

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: ASHWANI BHATIA, WHOLE TIME MEMBER

ORDER

Under Section 12(3) of Securities and Exchange Board of India Act, 1992 read with Regulation 27 of Securities and Exchange Board of India (Intermediaries) Regulations, 2008

In respect of:

Sr. No.	Name of Noticee	SEBI Registration No.	PAN
1	Raghukul Shares India Pvt. Ltd.	INZ000184236	AAECR3716R

In the matter of Raghukul Shares India Pvt. Ltd.

Background

- The present matter emanates from a show cause notice dated September 28, 2022 (“SCN”) issued to Raghukul Shares India Pvt. Ltd. (“**RSIPL / Noticee**”) under Regulation 27(1) of SEBI (Intermediaries) Regulations, 2008 (“**Intermediaries Regulations**”). *RSIPL* is registered with SEBI as a Stock broker with registration details are as follows:

Table No. 1

Noticee Name	Exchange	Segment	Registration No.
Raghukul Shares India Pvt. Ltd.	NSE	Equity	INZ000184236
		Equity derivative	
		Currency derivative	
	BSE	Equity	
		Equity derivative	

- Vide the above mentioned SCN, *RSIPL* was called upon to show cause as to why action as recommended by the Designated Authority (“**DA**”) or any other direction as deemed fit should not be issued/imposed on it in terms of Regulation 27 of the Intermediaries Regulations. The issued SCN enclosed therewith the Enquiry Report of the DA dated August 26, 2022 made with respect to *RSIPL*.

3. The DA in the Enquiry Report had observed the following against *RSIPL*:
- 3.1. Shortfall of client's funds and securities and Misappropriation / diversion of client's funds and securities;
 - 3.2. Client beneficiary account used for purpose other than specified;
 - 3.3. Periodic payments to clients with no corresponding trades;
 - 3.4. Misrepresentation of data submitted to stock exchanges;
 - 3.5. Prior approval for change in control (Dominant Promoter Group) not obtained from stock exchange;
 - 3.6. Prior approval for appointment of Directors not obtained from stock exchange.
4. Based on the aforesaid finding the DA held that *RSIPL* has violated the following provisions of law during the period April, 2016 to August, 2019 (the "**inspection period**"):
- 4.1. SEBI Circular no. SMD/SED/CIR/93/23321 dated November 18, 1993.
 - 4.2. SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.
 - 4.3. SEBI Circular CIR/MIRSD/14/2011 dated August 02, 2011.
 - 4.4. SEBI Circular CIR/MIRSD/2/2011 dated June 03, 2011.
 - 4.5. Clauses A (1) & A (5) of Code of Conduct as provided under Schedule II read with Regulation 9 of the SEBI (Brokers and Sub Brokers) Regulations, 1992 ("**Stock Brokers Regulations, 1992**") and Rule 8 (3)(f) of the Securities Contract (Regulation) Rules, 1957 ("**SCRR, 1957**").
 - 4.6. Rule 15 of SCRR Rules, 1957 and Regulation 17 of the Stock Brokers Regulations, 1992.
5. The DA in the Enquiry Report has also made the following recommendation:
- "Therefore, in terms of Regulation 26 of the Intermediaries Regulations, I recommend cancellation of the Certificate of registration granted to Noticee i.e. Raghukul Shares India Pvt. Ltd. [SEBI Registration No. INZ000184236], as Stock Broker."*

6. The SCN issued to *RSIPL* was sent through SPAD, to (a) “H-14, Chitranajan Marg, C-Scheme, Jaipur, Rajasthan-302001” and (b) “237, Rui Walon Ka Mohalla, Sumer Karan Ji ka Rasta, Ramganj, Jaipur, Rajasthan-302003”; however, the SCN could not be served upon *RSIPL*, at the said addresses. Thereafter, attempts were made to affix the SCN at the aforementioned addresses on January 17, 2023. The SCN was successfully affixed only at “H-14, Chitranajan Marg, C-Scheme, Jaipur, Rajasthan-302001”. Additionally, a copy of SCN was also handed over to Ms. Asha Sharma, mother of Mr. Amit Sharma (Shareholder and Designated Director of the *Noticee*) at address “B-88, Kirti Nagar, Tonk Road, Jaipur-18.” However, no reply has been received from the *Noticee* till date.
7. Subsequently, in compliance with the principles of natural justice, a personal hearing was scheduled on July 26, 2023 at 2:30 pm. The hearing notice along with the SCN was served on *RSIPL* by serving it through email dated June 26, 2023. However, no one appeared on behalf of the *Noticee*.
8. I note from the records that the *Noticee* has neither furnished any reasons for not availing the opportunity of personal hearing granted to it nor has sought any adjournment in the matter, which shows that it is not interested in availing the opportunity of a personal appearance before me. In this regard, I place reliance on the judgement of the Hon’ble Securities Appellate Tribunal (SAT) in the matter of ***Classic Credit Ltd. V. SEBI [2007] SCL 51 (SATMUM.)***, wherein it was, *inter alia*, held that, “...The appellants did not file any reply to second show-cause notice. This being so, it has to be presumed that the charges alleged against them in the show-cause notice were admitted by them.” Further, the Hon’ble SAT in the matter of ***Sanjay Kumar Tayal & Others vs SEBI (Appeal no. 68 of 2013 decided on February 11, 2014)***, had held that. “... appellants have neither filed reply to show cause notices issued to them nor availed opportunity of personal hearing offered to them in the adjudication proceedings and, therefore, appellants are presumed to have admitted charges leveled against them in the show cause notices....” Under the circumstances, I consider that the matter can now be adjudicated qua the *Noticee* on merits, based on the material available on record.

