) were employees of Ravindra Bharti Education Institute Private Limited (RBEIPL), which was

observed to be involved in unregistered investment advisory activities and even used the clients of AP for this purpose.

15. In view of the above, it is alleged that the Noticee has updated CTCL user's details in stock exchange records without adequate due diligence and thereby failed to exercise adequate due diligence and control over the activities, conduct and transactions of its AP and merely acted based on the undertaking provided by the AP.

d) AP (Balu Motiram Bharti) has aided / dealt with an unregistered Investment Adviser (Ravindra Bharti Education Institute Private Limited)

16. During the inspection of AP Balu Motiram Bharti (September 22, 2023 and December 01, 2023), it was observed that the AP was aiding/dealing with an Unregistered Investment Advisor (UIA), Ravindra Bharti Education Institute Private Limited (RBEIPL). However, Noticee has not observed any violation by AP in this regard in its audit report.

17. Further Noticee was directed vide NSE MCSGFC order dated June 29, 2022 to conduct an audit of the top 3000 Authorized Persons to verify the maintenance of Pre-order confirmation. Accordingly, Noticee conducted audit of AP. However, Noticee has failed to find the aforesaid irregularities by the AP.

18. In view of the above, it is alleged that Noticee has failed to exercise adequate control and due diligence over the activities, conduct and transactions of its AP.

a) In view of the above allegations, it is alleged that the Noticee has violated Clause 7(a) and 7(e) of Annexure 1 of SEBI Circular no. MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with Clauses 32.7.1 and 32.7.5 of SEBI Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023, Clause 2, 7, 8, 9, 10, 16 and 19 of Annexure A of NSE Exchange circular no. NSE/INSP/42448 dated October 18, 2019 and Clause 3 of NSE Exchange circular no. NSE/COMP/ 56947 dated June 02, 2023, Para III of NSE Exchange circular no. NSE/MSD/56778 dated May 22, 2023, read with Regulation 9 (b) and Clause A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Brokers) Regulations, 1992.

19. The SCN was sent to Noticee through Speed Post AD and via digitally signed Email on August 02, 2024 and was duly served upon Noticee. Vide email dated August 16, 2024,

Noticee sought inspection of documents. Vide email dated August 30, 2024 Noticee was requested to specify the documents which they want to inspect. Thereafter, vide email dated August 30, 2024 and September 02, 2024 Noticee specified the documents for inspection. In view of the same, vide email dated September 11, 2024 inspection of the documents as sought by Noticee was scheduled on September 18, 2024, however due to the holiday on September 18, 2024, the inspection was rescheduled to September 19, 2024 and the same was communicated to Noticee vide email dated September 16, 2024. Noticee inspected the documents on the scheduled day i.e. September 19, 2024. Vide email dated September 24, 2024 Noticee sought copies of additional documents. In view of the same, vide email dated October 14, 2024 copy of the documents available was provided to the Noticee. Further, vide email dated October 15, 2024 Noticee was advised to submit its reply on or before October 24, 2024. Vide email dated October 22, 2024 Noticee sought extension of two weeks for submission of reply. In view of the same, vide email dated October 24, 2024, Noticee was advised to submit its reply on or before October 31, 2024.

20. In the interest of natural justice, opportunity of hearing was provided to Noticee on November 11, 2024 vide hearing notice dated October 25, 2024 which was sent via SPAD and digitally signed email dated October 28, 2024, and the same was duly delivered. Vide email dated October 31, 2024, Noticee submitted its reply to the SCN. The Noticee’s reply is summarised below:

a) *Noticee submitted that SEBI has failed to provide photos, audios, documents, etc. relied upon while preparing the Inspection Reports of the four APs (regarding allegation 3), without providing any sufficient reason for the same, therefore, violating the principles of natural justice by not allowing a proper opportunity to Noticee to defend itself effectively with respect to the allegation relating to lack of proper due diligence and control over APs. Noticee relied on the rulings of Hon’ble Supreme Court in the matter of T. Takano vs. SEBI and Reliance Industries Limited vs. SEBI. Noticee also relied on the order of Hon’ble SAT in the matter of Ms. Smitaben N. Shah vs. SEBI and Pricewaterhouse Cooper vs. SEBI*

b) *Further, Noticee submitted that Technical Glitch Inspection was conducted from January 15 to January 19, 2024, however, the period covered for the said inspection* *was up to February 12, 2024, i.e., beyond the date on which the inspection was conducted by SEBI.*

Allegation relating to non-settlement of client funds

c) *Noticee submitted that alleged 252 instances are pertaining to 76 clients. There was mere delay in settling the funds of the said inactive clients due to various following reasons –*

AOL response	***No. of clients***
No delay	*25*
The updated bank details of the client were not available with AOL as any changes made by the client were not informed to AOL, resulting in rejection by banks in several attempts made by AOL for settlement of funds of the clients. *The said amounts were parked in a separate account and were eventually paid to the clients after reaching out to the* *client or by issuing a cheque to the address as per their KYC details.* *It is submitted that out of these 38 clients, for 34 clients, settlement of funds was already done prior to the Inspection conducted by SEBI.*	*38*
Account blocked during the relevant time due to several reasons such as • *1. Incorrect address submitted by client in KYC* *2. Alerts generated for suspicious activities by the client and therefore blocked as per the provisions of Prevention of Money Laundering Act, 2002 (PMLA 2002")* *3. Accounts forcefully closed due to suspicious trading pattern*	*5*
The cheque issued to the client was not deposited by the 4 clients and therefore expired. AOL attempted to reach out to the clients, however, the clients were unresponsive.	*4*
Attempts were made to settle, however, failed due to 3 rejection from banks.	*3*
Client Code V37421, namely, Vandha Account, i.e., one of 1 the said 76 clients was an account owned by AOL and therefore, there were no obligations of settlement..	*1*

d) *Noticee submitted that barring a few instances, i.e., 13 out of 76 clients, 25 clients were active and the funds of the said 25 clients were settled within the prescribed timeline; lastly, for the remaining 38 clients, the funds were subsequently settled by Noticee. Delay if at all was due to circumstances beyond Noticee's control*

Allegation relating to non-reporting of Technical Glitches

e) Noticee submitted that technical glitch that occurred on May 8, 2023, was duly reported to the National Stock Exchange of India Limited. Noticee submitted that it was also in constant touch with NSE post reporting of this issue as well to provide necessary system logs to investigate the root cause of the issue at Exchange's end. Noticee also resolved the complaints.

f) Noticee submitted that it had reported the technical glitch, albeit with a slight delay. The delay in reporting was solely due to rectification purposes; it was inadvertent and not deliberate.

g) Noticee further submitted that a penalty of Rs. 50,000/- was imposed by NSE for delayed reporting of the aforementioned technical glitch vide communication dated July 20, 2023

h) In submission pertaining to the double jeopardy Noticee referred to the matter of Sangeetaben Mahendrabhai Patel vs. State of Gujarat, S.A. Vekatraman vs. Union of India & Anr.