Consideration of Issues and Findings

9. I have carefully perused the post Enquiry SCN including the Enquiry Report served on the *Noticee* and other relevant materials available on record. After considering the allegation levelled against the *Noticee* in the instant matter as spelt out in the post Enquiry SCN, the issue which arises for my consideration in the present proceeding is whether the *Noticee* had violated various provisions of the Securities and Exchange Board of India Act, 1992 (“**SEBI Act, 1992**”) Rules, Regulations and Circulars issued by SEBI from time to time relating to its stock broking operations.
10. In order to address the issue at hand, it would be relevant to first highlight the findings of SEBI into the affairs of *RSIPL* during the inspection period, which are as follows:

Allegation 1

10.1. Shortfall of client’s funds and securities and Misappropriation / diversion of client’s funds and securities

Shortfall of client’s funds and securities

- 10.1.1. In the Enquiry Report, the DA had observed that there was shortfall of securities and funds of various clients of *RSIPL*. In this regard, it is noted from the records that the net securities payable to 24 clients of *RSIPL* amounting to ₹12.20 Crore, were not available with *RSIPL*. Further, on reconciling the aforementioned securities payable to clients with the securities actually available in clients’ beneficiary accounts of *RSIPL*, it was observed that *RSIPL* had a shortfall of client securities worth ₹12.13 Crore. The said details are tabulated below:

Table No. 2

Particulars (As on 27-Aug-2019)	Amount (In ₹ Crore)
Value of securities belonging to clients which should have been recorded in Register of Securities of <i>RSIPL</i> (A)	12.20
Value of securities available in beneficiary accounts/CM (B)	0.07
Non availability of securities in DP / CM (C=A-B)	12.13

10.1.2. In addition to the above, shortfall was also observed in the clients' funds held with *RSIPL*. For instance, on reconciling the funds payable to clients with the funds available in clients' bank accounts of *RSIPL* (₹23.40 Crore) plus the deposits available with Exchange and clearing member (₹0.62 Crore), a shortfall of clients' funds worth ₹22.78 Crore was observed. Details of the aforesaid shortfall is presented as under:

Table No. 3

Particulars (As on 27-Aug-2019)	Amount (In ₹ Crore)
Clients payable	23.40
Deposit available with clearing member	0.22
Amount available with Exchange	0.40
Total funds available	0.62
Non availability of client funds	22.78

Therefore, from the material available on record, I note that during the Inspection Period, there was a shortfall of clients' funds and securities worth ₹34.91 Crore (₹12.13 Crore plus ₹22.78 Crore) with *RSIPL*.

Misappropriation / diversion of client's funds and securities

10.1.3. In the Enquiry Report, the DA had observed that the *Noticee* had misappropriated / diverted clients' funds and securities to the tune of ₹41.13 Crore, details of which are tabulated below:

Table No. 4

SL No.	Particulars	Total Amount in ₹ Crore
1	Misuse by selling clients' securities	10.43
2	Misuse by transfer of excess securities to clients	0.52
3	Misuse by selling clients' securities of 2 clients	0.22
4	Misuse by transfer of excess securities to 2 clients	0.4
5	Diversion of clients' funds to related parties of director	21.18
6	Funds utilized for meeting Proprietary losses	1.93
7	Funds utilized for meeting other clients' losses	1.6
8	Misuse by transfer of excess funds to other clients*	15.28
9	Amount of misuse of client securities already accounted for in misuse of client funds (1)**	10.43
10	Total misuse of client funds & securities (1+2+3+4+5+6+7+8-9)	41.13

*while calculating the payable/ receivable of funds and securities and improper use of funds the impact of deposit of 10.27 cr. and withdrawal of 1.11 cr. has not been taken into account as counter-party details were not provided by banks.