Allegation relating to lack of proper due diligence and control over four Authorised Persons (APs)

i) Noticee submitted that the violations observed by SEBI during the SEBI Inspection were not noted by Noticee at the time of the inspection carried out in October, 2023, June, 2024 and October, 2024 and the APs were found compliant with all the requirements as per the scope of inspection set out in the abovementioned circulars. Noticee has maintained records of the inspection in the form of photographs and videos, wherever possible.

AP Jitendra Jaikumar Punjabi

j) Noticee submitted that during the past audit inspection conducted on February 11, 2022, September 29, 2022 and October 10, 2023, AOL did not come across any discrepancy with respect to terminal being operated by person other than the approved user and it was noted by the auditor that the trading terminals were being operated by the approved users.

k) Noticee submitted that the AP has two offices in different locations i.e., offices in Ulhasnagar and Ambarnath.

l) On the day of the SEBI Inspection, the Approved User for the trading terminal having CTCL ID 421501999003 viz., Ms. Jyoti Jitendra Punjabi was called to the Ulhasnagar branch in relation to the SEBI Inspection being carried out in the other branch simultaneously. Since the inspection was being carried out during trading hours, in her absence, Mr. Deepak, another employee of the AP was viewing the terminal, to answer any queries that clients may raise. However, it is pertinent to note that while Mr. Deepak was monitoring the trading terms, no orders were placed from the trading terminal during the absence of the Approved User.

m) With respect to the trading terminal with CTCL ID 421004999002, the Approved User for the terminal i.e., Mr. Jitendra Jaikumar Punjabi, was occupied in the SEBI Inspection. In his absence, Mr. Amit Kolkar, was operating the trading terminal with CTCL ID 421004999002. It is pertinent to note that Mr. Amit Kolkar is also an Approved User for Cash segment for the trading terminal bearing CTCL ID 421004999005.

n) Noticee submitted that after receiving the letter of observation from SEBI dated April 23, 2024 conducted a surprise audit inspection at the AP premises on June 19, 2024. The auditor noted that the terminals were being operated by the operated users only.

o) Noticee submitted that the trading terminals were being manned by persons other than the Approved User on the day of the SEBI Inspection due to exigent circumstances. Therefore, with the sole intention of not causing inconvenience / losses to the clients, the terminal was operated by a person other than the Approved User and it is pertinent to note that orders were placed by an individual who was duly registered as approved users, although for other segment.

p) Noticee submitted that the use of terminals by persons other than the approved user for the trading terminal (who are approved users for different terminals), cannot amount to extending use of trading terminal to any unauthorized person or place by Noticee.

q) With respect to the allegation regarding the Investor Grievance register not being maintained by the AP, Noticee submitted that the Investor Grievance Register was maintained by the AP in an email format wherein the AP had created a specific email *address for clients grievance redressal i.e. the Noticee was digitally maintaining the complaint register as there is no specific format mentioned in the extant circulars about maintaining an Investor Grievance register. Further, the complaints received from the clients was also shown to the SEBI officials who had come for inspection and they had not objected to the same. Further, during the audit conducted by AOL on October 06, 2023, it was noted by the auditor that the AP was maintaining an Investor Grievance register.*

r) *Noticee upon receiving the letter of observation from SEBI dated April 23, 2024, conducted the audit inspection of the AP on June 19, 2024 and noted that the Investor Grievance register was being maintained by the AP.*

AP Rajesh S Sagvekar

s) *Noticee submitted that the 4 trades in question had been placed by clients physically at the APs office. As informed by the AP, due to a technical issue, the AP was unable to generate the order sheet and accordingly, has subsequently taken signatures of clients on the order sheet and duly uploaded the same on AOL's platform. The SEBI Circular dated March 22, 2018, specifies that for exceptional cases such as technical failure etc., other appropriate evidence such as post trade confirmation from clients shall be considered as acceptable proof of order placement. Accordingly, the AP has subsequently obtained client signatures on the order sheet and duly uploaded the same.*

t) *With specific reference to finding/ observation in respect of maintaining Notice Board, SEBI Registration certificate and Investor Grievance register, Noticee submitted that the AP has informed it that at the time of the SEBI Inspection, there was some ongoing renovation work in the premises of the AP. The Notice Board and SEBI registration certificate were duly displayed, and the complaint register was duly maintained at the time of the inspection carried out by AOL on October 09, 2023. Noticee submitted the videos and photographs of Notice Board, SEBI Registration Certificate and Investor Grievance Register which were taken by Noticee at the time of inspection.*

u) *Noticee submitted that upon receiving the letter of observation from SEBI dated April 23, 2024, AOL conducted the audit inspection of the AP on June 19, 2024 and the auditor had noted that the Notice Board, SEBI registration certificate and investor grievance register were being maintained by the AP. A copy of the Audit report dated*

June 19, 2024 and the videos and photographs taken on June 19, 2024 displaying the Notice Board, SEBI Registration Certificate and Investor Grievance register being maintained by the AP.