**The misuse of client securities is on account of selling of client securities which have been received as funds pay-out in the client bank account

10.1.4. I note that in the Enquiry Report, the DA had observed that the *Noticee* transferred funds to 3 clients in excess of their obligation arising out of the trades executed through *RSIPL*. On verification of the bank account statements of client bank accounts, trade obligations in the cash segment of all the clients of *RSIPL* along with the net profit / loss in Future & Options (“**F&O**”) segment and Currency Derivatives (“**CD**”) segment for the Inspection Period (April, 2016 to August, 2019), it was observed that *RSIPL* transferred funds to the tune of ₹21.18 Crore to 3 clients in excess of their obligation, details of which are tabulated below:

Table No. 5

Particulars- Client name- Swastik Services (SAB169)	Amount (In ₹ Crore)
Total amount received in client Bank accounts from SAB169 (A)	0.80
Total amount transferred from client Bank Accounts to SAB169 (B)	20.25
Net excess funds transferred [C=B-A]	19.45

Table No. 6

Particulars- Client name- Step Ahead Broking Pvt. Ltd. (SAB1)	Amount (In ₹ Crore)
Total amount received in client Bank accounts from SAB1 (A)	0.02
Total amount transferred from client Bank Accounts to SAB1 (B)	0.26
Net excess funds transferred [C=B-A]	0.24

Table No. 7

Particulars - Client name- Mr. Amit Sharma (SAB5)	Amount (In ₹ Crore)
Total amount received in client Bank accounts from SAB5 (A)	0.77
Net amount of profit in F&O and CD segments (B)	0.26
Total amount transferred from client Bank Accounts to SAB5 (C)	2.52
Net excess funds transferred [D=C-(A+B)]	1.49

10.1.5. It is noted from the above Tables that excess funds have been transferred by *RSIPL* to certain clients in excess of their respective obligation / dues arising out of the trades executed through *RSIPL*. For instance, for one of the client viz. Step Ahead Broking Pvt. Ltd. (“**Step Ahead Broking**”), while an amount of ₹0.02 Crore was received out of the settlement of the trades executed by the aforesaid client, *RSPIL* had however, cumulatively transferred ₹0.26

Crore to the said client, i.e. an excess of ₹0.24 Crore from the net dues payable to the client. Similarly, in case of another client namely Swastik Services, while an amount of ₹0.80 Crore was received out of the settlement of trades executed by the aforesaid client, *RSPIL* had however, cumulatively transferred ₹20.25 Crore to the said client, i.e. an excess of ₹19.45 Crore from the net dues payable to the client. Similar pattern was observed with respect to other two clients viz. Step Ahead Broking Pvt. Ltd. (for short **“Step Ahead Broking”**) and Mr. Amit Sharma. It is important to mention here that the aforesaid 3 clients were connected to *RSIPL* through Mr. Amit Sharma, who is a shareholder and Designated Director of the *Noticee*, *RSIPL*. Details of such connection is tabulated below:

Table No. 8

Client name	Connection
Swastik Services	Mr. Amit Sharma is a partner
Step Ahead Broking	Mr. Amit Sharma is a Director

10.1.6. In view of the above, it can be easily established that *RSIPL* had transferred funds to the tune of ₹21.18 (19.45 + 0.24 + 1.49) Crore to its connected entities in excess of their obligation.

10.1.7. The Enquiry Report further states that *RSIPL* had used clients’ funds worth ₹1.93 Crore to clear its proprietary obligations and funds worth ₹1.60 Crore to clear other clients’ obligations with the clearing member. On verification of profit-loss details in the proprietary account of *RSIPL* from April 1, 2016 to July 27, 2017 in the F&O segment, it was observed that *RSIPL* had incurred net losses of ₹1.93 Crore in the F&O segment. Quarter-wise details of such obligations incurred from proprietary trades of *RSIPL* in the F&O segment are tabulated below:

Table No. 9

Period	Amount (In ₹ Crore) (+ profit and – loss)
Apr- Jun, 2016	0.14
Jul- Sep, 2016	0.11
Oct- Dec, 2016	0.39
Jan- Mar, 2017	0.14
Apr- Jun, 2017	-0.98
Jul, 2017	-1.71
Net Loss	-1.93

10.1.8. On further verification of bank account statement of *RSIPL*, it was observed that no payments were made from *RSIPL*'s own bank account to the clearing member during the period April 1, 2016 to July 27, 2017, towards the afore-stated obligations. Therefore, in the absence of any submissions contrary to the allegation and further, upon a consideration of the material available on record, it is noted that *RSIPL* had not transferred any amount towards the losses incurred by it in the F&O segment. On the contrary, *RSIPL* had utilized its clients' funds worth ₹1.93 Crore to clear the obligations with the clearing member that arose out of trades carried out in its proprietary account.