AP Vijay Babaji Bonte

v) *Regarding the notice board containing the SEBI registration certificate of Noticee, registration letter issued by the exchange and information about the grievance redressal mechanism not being displayed, Noticee submitted that the same were displayed by the AP during the inspection conducted by Noticee on October 07, 2023. Further, post receipt of SEBI letter dated April 23, 2024, the AP on April 25, 2024 has confirmed that the requirement is being complied with.*

w) *AP had informed Noticee that at the time of the SEBI Inspection, the Notice Board, SEBI registration certificate, registration letter issued by the Exchange, information about the grievance redressal mechanism was not displayed on account of some ongoing renovation work in the premises of the AP.*

x) *Noticee submitted that it had carried out an audit inspection of the AP on October 9, 2024 and all the details such as Notice Board, SEBI Registration Certificate and Investor Grievance Register had also been placed by the AP.*

AP Balu Motiram Bharti

y) *Noticee submitted that it has promptly taken action and terminated the services of the AP vide letter dated April 19, 2024. With respect to the allegations made in this regard to the AP, Noticee submitted that on October 05, 2023 and September 22, 2022, audit inspections were conducted and the AOL's auditor had not noted any irregularities at the AP's office.*

z) *With respect to allegation regarding no proper segregation and demarcation maintained at AP office in case any permissible activity other than broking business is carried out, Noticee submitted that during the course of the inspections, the auditor noted that there was proper workplace segregation at the AP's office.*

aa) *Noticee submitted that it had conducted due diligence of the persons appointed as Approved Users as per its Standard Operating Procedure for CTCL Terminal Activation/*

Modification/ Deactivation. It had taken KYC details as well as undertakings from such persons and the AP that such persons were employed as dealers of the AP and had the requisite NISM Certifications.

bb) Noticee submitted that during the inspections conducted by it, it was noted that the trading terminals were being operated only by the Approved Users.

cc) In respect of the allegations that CTCL users' details were updated without adequate supervision, Noticee submitted that necessary due diligence was undertaken by it and requisite documents in respect of the Approved Users were obtained.

dd) Noticee referred to the SEBI order in the matter of Prudent Broking Services Private Limited and submitted that Noticee did not have any knowledge about the modus operandi of Balu Motiram Bharti similar to Prudent Broking Services Private Limited wherein it did not have know about the modus operandi of its AP.

ee) Noticee referred to the order of Hon'ble Supreme Court in the matter of SEBI v. Kishore R. Ajmera, Chander Kanta Bansal v. Rajender Singh Anand, Religare Securities Ltd. v. SEBI, SEBI order in the matter of IFCI Financial Services Limited, Marfatia Stock Broking Private Limited and Prudent Broking Services Private Limited and Hon'ble SAT order in the matter of DSE Financial Services Ltd. v SEBI.

ff) Noticee submitted that is only vicariously liable for those acts of its APs which it has expressly authorized and referred to the order of Hon'ble Supreme Court in the matter of Sitaram Motilal Kalal v. Santanuprasad Jaishankar Bhatt and Madras High Court order in the matter of United India Insurance Co., Ltd. v. Sri Jaya Steels.

gg) Noticee submitted that no penalty is warranted in the facts and circumstances of the matter against Noticee and placed reliance on the order of Hon'ble Supreme Court in the matter of Hindustan Steel Ltd. vs. State of Orissa, M/s Cabot International Capital vs. SEBI and Adjudicating Officer, Securities and Exchange Board of India vs. Bhavesh Pabari, Noticee also referred to the order of Hon'ble SAT in the matter of Piramal Enterprise Limited and ICICI Bank Limited.

21. The Authorised Representative (ARs), of the Noticee appeared personally for the hearing scheduled on November 11, 2024 and made submissions on the lines of written reply dated

October 31, 2024. Noticee sought time till November 22, 2024 additional submissions along with the following documents -

a) Details of separate account where amount was parked of non-settled inactive clients and when the payment was made to those clients.

b) Copy of the investor grievance register maintained by the AP Jitendra Jaikumar Punjabi in an email format.

c) Whether NSE approval was taken by the Noticee for operating trading terminal with CTCL ID 421004999002 by Mr. Amit Kolkar.

22. Vide email dated November 22, 2024 Noticee made the additional submission wherein Noticee reiterated the submission already made vide reply dated October 31, 2024 and made the following additional submission-

a) Noticee submitted the details of the account where the amounts were parked of non-settled inactive clients and the dates of payment made to the clients. With regard to the investor grievance register maintained by the AP Jitendra Jaikumar Punjabi in an email format, Noticee submitted that the AP had maintained a digital complaint register, through a specific email ID: ulhasnagar@angeltrade.co.in. Noticee submitted the email response provided by the AP, as well as sample complaints which have been redressed by the AP.

b) With regard to the operating trading terminal with CTCL ID 421004999002 being operatd by Mr. Amit Kolkar, Noticee reiterated that Mr. Amit Kolkar was duly qualified to operate a CTCL terminal and only stood in for M. Jitendra Punjabi who was busy assisting SEBI's inspecting officials.

CONSIDERATION OF ISSUES, EVIDENCE AND FINDINGS

23. The facts and circumstances of the case, submissions of the Noticee and the material available on record have been taken into consideration. The issues that arise for consideration in the present case are:

ISSUE I: Whether Noticee has violated the following provisions of securities law?

a) **Clause 5.4, of SEBI circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 read with Clause 47.4 of SEBI Master circular for Stock Brokers dated May 17, 2023**

b) **Clause 3.1 of SEBI circular: SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 dated November 25, 2022 read with Clause 61.3.1 of SEBI Master circular for Stock Brokers dated May 17, 2023**

c) **Clause 7(a) and 7(e) of Annexure 1 of SEBI Circular no. MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with Clauses 32.7.1 and 32.7.5 SEBI Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 and Clause 2, 7, 8, 9, 10, 16 and 19 of Annexure A of NSE Exchange circular no. NSE/INSP/42448 dated October 18, 2019 and Clause 3 of NSE Exchange circular no. NSE/COMP/ 56947 dated June 02, 2023, Para III of NSE Exchange circular no. NSE/MSD/56778 dated May 22, 2023, read with Regulation 9 (b) and Clause A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Brokers) Regulations, 1992.**

ISSUE II- Does the violation, if any, attract monetary penalty under Section 15HB of the SEBI Act, 1992 for Noticee?

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

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

SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021

https://www.sebi.gov.in/legal/circulars/jun-2021/settlement-of-running-account-of-client-s-funds-lying-with-trading-member-tm-_50570.html

SEBI Master circular for Stock Brokers dated May 17, 2023

https://www.sebi.gov.in/legal/master-circulars/may-2023/master-circular-for-stock-brokers_71265.html

SEBI Circular No. SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 dated November 25, 2022.

https://www.sebi.gov.in/legal/circulars/nov-2022/framework-to-address-the-technical-glitches-in-stock-brokers-electronic-trading-systems_65466.html

SEBI circular no. MIRSD/DR-1/Cir-16/09 dated November 06, 2009

https://www.sebi.gov.in/legal/circulars/nov-2009/market-access-through-authorised-persons_3182.html

NSE circular no. NSE/INSP/42448 dated October 18, 2019

https://nsearchives.nseindia.com/content/circulars/INSP42448.pdf

NSE circular no. NSE/COMP/56947 dated June 02, 2023

https://nsearchives.nseindia.com/content/circulars/COMP56947.pdf

NSE circular No. NSE/MSD/56778 dated May 22, 2023

https://nsearchives.nseindia.com/content/circulars/MSD56778.pdf

Clause A(5) of Schedule II of SEBI (Stock Brokers) Regulations 1992–

"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."

Regulation 9 of SEBI (Stock Brokers) Regulations 1992–

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

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

FINDINGS

25. The submissions made by the Noticee and the other material on record have been considered. Before proceeding with the matter on merits, the preliminary submission of the Noticee that SEBI has failed to provide photos, audios, documents, etc. relied upon while preparing the Inspection Reports of the four APs, without providing any sufficient reason for the same, therefore, violating the principles of natural justice by not allowing a proper

opportunity to Noticee to defend itself effectively with respect to the allegation relating to lack of proper due diligence and control over APs is being dealt with. In this regard, it is noted that Noticee conducted inspection of the following documents on September 19, 2024-

a. Comprehensive inspection report along with relevant annexures.
b. Thematic Inspection report for technical glitches along with relevant annexures.
c. Thematic Inspection report for APs along with relevant annexures.
d. Letter(s) of Observation pursuant to the above 3 inspections along with annexures.
e. Response of AOL dated April 16, 2024, April 1, 2024, and May 3, 2024 submitted to SEBI along with supporting documents.
f. Original Copy of Annexure 1 to 6 of the SCN.
g. Annexure 2 of SCN.
h. Copy of Post Inspection Analysis (PIA) along with relevant annexures.
i. Screen grabs from client ledger along with reason of complaint settlement

26. Noticee inspected the abovementioned documents and copies of the same was provided to the Noticee. Further, vide email dated October 14, 2024 copies of the complaints made of technical glitches in the 13 instances was provided to the Noticee. It is noted that all the alleged violations was clearly brought out in the inspection reports and the post inspection analysis and all the relevant and relied upon documents along with annexures was provided to the Noticee. Therefore, it is noted that proper opportunity was provided to Noticee to defend itself and the principle of natural justice has been followed.

27. Further, Noticee submitted that Technical Glitch Inspection was conducted from January 15 to January 19, 2024, however, the period covered for the said inspection was up to February 12, 2024. In this regard, it is noted that the onsite inspection of the Noticee was conducted on January 15 to January 19, 2024, however the offsite inspection continued even after January 19, 2024.

ISSUE I: Whether Noticee has violated the following provisions of securities law?

a) **Clause 5.4, of SEBI circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 read with Clause 47.4 of SEBI Master circular for Stock Brokers dated May 17, 2023.**

28. During inspection, it was observed that in respect of 252 instances amounting to Rs.12.77 crore the funds of inactive clients were not settled / attempted to be settled within the stipulated timelines by the Noticee**.** In view of the same, it was alleged that the Noticee has violated Clause 5.4 of SEBI circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 read with Clause 47.4 of SEBI Master circular for Stock Brokers dated May 17, 2023.

29. Noticee submitted that alleged 252 instances are pertaining to 76 clients*.* Noticee further submitted that there was no delay in settlement of 25 clients, 38 clients could not be settled as updated bank account details was not available, accounts of 5 clients were blocked because of various reasons, cheque issued to the client was not deposited by the 4 clients and therefore expired, Attempts were made to settle 3 clients, however, failed due to rejection from banks and one of the said 76 clients was an account owned by Noticee itself and therefore, there were no obligations of settlement.

30. As per Clause 5.4, of SEBI circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021 read with Clause 47.4 of SEBI Master circular for Stock Brokers dated May 17, 2023 the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days irrespective of the date when the running account was previously settled.

31. During inspection on verification of client financial ledgers, month wise trading activities and ageing balances of the clients, it has been observed that in respect of 252 instances amounting to Rs.12.77 crore the funds of following inactive clients were not settled / attempted to be settled within the stipulated timelines by the Noticee-

1	P6770	16	MMPU006	31	DARKA2880	46	M51388104	61	S118587	76	S6687
2	SHWM248	17	N11304	32	MABR1632	47	S1815443	62	K48467		
3	T3258	18	S1164735	33	N383371	48	S1880051	63	R79633		
4	V37421	19	S93322	34	R102738	49	STO205	64	CKV026		
5	V38176	20	S20010	35	R177210	50	V25128	65	S61222		
6	V432168	21	S3226	36	R30063	51	V67852	66	P13744		
7	ZR1002N	22	S127741	37	R814058	52	V865	67	P42701		
8	ZR1160R	23	S61136	38	S325888	53	Y2567	68	R789831		
9	ZR795R	24	R10214	39	S495697	54	YL4444	69	R46229		
10	ZR952R	25	S1191974	40	A70278	55	P311339	70	H9602		
11	P74691	26	L14009	41	ADTV1460	56	S3649	71	P120279		
12	A111022	27	SMPM1072	42	H120590	57	S1285594	72	A46072		
13	AE32	28	A120411	43	K38141	58	P628	73	D16238		
14	H32235	29	K238636	44	K8550	59	R59360	74	B29673		
15	M663882	30	N79257	45	L11579	60	P43457	75	R35294		

32. It is noted from the material available and the submission of the Noticee that the following 25 clients out of the above mentioned 76 clients were active clients and the funds of these 25 clients were settled within the prescribed timeline.

1	A120411	6	M51388104	11	P311339	16	S61136	21	SMPM1072
2	ADTV1460	7	MABR1632	12	R30063	17	S325888	22	STO205
3	H120590	8	N79257	13	R35294	18	S495697	23	T3258
4	K238636	9	N383371	14	R177210	19	S1815443	24	V25128
5	L11579	10	P120279	15	R814058	20	S1880051	25	V67852

33. Further, it is noted from the material available and the submission of the Noticee that for 38 clients out of 76 clients updated bank account details were not available with Noticee as any changes made by those 38 clients were not informed to the Noticee, which resulted in rejection of fund transfer by banks. Further, it is noted that the Noticee parked the amount of non-settled inactive clients in a separate account and this amount was eventually paid by the Noticee to most of the clients after reaching out to the client or by issuing the cheque to the address as per their KYC details. Therefore, it is noted that the Noticee has taken the necessary measures and attempted the funds pay-out for the 38 clients.