10.1.9. It is further noted that the clients' funds worth ₹1.60 Crore were utilised by *RSIPL* for meeting losses of a client, namely, Step Ahead Broking which was also its related entity. In this regard, on further verification of profit- loss details of the client, Step Ahead Broking, it was found that Step Ahead Broking had incurred losses amounting to approximately ₹1.60 Crore (rounded off) in the F&O segment during the period from April 1, 2016 to July 27, 2017. Quarter-wise details of such obligation incurred from the trades of Step Ahead Broking in F&O segment are tabulated below:

Table No. 10

Period	Amount (In ₹ Crore) (+ profit and - loss)
<i>Apr- Jun, 2016</i>	<i>-0.0300</i>
<i>Jul- Sep, 2016</i>	<i>0.0016</i>
<i>Oct- Dec, 2016</i>	<i>-0.0400</i>
<i>Jan- Mar, 2017</i>	<i>1.3100</i>
<i>Apr- Jun, 2017</i>	<i>-1.0000</i>
<i>Jul- Sep, 2017</i>	<i>-1.8300</i>
<i>Oct, 2017</i>	<i>-0.0100</i>
Net Loss	-1.5984

10.1.10. During the inspection, the materials collected and the verification of the bank accounts statements of Step Ahead Broking have shown that it had not made any payment towards its aforementioned obligations to the stock broker and *RSIPL* had utilized other clients' funds worth ₹1.60 Crore to clear the obligations arising from the trades of Step Ahead Broking. In addition to the above, on verification of bank account statements of client

bank accounts, trade obligations in Cash Market segment of all clients along with net profit / loss in F&O and CD segments for the period from April, 2016 to August, 2019, it was observed that the trading member i.e. *RSIPL* had either transferred excess funds to various clients or utilised the same against obligation of various clients amounting to ₹15.28 Crore.

10.1.11. Since, neither *RSIPL* nor the other *Noticee* directors had made any submission denying the above allegations, considering the material available on record, it can be safely concluded that *RSIPL* had used Clients' funds for meeting losses incurred from its proprietary trades, losses of its related entities and for meeting obligation of other clients transferred funds to the tune of ₹18.81 (1.93 + 1.60 + 15.28) Crore.

10.1.12. It was further noted by the DA in the Enquiry Report that 2 clients, namely, Swastik Services and Step Ahead Broking had sold securities worth ₹10.43 Crore without actually possessing such securities. In this regard, upon an analysis of client-wise buy/sell trades and details of receipt and transfer of securities in transaction statements of client beneficiary accounts of *RSIPL* for clients who had sold high value of securities, it was observed that the aforesaid 2 clients had during the Inspection Period, sold the following securities without actually having / possessing them:

Table - 11

Particulars	Amount (In ₹ Crore)
Securities sold by Swastik Services (SAB169)	9.60
Securities sold by Step Ahead Broking Pvt. Ltd. (SAB1)	0.83
Total Securities sold	10.43

10.1.13. It is also pertinent to note that there is no contention by the *Noticee* on record to dispute the aforesaid allegations of transferring of securities of clients to other clients, in excess of their obligation, which further strengthens the *mala fide* intention of *RSIPL*. In view of the above and on the basis of the documents available before me, it is evident that *RSIPL* had sold securities to the tune of ₹10.43 Crore through two of its related entities, who were not the real / beneficial owners of such securities.

10.1.14. It is pertinent to note that SEBI vide Circular no. SMD/SED/CIR/93/23321 dated November 18, 1993 and Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, had laid down detailed guidelines for stock brokers to deal with clients' securities and funds so as to prevent misuse of their securities and funds. I note that with regard to the aforesaid allegations pertaining to misuse of clients' securities and funds for off-setting the losses of other clients and proprietary trades of *RSIPL*, selling of clients' securities through other clients, misappropriating clients' securities and funds, etc., the *Noticee* had not denied the fact that securities of its clients were misappropriated and sold through various clients including its connected entities. Further, there is no contention on record on the findings that the funds of various clients of *RSIPL* were transferred to other clients of *RSIPL* during the relevant period. It is important to note that an entity acting as an intermediary in the securities market is expected to protect the interest of investors in such market in which it operates. Such an entity is required to maintain high standards of integrity and fairness in the conduct of its business dealings. However, in the instant matter, by indulging in acts of misusing its clients' securities and funds the *Noticee (RSIPL)* had definitely not acted in a manner that was expected from a registered intermediary.

10.1.15. Similarly, the funds in the client's accounts cannot be applied for any purpose other than what is permissible under SEBI Regulations and related Rules. The objective of opening and maintaining a separate account for client's funds is to segregate and identify them separately and to prevent its misuse either for trades of other clients or of the stock broker itself or for any other purposes so that they are beyond the reach of the stock broker and / or its employees. The aforesaid actions of *RSIPL* wherein the stock broker had misused its clients' funds and had routed/diverted the funds to certain entities that were not associated with *RSIPL* as its trading clients, as per its own convenience without paying any heed to its statutory obligations, cannot be viewed leniently.