34. Further, it is noted that in respect of 5 clients there was a delay in settlement as the account of those 5 clients were blocked during the relevant time due to several reason. Further, in respect of 4 clients the cheque issued to the clients was not deposited by the clients and therefore expired. Also in respect of 3 clients attempts were made by the Noticee to settle, however, failed due to rejection from banks. Therefore, it is noted that the Noticee has taken the necessary measures and attempted the funds pay-out for the 12 clients.

35. However, it is noted that in respect of one client i.e. V37421 Noticee admitted that they did not settle that account as it was the Vandha account i.e. an account belongs to the Noticee only. However, it is noted that the obligation is on the part of the Noticee to settle all the clients account, therefore, the Noticee was obliged to settle the aforesaid account.

36. Thus, it is observed that except for 1 account, Noticee attempted to settle other clients accounts. While there is non-compliance in respect of 1 account, however, non-compliance for one account does not warrant imposition of penalty.

b) Clause 3.1 of SEBI circular: SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 dated November 25, 2022 read with Clause 61.3.1 of SEBI Master circular for Stock Brokers dated May 17, 2023

37. During inspection it was observed that in 14 instances clients faced technical issues at trading platform of the Noticee. However, these technical glitch/technical issues were not reported by Noticee to exchanges. Therefore, it is alleged that the Noticee has violated Clause 3.1 of SEBI circular: SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 dated November 25, 2022 read with Clause 61.3.1 of SEBI Master Circular for Stock Brokers dated May 17, 2023.

38. Noticee submitted that it had reported the technical glitch, albeit with a slight delay.

39. As per Clause 3.1 of SEBI circular: SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 dated November 25, 2022 read with Clause 61.3.1 of SEBI Master circular for Stock Brokers dated May 17, 2023 Stock brokers shall inform about the technical glitch to the stock exchanges immediately but not later than 1 hour from the time of occurrence of the glitch.

40. It is noted that during inspection, it was observed that the clients of the Noticee faced frequent technical issues at trading platform of the Noticee and the complaints were filed by the clients on the following dates-

Dates	May'2023- 11,15,16,17,18,24,26 June'2023- 02,05

41. However, it is noted that these technical glitch/technical issues were not reported by Noticee to exchanges for abovementioned days.

42. It is observed that the complaints of technical glitches received in the month of May 2023 and June 2023 by the Noticee are related to the technical glitch that happened on May 08, 2023.

43. It is noted from the material available that Noticee reported the technical glitch happened on May 08, 2023 at 09:15 AM (duration of the technical glitch was 33 minutes) to NSE on May 08, 2023 at 12:35 PM. However, as per the SEBI circular on "Framework to address the 'technical glitches' in Stock Brokers' Electronic Trading Systems" technical glitch shall be reported to the stock exchange within 1 hour of occurrence of event.

44. However, in the instant case Noticee reported the technical glitch to the NSE which happened on May 08, 2023, with the delay of more than 2 hours and the same is admitted by the Noticee.

45. Therefore, it is observed that the Noticee is in violation of Clause 3.1 of SEBI circular SEBI/HO/MIRSD/TPD-1/P/CIR/2022/160 dated November 25, 2022 read with Clause 61.3.1 of SEBI Master circular for Stock Brokers dated May 17, 2023

c) Clause 7(a) and 7(e) of Annexure 1 of SEBI Circular no. MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with Clauses 32.7.1 and 32.7.5 SEBI Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 and Clause 2, 7, 8, 9, 10, 16 and 19 of Annexure A of NSE Exchange circular no. NSE/INSP/42448 dated October 18, 2019 and Clause 3 of NSE Exchange circular no. NSE/COMP/ 56947 dated June 02, 2023, Para III of NSE Exchange circular no. NSE/MSD/56778 dated May 22, 2023, read with Regulation 9 (b) and Clause A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Brokers) Regulations, 1992

46. During inspection, it was observed that Noticee has not conducted inspection of its APs properly and thereby failed to exercise adequate control and due diligence over the activities, conduct and transactions of its APs. It was also alleged that Noticee has failed to ensure that proper segregation and demarcation was maintained in the office of the AP between broking and non-broking activities. It was alleged that the Noticee has updated CTCL user's details in stock exchange records without adequate due diligence and thereby failed to exercise adequate due diligence and control over the activities, conduct and transactions of its AP and merely acted based on the undertaking provided by the AP.

47. In view of the above, it was alleged that the Noticee has violated Clause 7(a) and 7(e) of Annexure 1 of SEBI Circular no. MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with Clauses 32.7.1 and 32.7.5 of SEBI Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023, Clause 2, 7, 8, 9, 10, 16 and 19 of Annexure A of NSE Exchange circular no. NSE/INSP/42448 dated October 18, 2019 and Clause 3 of NSE Exchange circular no. NSE/COMP/ 56947 dated June 02, 2023, Para III of NSE Exchange circular no. NSE/MSD/56778 dated May 22, 2023, read with Regulation 9 (b) and Clause A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Brokers) Regulations, 1992.

48. As per Clause 7(a) and 7(e) of Annexure 1 of SEBI Circular no. MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with Clauses 32.7.1 and 32.7.5 of SEBI Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023, 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 and Stock broker shall conduct periodic inspection of branches assigned to authorised persons and records of the operations carried out by them. Clause 2, 7, 8, 9, 10, 16 and 19 of Annexure A of NSE Exchange circular no. NSE/INSP/42448 dated October 18, 2019 provides that members while undertaking the inspection of Branches and AP offices shall examine that all applicable regulatory requirements have been complied with including adequate systems, including voice recording (wherever applicable) are put in place for recording of order placement from clients, trading terminals situated at the place of inspection are operated by approved and certified users, notice board of the Trading Member containing all details/information prescribed, from time to time, is displayed at the inspection location, SEBI registration certificate of the Trading Member and registration letter issued by the Exchange is displayed at the inspection location, information about the grievance redressal mechanism available to investors is prominently displayed at the location, complaints received at the AP/Branch location are handled and records are maintained and 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.