10.1.16. At this juncture, it would be appropriate to quote the order of Hon'ble Securities Appellate Tribunal ("SAT") in the matter of **ISS Enterprise Ltd. vs. NSE** decided on February 23, 2023 wherein the Hon'ble tribunal held as follows:

"Having heard the learned counsel for the parties, we find that misuse of client's funds is a serious violation. Twice on January 22, 2021 and again on May 07, 2021 the appellant has utilized the funds of clients having credit balance towards margin obligation of the clients having debit balance to the tune of Rs. 8.64 Crore and Rs. 6.95 Crore respectively..."

In view of the gross irregularities found by the Committee which is admitted by the appellant, we find that the penalty imposed to the tune of 3% of the misuse of Rs. 8.64 Crore was just and proper. The impugned order does not suffer from any error of law..."

10.1.17. In view of the aforesaid discussion, I am constrained to hold that on multiple occasions, **RSIPL** used its clients' securities and funds for settlement of its own obligations and had also transferred clients' securities and funds to other entities. The numerous instances as highlighted in the preceding paragraphs and which had taken place across months, show that using client's securities was not a onetime event or an inadvertent error on the part of the stock broker, rather, **RSIPL** was habitually doing it in blatant disregard of the securities laws. Therefore, such actions of **RSIPL** have to be viewed seriously. As noted above, no explanation has been furnished by the **Noticee (RSIPL)** rebutting or disputing the above findings from the Enquiry Report and the consequent allegations made in the SCN, thereby leaving no doubt in my mind that the aforesaid acts on the part of the **RSIPL** of using clients' securities and funds either for its own benefit or for the beneficial interest of other entities who did not own those securities, have resulted in a violation of the provisions of SEBI Circular no. SMD/SED/CIR/93/23321 dated November 18, 1993 and SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

Allegation 2

10.2. Client beneficiary account used for purposes other than specified

10.2.1. The DA in the Enquiry Report had further observed that during the Inspection Period, beneficiary accounts of clients maintained by *RSIPL* were used for purposes other than for the specified purpose for which clients open their demat accounts. In this regard, on verification of transaction statement of clients' beneficiary accounts for the period April, 2016 to August, 2019, it was observed that *RSIPL* had received securities from entities other than its clients, worth ₹1.25 Crore (value as on 10-Apr-2019) and had them credited in its clients' beneficiary accounts. Subsequently, such securities were sold under another client code SAB5 (Mr. Amit Sharma). In this regard, it is pertinent to mention that the securities and funds lying with the stock broker are held by it on behalf of its clients in a fiduciary capacity and the stock broker has to credit the securities to the demat accounts of its clients if the securities are fully paid. Even for some reason, if the securities of the clients are lying with the stock broker, the stock broker has been prohibited under law from using those securities for its own purpose. However, in the instant case as revealed from the afore stated factual findings, *RSIPL* had use the clients' beneficiary account for purposes other than specified and this was not confined to one or two stray instances but had continued unabatedly for a significant period of time. As stated above, no contention had been put forth by the *RSIPL* to rebut the aforesaid allegation of using clients' beneficiary account for other purposes. The evidence on record strongly adduced to the fact that *RSIPL* had rampantly indulged in such activities. Therefore, in my opinion, *RSIPL* has violated SEBI Circular no. SMD/SED/CIR/93/23321 dated November 18, 1993 and SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016

Allegation 3

10.3. Periodic payments to clients with no corresponding trades

10.3.1. Before moving on to this allegation, it would be apt to refer to the Code of Conduct for Stock Brokers as provided under Schedule II of the *Stock Brokers Regulations, 1992* which reads as:

“A. General.

(1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness 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.”

10.3.2. In addition to the above, Rule 8 (3)(f) of the *SCRR, 1957* provides that “No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if— ... (f) he engages either as principal or employee in any business other than that of securities [or commodity derivatives] except as a broker or agent not involving any personal financial liability”.

10.3.3. The DA had observed that the *Noticee* had made periodic payment to some of its clients on a regular basis, whereas no corresponding trades were observed to have been actually executed by the clients to whom such payments were made. In this regard, it is observed from records that the *Noticee* had made periodic payments worth ₹7.35 Crore to 341 clients during the Inspection Period i.e. from April, 2016 to August, 2019.

10.3.4. I note from the evidence available before me that certain payments were made from the client bank account of *RSIPL* to clients periodically on a regular interval which were not in relation to their trading activities on the stock exchange. I also note that no contention had been put forth by the *Noticee* rebutting the aforesaid allegation or to explain as to why those periodic payments were made to those clients who did not have any trading

or settlement in their accounts during the said period. The purpose of the aforesaid requirement in law is to have checks and balances to ensure that the conduct of the market intermediary is in conformity with the accepted behaviour in the securities market. However, from the records, it is clear that the said payments were made to those clients for the purpose other than those connected with the securities market which may be for financing purpose, etc. I also note from the records that the said funds were paid from the client bank account which means such funds that were paid to those non-trading clients actually belonged to some other clients of *RSIPL*. The mere fact that the said unwarranted conduct was exhibited by a registered market intermediary and such unlawful act is otherwise prohibited, is sufficient to hold the *Noticee* responsible for the said unlawful and unethical acts. I must emphasize that a stock broker is required to maintain high standards of integrity, promptitude and fairness in the conduct of its business dealings. The said Code of Conduct as referred to above also casts an obligation on a stock broker to act with due skill, care and diligence in the conduct of all its business and not to indulge in manipulative, fraudulent or deceptive transactions or schemes. However, the aforesaid discussed misconduct of the *Noticee* shows otherwise. Therefore, I have no hesitation to conclude that *RSIPL* has violated Rule 8 (3)(f) of the *SCRR, 1957* and clauses A (1) & A (5) of Code of Conduct as provided under Schedule II read with Regulation 9 of the *Stock Brokers Regulations, 1992*.

Allegation 4

10.4. Misrepresentation of data submitted to stock exchange

10.4.1. It had been observed from the Enquiry Report that *RSIPL* posted regular entries in its bank book during the period April 1, 2018 to April 10, 2019. However, as per bank statements, there were no such corresponding bank entries. The DA had noted that *RSIPL* had not declared details of its bank account number 259509045363 held with Indusind Bank Ltd. to the stock exchange. Therefore, the DA had observed that such acts of *RSIPL* of posting bogus entries in the system and misrepresenting data to stock exchange

amounted to a violation of Rule 15 of SCRR, 1957, Regulation 17 of the *Stock Brokers Regulations, 1992* and provisions of SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

10.4.2. Before moving on to this issue, it would be relevant to state here that SEBI, with the intent of ensuring enhanced supervision of Stock Brokers/Depository Participants had issued a Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016, which *inter alia*, requires Stock Brokers to upload information regarding clients' funds and securities balances to the stock exchange system for onward transmission of the same to the clients for better transparency. Thus, in view of the above Circular, there existed a clear obligation on the part of Stock Brokers to upload information regarding clients' funds and securities balances to the stock exchange system on a regular basis. Further, Rule 15 (1) of *SCRR, 1957* mandates that a member of a stock exchange is required to maintain and preserve for a minimum period of five years, the following books of account and documents: (a) Register of transactions (*Sauda* book); (b) Clients' ledger; (c) General ledger; (d) Journals; (e) Cash book; (f) Bank pass-book and (g) Documents register showing full particulars of shares and securities received and delivered. Similarly, Rule 15 (2) of *SCRR* mandates that a Member of a stock exchange is required to maintain and preserve, for a period of two years, the following documents: (a) Member's contract books showing details of all contracts entered into by him with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members; (b) Counterfoils or duplicates of contract notes issued to clients; (c) Written consent of clients in respect of contracts entered into as principals. Further, *Regulation 17 of the Stock Brokers Regulations, 1992* concomitantly requires a Stock Broker to adhere to obligations similar to ones mentioned above. From the aforesaid, I note that SEBI has given a clear instruction to the Stock Brokers through Regulations to maintain and preserve their Books of Account.

10.4.3.I note from the records that during the inspection conducted by the stock exchange, *RSIPL* vide email dated April 10, 2019 submitted the bank books maintained by it for the period from April 01, 2018 to April 10, 2019. A comparison of the aforesaid bank books was done with the data received directly from ICICI Bank for the same period (vide email dated 07-May-2019) and it was observed that *RSIPL* had misrepresented the data pertaining to the entries in its bank books to the stock exchange. It is noted that *RSIPL* holds a bank account no. 001XXXX380 with ICICI Bank and in the corresponding bank book of the said bank account maintained as part of the Books of Accounts, *RSIPL* had posted regular entries during the period of April 01, 2018 to April 10, 2019. However, as per the data pertaining to the actual entries in the said account received directly from ICICI Bank, it was observed that there was not even a single entry in the aforesaid bank account pertaining to the aforementioned mentioned period which matches with the Bank Book entries that had been submitted by *RSIPL* to the stock exchanges under the enhanced supervision framework prescribed by the Regulator. To illustrate, as per the bank book, a total number of 583 entries have been posted by *RSIPL* showing receipts of funds amounting to ₹14.99 Crore and payment of funds amounting to ₹21.55 Crore during the inspection period, however, the bank account statement does not have any of these entries for the aforesaid amounts of receipts and payments of funds. In fact, not a single transaction entry out of the afore-stated 583 transaction entries posted in the Bank Book is observed in the data submitted by ICICI Bank for the aforesaid account. Therefore, in the absence of any submission to the contrary, I am left with no option but to hold that *RSIPL* had posted bogus banking entries in the system and misrepresented data pertaining to the receipts and payment of funds from/to the clients as submitted to the Exchange.

10.4.4. I further note that *RSIPL* had not disclosed details of its bank account number 259509045363 held with Indusind Bank Ltd. to the stock exchange.