49. Further as per Clause 3 of NSE Exchange circular no. NSE/COMP/ 56947 dated June 02, 2023, at all points in time, trading members shall exercise adequate control and due diligence over the activities, conduct and transactions of their APs by conducting surprise

and periodic Inspections and taking regular feedback from the clients of the APs. In case any anomaly is identified, Trading Members shall take necessary disciplinary actions against their APs. Further, Trading Members shall be vicariously and severally liable for any violation committed by their APs including operating any schemes of unauthorised collective investments/portfolio management and promising indicative/guaranteed/fixed returns etc. Para III of NSE Exchange circular no. NSE/MSD/56778 dated May 22, 2023, read with Regulation 9 (b) and Clause A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Brokers) Regulations, 1992 provides 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 and the 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.

50. It is noted from the material available that SEBI conducted thematic inspection for control over authorized persons (AP) by Noticee of the following APs of the Noticee, namely Jitendra Jaikumar Punjabi, Rajesh S Sagvekar and Vijay Babaji Bonte in the month of July 2023 and of AP Balu Motiram Bharti in the month of September and December 2023, wherein SEBI observed certain violations. Subsequently, Noticee conducted inspection of the aforesaid APs. Thereafter the inspection reports of the Noticee were compared with the violations observed by the SEBI in its inspection report of the following APs. Following deviations were observed in the inspection reports of the following APs of Noticee.

Sr No	AP Name	Violations observed during SEBI comprehensive inspection (SEBI inspection date: July 18, 2023)	Violations observed by the Noticee during their inspection (Noticee inspection date: October 06, 2023)
1	Mr. Jitendra Jaikumar Punjabi	1. Out of 2 terminals, 1 terminal in the name of Jeetendra Punjabi was operated by Amit Kolkar and another terminal in the name of Jyoti Punjabi was operated by Deepak. 2. The complaint register was not maintained by AP.	NIL

51. It is noted from the above table that during SEBI inspection it was observed that the out of 2 terminals, 1 terminal in the name of Jeetendra Punjabi was operated by Amit Kolkar and another terminal in the name of Jyoti Punjabi was operated by Deepak and the complaint register was not maintained by AP Jitendra Jaikumar Punjabi.

52. With respect to the AP Jitendra Jaikumar Punjabi Noticee submitted that Mr. Deepak (employee of AP) did not place any order from the trading terminal during the absence of the Approved User. It is noted that the approved user Ms. Jyoti Jitendra Punjabi were busy attending to SEBI inspection and no trades were placed from her CTCL id 421501999003 during that time.

53. Further, Noticee admitted that the terminal with CTCL ID 421004999002, the Approved User is Mr. Jitendra Jaikumar Punjabi, who was occupied with SEBI inspection, in his absence, Mr. Amit Kolkar, was operating the trading terminal. Noticee also submitted that the Mr. Amit Kolkar is also an Approved User for Cash segment for the trading terminal bearing CTCL ID 421004999005. From the submission of the Noticee, it is observed that Mr. Amit Kolkar was operating the CTCL ID 421004999002 for which he was not the approved user.

54. During SEBI inspection of AP Jitendra Jaikumar Punjabi, it was observed that the complaint register was not maintained by the AP. In its reply to the SCN, Noticee submitted that when Noticee conducted inspection of the aforesaid AP in October 06, 2023 it was found that the AP was maintaining the Investor Grievance register, Noticee also submitted the photographs taken during its inspection. On perusal of the register, it is observed that no complaints are recorded by the aforesaid AP in its investor grievance register, therefore the contents of the investor grievance register are not verifiable. Further, Noticee submitted that the Investor Grievance Register was maintained by the AP in an email format, in this regard, it is noted that as per NSE circular dated October 18, 2019 the information about the grievance redressal mechanism available to investors to be prominently displayed at the location, however, in the instant matter the same was not displayed at the aforesaid AP's office,. Hence, the contentions of the Noticee is not tenable.

Sr No	**AP Name**	**Violations observed during SEBI comprehensive inspection (SEBI inspection date: July 14, 2023)**	**Violations observed by the Noticee during their inspection (Noticee inspection date: October 09, 2023)**
2	Mr. Rajesh S Sagvekar	1. Pre- order confirmation was not maintained for trades executed 2. AP has not displayed Notice Board, SEBI registration certificate and Investor grievance register at office. 3. The complaint register was not maintained by AP.	NIL

55. It is noted from the above table that during SEBI inspection it was observed that the AP Mr. Rajesh S Sagvekar was not maintaining pre- order confirmation for trades executed, has not displayed Notice Board, SEBI registration certificate and Investor grievance register at office and the complaint register was not maintained by AP.

56. Noticee submitted that the 4 trades in question were placed physically by the clients at the AP office and AP has subsequently obtained client signatures on the order sheet as due to a technical issue, the AP was unable to generate the order sheet.

57. With respect to maintaining Notice Board, SEBI Registration certificate and Investor Grievance register, in reply to the SCN Noticee submitted that the Notice Board and SEBI registration certificate were duly displayed, and the complaint register was duly maintained at the time of the inspection carried out by Noticee on October 09, 2023. Noticee submitted the videos and photographs of Notice Board, SEBI Registration Certificate and Investor Grievance Register which were taken by Noticee at the time of inspection. However, on perusal of the video and photograph, it is noted that the photo and video are not dated therefore the dates on which these photos and videos are taken are not verifiable. Further, in reply to the SCN, Noticee submitted that at the time of the SEBI Inspection, there was some ongoing renovation work in the premises of the AP, however, no such submission was made by the Noticee in reply to the SEBI observation letter. Further, Noticee submitted the bills of the renovation work, however, the contents of the bills/documents are not legible, hence the contention of the Noticee is not substantiated by documentary evidence. Thus, the aforesaid contention is just an afterthought of the Noticee and is not tenable.

58. As per SEBI Circular dated March 22, 2018, specifies that for exceptional cases such as technical failure etc., other appropriate evidence such as post trade confirmation from clients shall be considered as acceptable proof of order placement. In instant matter Noticee has taken post trade confirmation of 4 clients as there was technical issue. Further, it is noted that during inspection conducted by SEBI of AP Mr. Rajesh S Sagvekar it was observed that the Notice Board, SEBI registration certificate and investor grievance register were not displayed at office and the complaint register was not maintained by the AP. However, no such non-compliance was observed by the Noticee during its inspection.

Sr No	AP Name	Violations observed during SEBI comprehensive inspection (SEBI inspection date: July 12, 2023)	Violations observed by the Noticee during their inspection (Noticee inspection date: October 07, 2023)
3	Mr. Vijay Babaji Bonte	1. Notice board of the Trading Member containing the following details was not available at the AP office: a. SEBI registration certificate of the Trading Member b. Registration letter issued by the Exchange c. Information about the grievance redressal mechanism. 2. Complaint register is not maintained.	NIL

59. It is noted from the above table that during SEBI inspection Notice board of the AP Mr. Vijay Babaji Bonte containing SEBI registration certificate, Registration letter issued by the Exchange, Information about the grievance redressal mechanism was not displayed at the AP office and Complaint register was not maintained.

60. In reply to the SCN Noticee submitted that at the time of the SEBI Inspection, the Notice Board, SEBI registration certificate, registration letter issued by the Exchange, information about the grievance redressal mechanism was not displayed on account of some ongoing renovation work in the premises of the AP, however, no such submission was made by the Noticee in reply to the SEBI observation letter. Further, Noticee submitted the bills of the renovation work, however, the contents of the bills/documents are not legible, hence the contention of the Noticee is not substantiated by documentary evidence. Thus, the aforesaid contention is just an afterthought of the Noticee and is not tenable.

61. Noticee further submitted that the notice board containing the SEBI registration certificate of Noticee, registration letter issued by the exchange and information about the grievance redressal mechanism were displayed by the AP during the inspection conducted by Noticee on October 07, 2023, Noticee submitted the images of the same. However, on perusal of the image, it is noted that the images are not dated therefore the dates on which these images are taken are not verifiable. Hence the aforesaid contention of the Noticee is not tenable.

Sr No	AP Name	Violations observed during SEBI comprehensive inspection (SEBI inspection date: September 22, 2023 and December 01, 2023)	Violations observed by the Noticee during their inspection (Noticee inspection date: October 05, 2023)
4	Mr. Balu Motiram Bharti	1. No Proper segregation and demarcation are maintained at AP office in case any permissible activity other than broking business is carried out. 2. The CTCL users are not employees of the trading member of authorized person. 3. Inadequate Supervision of Authorized person by trading member 4. Trading member updated CTCL users' details without adequate supervision.	NIL

Failure to maintain segregation and demarcation in the office of the AP

62. It is noted that during SEBI inspection it was observed that the employees of Ravindra Bharti Education Institute Private Limited (RBEIPL) and R Bharti Wealth Private Limited were found to be seated within the AP's premises. Further, display boards for all the associated entities of the AP were put up outside the AP office. Thus, activities other than the broking business were conducted from the premises of AP.

63. Noticee submitted that on October 05, 2023 and September 22, 2022, audit inspections were conducted and the Noticee's auditor didn't note any irregularities at the AP's office and noted that there was proper workplace segregation at the AP's office. However, no documentary evidence was submitted by the Noticee in support of the aforesaid contention that there was proper workplace segregation at the AP's office. Therefore, the aforesaid contention of the Noticee is not tenable

64. In view of the observation made above, it is observed that the employees of RBEIPL and R Bharti Wealth Private Limited were seating together within the AP's premises. Further, display boards for all the associated entities of the AP were put up outside the aforesaid AP's office.

65. In view of the above, it is observed that Noticee has not conducted proper inspection of its AP's, has failed to ensure that proper segregation and demarcation was maintained in the office of the AP between broking and non-broking activities and thereby has failed to exercise adequate control and due diligence over the activities, conduct and transactions of its APs..

CTCL users were not the employees of the AP of the Noticee (Balu Motiram Bharti) and Noticee updated CTCL users' details without adequate supervision.

66. During inspection, it was observed that dealers of the AP (Mr. Balu Motiram Bharti) were employees of RBEIPL. Further, it was observed that employees of RBEIPL were involved in unregistered investment advisory activities as they used to contact clients associated with AP and asked them to execute certain trades. Subsequently, a call was made to the client from the AP's office seeking pre-confirmation of the trade to suggest that the trades were being executed on the clients' instructions. Out of 92 pre-order confirmations sought from Noticee, it was found that 48 confirmations were recommendatory / advisory in nature.and even used the clients of AP for this purpose.

67. Noticee submitted that it had appointed Approved Users as per its Standard Operating Procedure for CTCL Terminal Activation/ Modification/ Deactivation. Further Noticee submitted that it had taken KYC details as well as undertaking from such persons and the AP that such persons were employed as dealers of the AP and had requisite NISM certifications. As per Clause 3 of NSE Exchange circular no. NSE/COMP/ 56947 dated June 02, 2023 at all points in time, trading members shall exercise adequate control and due diligence over the activities, conduct and transactions of their APs. Further, as per SEBI circular dated November 06, 2009, Stock Brokers shall be responsible for all acts of omission and commission of his authorized person(s) and /or their employees. In the instant matter during SEBI inspection, it was observed that dealers of the aforesaid AP were employees of RBEIPL which was involved in unregistered investment advisory activities, however, Noticee in its Audit report dated October 05, 2023 observed that the aforesaid AP is not dealing with any unregistered intermediary and relied solely on the undertaking provided by the aforesaid AP. Further, it is noted that no specific submission is made by the Noticee in reply to SCN with regard to the dealers of the AP (Mr. Balu Motiram Bharti) who were observed to be employees of RBEIPL as well. Therefore, it is observed that the Noticee has failed to exercise proper due diligence and control over the activities, conduct and transactions of its AP.

AP (Balu Motiram Bharti) has aided / dealt with an unregistered Investment Adviser (Ravindra Bharti Education Institute Private Limited)

68. During the inspection of AP Balu Motiram Bharti (September 22, 2023 and December 01, 2023), it was observed that the AP was aiding/dealing with an Unregistered Investment Advisor (UIA), Ravindra Bharti Education Institute Private Limited (RBEIPL) because of the following reason:

I. Both the AP as well as RBEIPL were operating from a common premises, situated at: "Office No 4010, 4th Floor Marvel Fuego, near Amanora Mall, opp. WeWork/ Seasons Mall, Magarpatta, Pune, Maharashtra 411028".