10.4.5. It is also alleged in the SCN that *RSIPL* had submitted wrong data for the Register of Securities (“**ROS**”) to the stock exchange. Before moving further, it is important to give a brief about ROS. NSE has prescribed that every Trading Member / Stock Broker shall maintain a Register or ledger account of Securities, client wise and security wise, giving *inter alia*, the details such as date of receipt of the security, quantity received, party from whom received, purpose of receipt, date of delivery of the security, quantity delivered, party to whom delivered and purpose of delivery etc. Thus, in simple terms, the ROS is a register maintained by a stock broker recording various details of securities received from its client. On verification of buy/sell trades of clients and transaction statements of client beneficiary accounts of *RSIPL* for the period from April 2016 to August, 2019, received from depositories, it was observed that *RSIPL* had not recorded securities purchased and sold by various clients in their ROS. Similarly, it was also observed that *RSIPL* had not recorded details of securities transferred or delivered by/ to various clients in their ROS. The examination further reveals that on a net basis, client securities worth ₹12.20 Crore payable to 24 clients were not recorded in ROS. This issue has already been elaborated earlier in this Order.

10.4.6. In view of the above observations, it is found that *RSIPL* had posted bogus transactions entries in the bank books and bank account statements and had submitted fudged / misrepresented data to the stock exchange. From the aforesaid, it is evident that *RSIPL* had submitted wrong data and had even concealed its bank account with the stock exchange and had tried to conceal the information pertaining to one bank account held by it from the stock exchange. Since *RSIPL* has already been found to have indulged in unauthorised transfer of securities and funds of its clients, I find no difficulty in arriving at a conclusion that the authenticity of the data reported by *RSIPL* under enhanced supervision framework cannot be held

to be reliable given the disturbing findings about rampant irregularities committed by *RSIPL* in all its business dealings as brought out in the earlier paragraphs of this Order. Therefore, it can be fairly concluded that *RSIPL* had misrepresented / misreported data submitted to the stock exchange and had thus violated Rule 15 of SCRR,1957, Regulation 17 of the *Stock Brokers Regulations, 1992* and provisions of SEBI Circular no. SEBI/HO/MIRSD/MIRSD2/CIR/P/2016/95 dated September 26, 2016.

Allegation 5

10.5. Prior approval for change in control (Dominant Promoter Group) not obtained from the stock exchange

10.5.1. I note one Mr. Gangaram Khandelwal, who was one of the Dominant Promoter and a Director of the *Company*, had submitted an agreement to NSE whereby, he and his wife had claimed to have transferred their shareholding and management control in *RSIPL* to one Mr. Amit Sharma and his associates. I note that the DA had observed that *RSIPL* did not obtain prior approval from the stock exchange for the aforesaid change in control (Dominant Promoter Group) and had thus violated the provisions of SEBI Circular no. CIR/MIRSD/14/2011 dated August 02, 2011.

10.5.2. Before proceeding further on this allegation, it is important to refer to SEBI Circular no. CIR/MIRSD/14/2011 dated August 02, 2011 which, *inter alia*, provides that:

“SEBI has recently amended the Regulations for certain intermediaries, viz., Stock Brokers and Sub-brokers, Merchant Bankers, Debenture Trustees, Registrar to an Issue and Share Transfer Agents, Underwriters, Depository Participants, Bankers to an Issue and Credit Rating Agencies, vide Notification No. LAD-NRO/GN/2011-12/03/12650 dated April 19, 2011. This has already been communicated to you and a copy of the notification is also available on SEBI website www.sebi.gov.in. As per the amendments, the requirement of obtaining prior approval for change in status or constitution has been dispensed with. However, in case of change in control of the above intermediaries except for Sub-brokers, prior approval of SEBI is required”

10.5.3.I note from the records that a Preliminary Agreement dated February 06, 2015 was signed between Mr. Gangaram Khandelwal, his wife and Mr. Amit Sharma for sale of shareholding of *RSIPL*, which was followed up by an Indemnity Arrangement dated February 04, 2016. After going through the clauses of the aforesaid Preliminary Agreement and Indemnity Arrangement, I note that as per the clauses in the said agreement, it was agreed that the shareholding of Mr. Gangaram Khandelwal and his wife in *RSIPL* would be sold to Mr. Amit Sharma with effect from April 01, 2016. As per the aforesaid agreement, control of *RSIPL* was supposed to be shifted from Mr. Gangaram Khandelwal and his wife (who were Dominant Promoter Shareholders) to Mr. Amit Sharma and his associates, subsequent to the completion of the payment consideration. I note that *RSIPL* had not disputed the signing of aforesaid agreements. I further note that *RSIPL* had submitted an application for seeking NOC for change in control from Mr. Gangaram Khandelwal and his wife to Mr. Amit Sharma and same was received by NSE in October 2017. However, the said application was rejected by NSE, as *RSIPL* had not obtained a Single SEBI registration certificate as mandated vide SEBI Circular no. CIR / MIRSD / 4 / 2014 dated October 13, 2014.