II. Dealers / Approved Person of Mr. Balu Motiram were found to be employed with RBEIPL.

III. On perusal of call recordings provided by the AP, it was observed that employees of RBEIPL used to contact clients associated with AP and asked them to execute certain trades. Subsequently, a call was made to the client from the AP's office seeking pre-confirmation of the trade to suggest that the trades were being executed on the clients' instructions. Out of 92 pre-order confirmations sought from Noticee, it was found that 48 confirmations were recommendatory / advisory in nature which was akin to unregistered investment advisory activities.

69. As per NSE circular no. NSE/INSP/42448 dated October 18, 2019, Stock Broker is required to check whether AP has not dealt with any unregistered intermediary on behalf of its clients /self, Adequate systems for voice recording are put in place for recording of order placement from clients and Proper segregation and demarcation is maintained at AP office. However, Noticee has not observed any violation by AP in this regard in its audit report.

70. Further Noticee was directed vide NSE MCSGFC order dated June 29, 2022 to conduct an audit of the top 3000 Authorized Persons to verify the maintenance of Pre-order confirmation. Accordingly, Noticee conducted audit of AP. However, Noticee has failed to find the aforesaid irregularities by the AP.

71. It is noted that as per Clause 7(a) and 7(e) of Annexure 1 of SEBI Circular no. MIRSD/DR-1/Cir-16/09 dated November 06, 2009, the stock broker shall be responsible for all acts of omission and commission of his authorised person(s) and/or their

employees. Further, as per Clause 3 of NSE Exchange circular no. NSE/COMP/ 56947 dated June 02, 2023 trading members shall be vicariously and severally liable for any violation committed by their APs.

72. Therefore, it is observed that Noticee has failed to exercise adequate due diligence and control over the activities, conduct and transactions of its AP and merely acted based on the undertaking provided by the AP.

73. In view of the above discussion, it is observed that in the following instances, Noticee has failed to exercise proper due diligence and control over APs:-

Sr No	**AP Name**	**Violations observed during SEBI comprehensive inspection**
1	Mr. Jitendra Jaikumar Punjabi	1. Terminal in the name of Jyoti Punjabi was operated by Deepak. 2. The complaint register was not maintained by AP.
2	Mr. Rajesh S Sagvekar	1. AP has not displayed Notice Board, SEBI registration certificate and Investor grievance register at office. 2. The complaint register was not maintained by AP.
3	Mr. Vijay Babaji Bonte	1. Notice board of the Trading Member containing the following details was not available at the AP office: a. SEBI registration certificate of the Trading Member b. Registration letter issued by the Exchange c. Information about the grievance redressal mechanism. 2. Complaint register is not maintained.
4	Mr. Balu Motiram Bharti	1. No Proper segregation and demarcation are maintained at AP office in case any permissible activity other than broking business is carried out. 2. The CTCL users are not employees of the trading member of authorized person. 3. Inadequate Supervision of Authorized person by trading member 4. Trading member updated CTCL users' details without adequate supervision.

74. In view of the above, it is observed that the Noticee has violated Clause 7(a) and 7(e) of Annexure 1 of SEBI Circular no. MIRSD/DR-1/Cir-16/09 dated November 06, 2009 read with Clauses 32.7.1 and 32.7.5 of SEBI Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023, Clause 2, 7, 8, 9, 10, 16 and 19 of Annexure A of NSE Exchange circular no. NSE/INSP/42448 dated October 18, 2019 and Clause 3 of NSE Exchange circular no. NSE/COMP/ 56947 dated June 02, 2023, Para III of NSE Exchange circular no. NSE/MSD/56778 dated May 22, 2023, read with Regulation 9 (b) and Clause

A (5) of Code of Conduct for Stock Brokers under Schedule II of SEBI (Stock Brokers) Regulations, 1992.

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

75. In view of the violation as established, the undersigned would refer to Judgment of the Hon'ble Supreme Court of India in the matter of Chairman, SEBI Vs Shriram Mutual Fund {[2006]5 SCC 361}, in which Hon'ble Supreme Court has held that:

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

76. Thus, the undersigned is of the view that it is a fit case for penalty under section 15HB of the SEBI Act, which reads as given below:

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

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

77. While determining the quantum of penalty under sections 15HB of the SEBI Act, it is important to consider the factors stipulated in section 15J of SEBI Act, which reads as under:-

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

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

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

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

(c) the repetitive nature of the default."

78. In the present matter, it is noted that no quantifiable figures are available to assess the disproportionate gain or unfair advantage made as a result of the defaults by Noticee. Further, from the material available on record, it may not be possible to ascertain the exact monetary loss to the investors /clients on account of default by the Noticee. Further, as per the available records, it is observed that Noticee has not been penalised earlier for the aforesaid violation. Thus, violation is not repetitive in nature. However, as a SEBI registered intermediary, Noticee was under statutory obligation to comply with the applicable circulars, rules and regulations. The very purpose of the said regulations is to deter wrong doing and promote ethical conduct in the securities market. Therefore, such non-compliance deserves and attracts suitable penalty. The penalty imposed by NSE is being taken into consideration while imposing penalty.

ORDER

79. Having considered the facts and circumstances of the case, the material available on record, the submissions made by the Noticee, the factors mentioned in Section 15J of the SEBI Act, and 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 15-I of the SEBI Act, 1992 read with rule 5 of the Adjudication Rules, 1995, following penalty is being imposed under section 15HB of the SEBI Act, 1992 on the Noticee:

Noticee No.	**Name of entity**	**Penalty Provisions**	**Penalty (Rs.)**
1	Angel One Limited	Section 15HB of SEBI Act, 1992	₹ 6,00,000/- (Rupees Six Lakh Only)

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

81. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT → Orders → Orders of AO → PAY NOW. In case of any difficulties in payment of penalties, Noticee may contact the support at portalhelp@sebi.gov.in.

82. 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.

83. In terms of the provisions of rule 6 of the SEBI 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: 2024.11.28 16:05:06 +05'30'

Place: Mumbai **BARNALI MUKHERJEE**

Date: November 28, 2024 **ADJUDICATING OFFICER**