10.5.4.From the chronology of events, it is clear the application of seeking NOC / prior approval from NSE was filed by *RSIPL* after the execution of sale agreement. I also note that the said approval application was rejected by NSE as *Noticee* had not obtained Single SEBI registration certificate. As observed above, during the present proceedings no reply has been filed before me by the *Noticee*. Considering the above and the fact that there is no denial or intent to contest the aforesaid allegation, on the basis of facts available in the matter, it can be reasonably held that by not taking prior approval from the stock exchange for effecting a change in control, *RSIPL* has violated the provisions of SEBI Circular no. CIR/MIRSD/14/2011 dated August 02, 2011.

Allegation 6

10.6. Prior approval for appointment of Directors not obtained from the stock exchange

10.6.1. I note that the SEBI Circular no. CIR/MIRSD/2/2011 dated June 03, 2011 lays down a regulatory requirement upon a registered stock broker to seek a prior approval from stock exchange, if there is any change in the directorship of the stock broker. Relevant extracts of SEBI Circular no. CIR/MIRSD/2/2011 dated June 03, 2011 are given below:

“The stock exchanges will continue to grant prior approval to their members and sub-brokers for change in status or constitution, which would include the following;

(a) in case of a body corporate —(i) amalgamation, demerger, consolidation or any other kind of corporate restructuring falling within the scope of section 391 of the Companies Act, 1956 (1 of 1956) or the corresponding provision of any other law for the time being in force; (ii) change in its managing director, whole-time director or director appointed in compliance with clause (v) of sub-rule (4A) of rule 8 of the Securities Contracts (Regulation) Rules, 1957; and (iii) any change in control over the body corporate;

10.6.2. From the Enquiry Report, it is noted that *RSIPL* had not obtained prior approval from the stock exchange for change in appointment of one of its Director namely, Mr. Bimal Prakash Aggarwal, who was appointed as its Director by *RSIPL* on October 1, 2018. Though a clear responsibility of taking prior approval from the stock exchange is cast upon the registered stock broker before appointing any Director, the records before me suggest that no prior approval from NSE was obtained by *RSIPL* while appointing Mr. Bimal Prakash Aggarwal as its Director. I also note that no submission was put forth by the *Noticee* to counter the aforesaid allegation. In view of the above, I find no hesitation in reiterating my finding that the aforesaid inaction on the part of *RSIPL* to take prior approval from stock exchange for

appointment of a director, resulted in a violation of the provisions of SEBI Circular no. CIR/MIRSD/2/2011 dated June 03, 2011.

11. To conclude, the information and data gathered at the time of inspection unequivocally brings to light, the various regulatory lapses noticed from the way *RSIPL* was operating, especially mis-managing its clients' funds and securities. Further, the violations committed by *RSIPL* are undoubtedly grave in nature and which were carried out for a considerable period of time unabatedly despite the fact that the *Noticee* very well knew that what it was doing was not at all permissible under the extant SEBI Regulations and Circulars pertaining to dealing in clients' funds and securities.
12. In view of the aforesaid findings, it is held that *RSIPL* has carried out its stock broking activities during the inspection period in contravention of various provisions of *SEBI Act, 1992* Regulations and Circulars. I note that a stock broker being a vital securities market intermediary, is strictly prohibited from indulging in any act detrimental to investors' interest. A stock broker is required to maintain high standards of integrity, promptitude and fairness in the conduct of its business dealings, and ensure that its interests are not in conflict with its clients. The gravity of lapses and contraventions of the statutory provisions committed by *RSIPL* as alluded at length in preceding paragraphs, can also be gauged from the fact that *RSIPL* had been expelled from the membership of NSE on September 30, 2019 and was declared defaulter with effect from November 04, 2019. As a regulator of the capital markets, SEBI has the duty to safeguard the interest of investors and protect the integrity of the securities market.
13. I note that the DA had recommended that the Certificate of registration of *RSIPL* may be cancelled. Having considered the allegations with supporting evidence, I find no reason to disagree with the recommendation given by the DA.

Directions

14. In view of the foregoing, I, in exercise of the powers conferred upon me under Sections 12 (3) and 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 27 (5) of Securities and Exchange Board of India (Intermediaries)

Regulations, 2008, hereby cancel the Certificate of registration granted to **Raghukul Shares India Pvt. Ltd.** having **Registration No. INZ000184236**.

15. The Order shall come into force with the immediate effect.
16. A copy of this order shall be forwarded to Raghukul Shares India Pvt. Ltd. and all recognized Stock Exchanges.

-Sd-

DATE: AUGUST 22, 2023

PLACE: MUMBAI

ASHWANI BHATIA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA