BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/BM/DS/2024-25/30584]

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

IN THE MATTER OF

Bonanza Portfolio Limited
PAN No.: AAACB0764B
SEBI Regn No.: INH100001666

FACTS OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") conducted inspection of M/s Bonanza Portfolio Limited (hereinafter referred to as "**Noticee**" **/** "**Bonanza**" **/** "**the Company**") on October 29 – 30, 2021 to look into various compliance requirements adhered by the Noticee with respect to the provisions of SEBI (Research Analysts) Regulations, 2014 (hereinafter referred to as "**RA Regulations, 2014**") and applicable SEBI Circulars. The period covered in inspection was from April 01, 2020 to March 31, 2021 (hereinafter referred to as "**inspection period**" / "**IP**").

2. The findings/ observations made during the course of inspection were communicated to the Noticee by SEBI vide letter dated July 19, 2022. After examining the reply submitted by the Noticee vide letter dated August 19, 2022, it has been alleged that the Noticee violated various provisions of RA Regulations, 2014 and applicable SEBI Circulars. The summary of violations alleged to have been committed by the Noticee and the corresponding regulatory provisions are given in the table below:

Table 1

Sr. No.	Alleged Violations (Summarized)	Regulatory Provisions
1	Not using the term 'Research Analyst' in correspondences with clients	Regulation 13(iii) of RA Regulations, 2014 and clauses 2, 6, 7 and 8 of Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014
2	Not informing the Board regarding material changes in the information already submitted	Regulation 13(ii) and clauses 2, 6, 7 and 8 of Code of Conduct as specified in Third Schedule under Regulation 24(2) of the RA Regulations, 2014
3	Non-Compliance with the limitations on trading by Research Analyst - Rohan Patil and the Entity	Regulations 15(1), 16(1), 16(2) and 16(3) read with Regulation 16 (5) and clauses 1, 2, 3, 6 ,7 and 8 of the Code of Conduct as specified in Third Schedule under Regulation 24 (2) of the RA Regulations, 2014
4	Not ensuring independence of Research Activities from its other business activities; non-maintenance of an arms-length relationship and segregation/separation between its research activity and other activities	Regulations 15(2), 18(10), 24(1) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24 (2) of the RA Regulations, 2014
5	Non-compliances in respect of Compensation of Research Analysts and Research Analysts under supervision and control of employees of Broking and other services	Regulations 17(2), 17(4) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24 (2) of the RA Regulations, 2014
6	Non-compliances in respect of maintenance of records and	Regulations 18(7), 20(1), 20(3), 25(1)(i) and (iii) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the

Sr. No.	Alleged Violations (Summarized)	Regulatory Provisions
	content in respect of research reports/ recommendations	Third Schedule under Regulation 24(2) of the RA Regulations, 2014
7	Not making required disclosures in Research Reports and Recommendations	Regulations 19, 21(1) and clauses 1, 2 3, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014
8	Not taking SCORES login and providing false information for the same	Regulation 29(2), SEBI Circular no CIR/OIAE/1/2014 dated December 18, 2014 and the clauses 1, 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014
9	Not abiding by provisions of the Act and Regulations	Regulation 13(i) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule of Regulation 24(2) of the RA Regulations, 2014

3. SEBI initiated adjudication proceedings against the Noticee under Section 15A(a), 15A(c) and Section 15EB of SEBI Act, 1992, for the alleged violations of the relevant provisions as stated above.

4. The Company is a SEBI-registered Stock Broker, Depository Participant, Portfolio Manager, Merchant Banker and Research Analyst (RA). It is registered with SEBI as RA since September 09, 2015, with registration number INH100001666.

APPOINTMENT OF ADJUDICATING OFFICER

5. The undersigned was appointed as the Adjudicating Officer **(AO)** vide Order dated March 14, 2024 under Section 15-I of the SEBI Act, 1992, and Rule 3 of SEBI

(Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as "**SEBI Adjudication Rules**"), to inquire into and adjudge under Section 15A(a), 15A(c) and Section 15EB of SEBI Act, 1992, the violations of aforesaid provisions alleged to have been committed by the Noticee.

SHOW CAUSE NOTICE, REPLY OF THE NOTICEE AND HEARING

6. Show Cause Notice No. SEBI/EAD/BM/DS/13488/2/2024 dated April 04, 2024 (hereinafter referred to as **"SCN"**) was issued to the Noticee in terms of Section 15-I of the SEBI Act, 1992 and rule 4 of SEBI Adjudication Rules, to show cause as to why an inquiry should not be held against it and why penalty, if any, under Section 15A(a), 15A(c) and Section 15EB of SEBI Act, 1992 be not imposed on the Noticee. Section 15A(c) of SEBI Act, 1992 was erroneously mentioned as 'Section 15A(b)' of SEBI Act, 1992 in the SCN, and the same was brought to the notice of the Noticee vide email dated July 18, 2024.

7. The SCN was duly served to the Noticee through SPAD and digitally signed e-mail. The Noticee submitted its reply to the SCN vide letter dated May 10, 2024.

8. The submissions made by the Noticee are as summarized below:

   8.1. Not using the term 'Research Analyst' in correspondences with clients

   8.1.1. Noticee has submitted that research reports and research calls are always circulated to its Broking clients only whose details are well known to the Noticee. The clients are aware that the Noticee is a SEBI registered RA.

   8.1.2. Thus, non-mentioning of the term 'Research Analyst' at each and every call has not impacted the clients adversely, and there is no allegation of misleading the clients.

   8.1.3. The messages on WhatsApp and Telegram are meant for the existing clients of the Noticee only. On WhatsApp, the group is always titled as

'Bonanza research' instead of 'Research Analyst'. The very nature of the messages in WhatsApp and Telegram are cryptic in nature and the focus of the message is only to draw the attention of the Client to the Research report, by giving the buy price and target price. The WhatsApp grup has less than 256 members against Noticee's more than four lakh registered clients. However, the WhatsApp based messaging has discontinued from April 06, 2022, and after the inspection, the title "Research Analyst" has been explicitly mentioned on the Telegram channel.

8.1.4. Maintenance of Website is not stipulated in the Regulations. A website cannot be termed as a communication with the RA clients under the regulation. Hence there is no violation on this count.

8.1.5. Post the inspection, the Noticee's RA registration number is being prominently displayed on its website.

8.1.6. The KYC referred to in the show cause notice is a common KYC for Broking client on-boarding. The KY C attached to the show cause notice is not exclusive to the RA clients. In fact, it is submitted that, the Noticee does not have exclusive RA clients at all. The Broking clients are RA clients. Since the Noticee is not charging separately for RA activity from clients , and the clients are not on boarded for RA , the registration number of RA is not displayed on the KYC and some of the research reports

8.1.7. The Noticee has updated the KYC form now and the Research Analyst registration No INH100001666 is being prominently displayed on the KYC form at relevant pages. A copy of the said updated KYC has been submitted by the Noticee. It has also started mentioning the registration number on the research reports.

8.2. <u>Not informing the Board regarding material changes in the information already submitted</u>

8.2.1. The SCN is silent with respect to what changes were omitted to be reported to SEBI.

8.2.2. The employees of the Noticee (RA) keep joining and leaving, and thus it is not practical to inform their joining and leaving the organisation. Thus, change in employees cannot be a material change requiring the Noticee to inform to SEBI under Regulation 13(ii) of the RA Regulations, 2014.

8.2.3. The Noticee's Board underwent some changes between the date of registration and inspection period. While there is no change in the Promoter Directors, the independent director of Bonanza portfolio resigned/ retired. Since this change was already informed to the Exchanges, it was not informed to SEBI under Regulation 13(ii). It is submitted that since the Noticee is not a listed company, changes in the independent directors is not a material change from registration of RA perspective.

8.2.4. Certain material changes in the information submitted by us to SEBI, have been updated on SI Portal. However, due to some technical issue on SEBI's SI Portal, remaining part of data was pending for updating on SI Portal at the time of inspection . We submit that we have already sent an email dated 11.08.2022 at 'portalhelp@sebi.gov.in'. The remaining data was also uploaded on Sl Portal as soon as the technical issue was resolved.

8.3. Non-Compliance with the limitations on trading by Research Analyst - Rohan Patil and the Entity

8.3.1. The trading undertaken by the said RA, Rohan Patil, was very negligible. The Noticee was not aware of his trading activity. He had not disclosed his investments through other brokers to the Noticee. The Noticee had issued warning letters to Rohan Patil and in reply he had stated that he *miscalculated the time period applicable under limitation of trading under the regulations. A copy of warning letter and Rohan Patil's reply was provided by the Noticee in support of its submissions. Subsequently, Rohan Patil left the Company on September 10, 2022.*

8.3.2. With regard to prop trading by the Noticee, which is alleged to be noncompliant as above, the Noticee submitted that the prop trading team is physically segregated the premises and there are explicit Chinese walls. Hence, it cannot be alleged that the 121 instances of trading within the prohibited time period. The Noticee has an active Prop desk in Equity Cash market and Equity Derivative markets. There are several traders who trade on these segments. There is possibility that these traders might have taken an independent view of a certain scrip which was also part of research recommendation. The Noticee's prop trading desk has traded on an average 120 scrips per day and the Research recommendations gives recommendations only in 1 or 2 scrips.

8.3.3. The Total scrips traded by the Pro desk in the year 2020-2021 were1569 while research desk had given recommendation only 210 scrips. The Noticee's daily average number of Pro-trades in cash segment were 8517 as against 73 trades in recommended scrips during inspection period. Its daily average delivery Pro-trades in cash segment are 2393 as against 11 trades in recommended scrips during observation period.

8.3.4. Its daily average lntraday Pro-quantity in cash segment are 39,63,735 shares as against 6861 shares in recommended scrips during observation period. Our daily average delivery Proprietary quantity in cash segment are 14,47,723 shares as against 1109 shares in recommended scrips during observation period.

8.3.5. Its daily average Intraday Pro-value traded in cash segment are of Rs.25,16,07,486 as against of Rs.1,10,55,674 value traded in recommended scrips during observation period. Its daily average delivery Pro-value traded in cash segment are of Rs. 2,91,57,337 as against of Rs.6,66,668 value in recommended scrips during observation period.

8.3.6. Thus, trading in the scrips recommended by RA by its prop desk is merely a coincidence. There are no undue returns in these trades. Trading in these scrips was in the normal course of trading and did not give the Noticee any added advantage.

8.4. <u>Not ensuring independence of Research Activities from its other business activities; non-maintenance of an arms-length relationship and segregation/separation between its research activity and other activities</u>–

8.4.1. Research Analysts have always been physically segregated from other Departments with designated spaces, which is in full compliance with Regulation 15(2) of SEBI (Research Analysts) Regulations 2014.

8.4.2. The Company/Entity and its Research Analysts have always maintained arms-length relationship between its Research activity and other business activities, which fulfills the provision of Regulation 24(1) of SEBI (Research Analysts) Regulations 2014.

8.4.3. The compensation of Research Analysts was never linked with the revenue of the broking activity, investment banking activity and merchant banking activity.

8.4.4. The matter relating to the compensation of Research Analysts was placed before the Board and the Board had taken note of the same. A resolution passed by the Board resolving that pursuant to the provisions of SEBI (Research Analysts) Regulation, 2014, the compensation of Research Analyst(s) will be reviewed by Committee and the approval of the *committee was accorded to review and accordingly compensation to the Research Analyst(s) as may be required time to time and the amount decided between committee and Research Analyst(s) may be paid. The Board Resolution passed specifically mentions that there will be no direct or indirect relation in the compensation structure with broking revenue, investment banking revenue and merchant banking revenue of the Company. Noticee's Board, as that of any listed company, oversees all the activities of the Company, which include the RA, which forms a very small part of its overall activities. Hence, overseeing by the Board cannot be treated as not having arm's length distance.*

8.4.5. With regard to allegation that the Noticee did not have separate KYC for RA clients, it does not charge its Broking clients for RA services. It is an add-on service provided by the Noticee to the Clients of the Broking activities. All the clients of the Broking activities are benefited by the RA services and there are no outside clients. Hence, non-mentioning of the RA activity and registration in KYC has no bearing on the rights of the Clients. It is submitted that it is now added to the KYC subsequent to the inspection.

8.5. <u>Non-compliances in respect of Compensation of Research Analysts and Research Analysts under supervision and control of employees of Broking and other services</u> –

8.5.1. The Noticee is maintaining all the records with regard to fundamental research reports. All the technical calls of more than one week were also being maintained. As far as other technical calls are concerned, they are momentary and immediate like technical breakouts. These were not documented as it is not possible to document a technical call instantly on *account of time limitations. However, it is always possible to demonstrate the rationale for any research recommendation.*

8.6. <u>*Non-compliances in respect of maintenance of records and content in respect of research reports/ recommendations*</u> –

8.6.1. *With respect to the signature on the reports, it was submitted that the research reports are computerized and stored in soft copies, which do not require signatures. It is also not mandatory that all the reports have to in be signed. It is submitted that the research reports are always owned by without any dispute and no report has been retracted for want of signature. In any case, the Noticee has started maintaining physical copies of all the reports which are duly signed.*

8.7. <u>*Not making required disclosures in Research Reports and Recommendations*</u>

8.7.1. *The video clips attached to the show cause notice are from a TV channel and not videos of any RAs themselves. It is for the TV channel to ensure that the appropriate disclosures are made. The Noticee is informed by the concerned RA that the necessary disclosures were made during the program in the channel.*

8.8. <u>*Not taking SCORES login and providing false information for the same*</u>

8.8.1. *All the Noticee's clients are captive clients of its broking activity. If any complaint is there, they would lodge complaint against the broking entity in the SCORES. The Noticee has login IDs for its Broking, PMS activities. Therefore, the non-registration of SCOREs has happened. However, the Noticee applied for SCORES ID vide letter dated July 28, 2022 and obtained SCORES login ID for its RA activity.*

9. Vide letter dated May 17, 2024, hearing notice was issued to Noticee to provide opportunity of personal hearing in the interest of natural justice. The Noticee was advised to appear before the undersigned on May 24, 2024. Vide email dated May 17, 2024, the Noticee requested to reschedule the hearing to second week of June, 2024. The request was acceded to by the undersigned and the Noticee was advised to appear for the hearing on June 14, 2024. Vide email dated June 06, 2024, the Noticee again requested for rescheduling of the hearing to the next week. The Noticee's request was acceded to by the undersigned. Accordingly, the Noticee was advised to appear for the hearing on June 20, 2024. The Noticee appeared for the scheduled hearing through its authorized representative (**AR**). The AR reiterated submissions already made vide letter dated May 10, 2024 and also made additional submissions, which it submitted in writing vide letter dated July 05, 2024. The Noticee was also advised to submit the following information / documents, along with its additional submissions.
    9.1. With reference to para 16 of Noticee's reply dated May 10, 2024, the date of employee's resignation ; the date on which it was updated on the SI portal; the period during which the SI portal was not working.
    9.2. Total number of scrips in which recommendations were made by the RA in the months of September, 2020, October, 2020 and November, 2020. Out of these, the total number of scrips in which the proprietary trades were made by the Noticee in the period beginning from 30 days preceding the date of recommendations and 5 days after the date of recommendations.
    9.3. How has the Noticee monitored and recorded the personal trading activities of the research analysts, in compliance with Regulation 16(1) of the RA Regulations, 2014.

10. The additional submissions made by the Noticee are as summarized below.

10.1. Noticee has not violated regulation 13(iii) of the SEBI (Research Analyst) Regulations 2014. In so far as the said Regulation stipulates conditions with regard to the communication with the clients. In none of the incidents mentioned above, it is submitted that it is a case of specific correspondence with any client. It was also added that all these communications were generic in nature. It was submitted that in any case, the Noticee began to use the term Research Analyst in all of these media.

10.2. With respect to not informing of material changes to SEBI, although certain changes in the information submitted by the Noticee to the SEBI were updated on the SI Portal, there was a delay in updating the remaining data due to technical issues with the portal at the time of inspection. The Noticee promptly notified SEBI of this error via email dated 11.08.2022, sent to 'portalhelp@sebi.gov.in'. A copy of the email was provided along with the submissions. Subsequently, the remaining data was uploaded to the SI Portal as soon as the technical issue was resolved. In view of the above, it was submitted that the changes were not material in nature and they were in any case disclosed to the Exchanges and hence there was no violation of the Regulation 13(ii) as alleged in the show cause notice.

10.3. The Noticee's Prop desk traded a total of 1569 scrips in the fiscal year 2020-2021, whereas the research desk recommended only 210 scrips. Noticees daily average number of Prop-trades in cash segment were 8517 as against 73 trades in recommended scrips during inspection period. Additionally, Noticee's daily average delivery Prop-trades in cash segment amounted to 2393 as against 11 trades in recommended scrips during observation period. Likewise, the intraday prop quantity was also compared for consideration.

10.4. The Company/ Entity and its Research Analysts have always maintained arms-length relationship between its Research activity and other business activities, *which fulfills the provision of Regulation 24(1) of SEBI (Research Analysts) Regulations 2014. The compensation of Research Analysts was never linked with the revenue generated from the broking, investment banking and merchant banking activities. The matter regarding to the compensation of Research Analysts was placed before the Board and the Board had taken note of it. A resolution passed by the Board resolving that pursuant to the provisions of SEBI (Research Analysts) Regulation, 2014, the compensation of Research Analyst(s) will be reviewed by Committee and the approval of the committee was accorded to review and accordingly compensation to the Research Analyst(s) as may be required time to time and the amount decided between committee and Research Analyst(s) may be paid. The Board Resolution so passed explicitly mentions that there will be no direct or indirect relation in the compensation structure with broking revenue, investment banking revenue and merchant banking revenue of the Company.*

10.5. The Noticee has now started keeping records of all the screen shots of the charts of the stock that was recommended. It was submitted that the research reports are computerized and stored in soft copies, hence do not require signatures. The Noticee has started maintaining physical copies of all the reports, and they are duly signed.

10.6. With respect to the video clips of the TV show on which one of the RAs of the Noticee had appeared, it is submitted that the concerned RA has informed the Noticee that the necessary disclosures were made during the program in the channel. The disclosure made by the Analyst to the channel is not on Noticee's records.

10.7. Immediately following the inspection, the Noticee took prompt and sufficient steps to implement the Regulations comprehensively

10.8. With reference to the date of employee's resignation; the date on which it was updated in the SI portal; the period during which the SI portal was not working

- The date of resignation of Mr. Harsh Anil Gupta is 12th October 2016. Harsh was a junior analyst and as per Noticee's understanding, leaving Harsh does not constitute a material change requiring the RA to inform SEBI under regulation 13(ii). Updation was attempted post Audit and the screen shots of the time when the Noticee tried to update has already been submitted.

10.9. With reference to monitoring and recording of personal trading activities of the research analysts, in compliance with Regulation 16(1) of the RA Regulations, 2014 – it was submitted that the Noticee obtains periodic disclosures from the Analysts regarding their trading quarterly. It relies on the disclosures made by the Analysts only.

CONSIDERATION OF ISSUES AND FINDINGS

11. Considering the allegations made out in the SCN and the submissions made by the Noticee, I find that following issues require consideration in the present case:

    ISSUE I - Whether the Noticee is in violation of the provisions of RA Regulations, 2014 and applicable SEBI Circulars, as given in Table 1 above?

    ISSUE II - Do the violations, if any, attract penalty under Section 15A(a), 15A(c) and Section 15EB of the SEBI Act, 1992?

    ISSUE III - If so, what would be the monetary penalty that can be imposed taking into consideration the factors mentioned in Section 15J of SEBI Act, 1992?

12. The said provisions under which violations have been alleged against the Noticee are reproduced below –

    SEBI (Research Analysts) Regulations, 2014

    Conditions of certificate.

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

(i) the research analyst shall abide by the provisions of the Act and these regulations;

(ii) the research analyst shall forthwith inform the Board in writing, if any information or particulars previously submitted to the Board are found to be false or misleading in any material particular or if there is any material change in the information already submitted;

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

Establishing Internal policies and procedures.

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

(i) addressing actual or potential conflict of interest arising from such dealings or trading of securities of subject company;

(ii) promoting objective and reliable research that reflects the unbiased view of research analyst; and

(iii) preventing the use of research report or research analysis to manipulate the securities market.

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

Limitations on trading by research analysts.

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

(2) Independent research analysts, individuals employed as research analyst by research entity or their associates shall not deal or trade in securities that the

research analyst recommends or follows within thirty days before and five days after the publication of a research report.

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

(4) …

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

<u>Compensation of research analysts.</u>

17. (1) …

(2) The compensation of all individuals employed as research analyst shall be reviewed, documented and approved annually by board of directors/committee appointed by board of directors of the research entity, which does not consist of representation from its merchant banking or investment banking or brokerage services divisions.

(3) …

(4) An individual employed as research analyst by research entity shall not be subject to the supervision or control of any employee of the merchant banking or investment banking or brokerage services divisions of that research entity.

<u>Limitations on publication of research report, public appearance and conduct of business, etc.</u>

18(7) Research analyst or research entity shall have adequate documentary basis, supported by research, for preparing a research report.

(10) Research entity shall ensure that the individuals employed as research analyst are separate from other employees who are performing sales trading, dealing,

corporate finance advisory or any other activity that may affect the independence of its research report: Provided that the individual employed as research analyst by research entity can receive feedback from sales or trading personnel of brokerage division to ascertain the impact of research report.

<u>*Disclosures in research reports.*</u>

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

(i)Research analyst or research entity shall disclose the following in research report and in public appearance with regard to ownership and material conflicts of interest:

(a) whether the research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest;

(b) whether the research analyst or research entity or its associates or relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;

(c) whether the research analyst or research entity or his associate or his relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance;

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

(a) whether it or its associates have received any compensation from the subject company in the past twelve months;

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

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

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

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

(iii) Research analyst or research entity shall disclose the following in public appearance with regard to receipt of compensation:

(a) whether it or its associates have received any compensation from the subject company in the past twelve months;

(b) whether the subject company is or was a client during twelve months preceding the date of distribution of the research report and the types of services provided:

Provided that research analyst or research entity shall not be required to make a disclosure as per sub-clauses (c), (d) and (e) of clause (ii) or sub-clauses (a) and (b) of clause (iii) to the extent such disclosure would reveal material non-public information regarding specific potential future investment banking or merchant banking or brokerage services transactions of the subject company.

(iv) whether the research analyst has served as an officer, director or employee of the subject company;

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

(vi) Research analyst or research entity shall provide all other disclosures in research report and public appearance as specified by the Board under any other regulations.

Contents of research report.

20. (1) Research analyst or research entity shall take steps to ensure that facts in its research reports are based on reliable information and shall define the terms used in making recommendations, and these terms shall be consistently used.

(2) …

(3) If a research report contains either a rating or price target for subject company's securities and the research analyst or research entity has assigned a rating or price target to the securities for at least one year, such research report shall also provide the graph of daily closing price of such securities for the period assigned or for a three-year period, whichever is shorter.

Recommendations in public media.

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

General responsibility.

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

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

Maintenance of records.

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

(i) research report duly signed and dated;

(ii) research recommendation provided;

(iii) rationale for arriving at research recommendation;

(iv) record of public appearance.

<u>Obligation of research analyst on inspection.</u>

29. (1) …

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

<u>Third Schedule - Code Of Conduct For Research Analyst</u>

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

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

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

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

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

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

<u>Circular No.: CIR/OIAE/1/2014 dated December 18, 2014 - Redressal of investor grievances through SEBI Complaints Redress System (SCORES) platform</u>
https://www.sebi.gov.in/legal/circulars/dec-2014/redressal-of-investor-grievances-through-sebi-complaints-redress-system-scores-platform_28700.html

13. I will now proceed with my findings in each of the alleged violations against the Noticee in the SCN dated April 04, 2024.

14. <u>Not using the term 'Research Analyst' in correspondences with clients</u>

14.1. It was observed that the Noticee was not using the term 'Research Analyst / Research Entity' in its correspondences with clients through various means such as groups on social media viz. Whatsapp and Telegram, website, trading terminal on which the recommendations are flashed and the KYC forms. Further, the research reports also did not mention the Noticee's registration details as a Research Analyst and its name as a Research Entity/Research Analyst. Upon perusal of the website, it was observed that the homepage also did not mention the details of registration of the Noticee as a Research Analyst / Research Entity. Thus, it was alleged that the Noticee has violated the provisions of Regulation 13(iii) of RA Regulations, 2014 and clauses 2, 6, 7 and 8 of Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

14.2. As per Regulation 13(iii) of RA Regulations, 2014, a research analyst shall use the term 'research analyst' in all correspondence with its clients.

14.3. In this regard, the Noticee has submitted that all the research recommendations and reports were communicated through WhatsApp and Telegram groups, website and trading terminal to the existing broking clients of the Noticee. There were no clients who were exclusively taking research analyst service from the Noticee. All the broking clients were aware regarding the Noticee's RA registration with SEBI. Since the Noticee is not charging its RA clients separately, they were not separately onboarded as RA clients. Also, maintaining of the website is not stipulated under RA Regulations, 2014. Thus, there has not been a violation as alleged. The Noticee has also informed that post the inspection, it has started mentioning the RA registration at all the aforesaid platforms and on the KYC forms and research reports.

14.4. I note that the Noticee, as a Research entity, was providing information and communicating with its clients through WhatsApp and telegram groups, trading terminals where recommendations were flashed. From the website of the Noticee, I note that various research reports of the Noticee are publicly available on its website. As the Noticee is a research analyst registered with SEBI, it was required to mention its registration details in the research reports and also on the homepage of its website.

14.5. The Noticee has submitted that since it was not charging its clients for the research services, it was not showing the SEBI registration number in its reports. However, no exemption from displaying RA registration details has been provided under Regulation 13(iii) of RA Regulation, 2014 to the research entities who are not charging their clients for research services and only catering to their existing broking clients. Therefore, Noticee's submissions are not tenable.

14.6. With respect to mentioning the RA Registration number on the KYC forms, I note that this requirement was made applicable to the research analysts with effect from May 01, 2023, as per the SEBI Circular No. SEBI/HO/MIRSD/MIRSD-PoD-2/P/CIR/2023/52 dated April 06, 2023 - Usage of brand name/trade name by Investment Advisers (IA) and Research Analysts (RA). Thus, the same was not applicable during the inspection period. I also note from the Noticee's submissions that it has started the practice of mentioning the registration details on the KYC forms after the communication of inspection findings to the Noticee.

14.7. In view of the foregoing observations, I find that the Noticee has violated the provisions of Regulation 13(iii) of RA Regulations, 2014 and clauses 2, 6, 7 and 8 of Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014 by not mentioning the term 'Research Analyst' in all its correspondences, and not mentioning the registration details in the research reports and its website.

15. <u>Not informing the Board regarding material changes in the information already submitted</u>

15.1. It has been alleged that there has been a material change in the information already submitted by the Noticee to SEBI while seeking registration namely Directors, Research Analysts and shareholding pattern of the Noticee. However, the Noticee has not informed SEBI regarding the same. Further, the Noticee has not made any application with respect to 'Update Details' on the SI Portal intimating the said changes on the SI Portal. Thus, it was alleged that the Noticee has violated the provisions of Regulation 13(ii) of RA Regulations, 2014 and clauses 2, 6, 7 and 8 of Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

15.2. As per Regulation 13(ii) of RA Regulations, 2014, a research analyst shall inform SEBI if there is any material change in the information already submitted.

15.3. In this regard, the Noticee has submitted that there were no changes in its promoter directors. It further submitted that changes in independent directors and shareholding pattern cannot be considered as material change as the Noticee is an intermediary and not a listed company. With respect to change in employees, it cannot be considered as material change as employees keep joining and leaving and it does not affect the Noticee in a material manner. During the course of hearing, the Noticee was advised to provide details of the employee who was mentioned in the application form for registration as RA, and the date of his leaving the organisation. In this regard, the Noticee submitted that Mr Harsh Anil Gupta had resigned on October 12, 2016.

15.4. I note that the change in directors and change in shareholding pattern of a research analyst are required to be updated on the SI portal. However, I am of the view that the changes in shareholding pattern or changes in directors due to appointment, resignation and death of directors cannot be considered as material change for a registered intermediary being a research entity. In view of the same, not updating the aforesaid details on the SI portal cannot be considered as material change. I also note that the Noticee has updated the details on the SI portal subsequent to communication of findings of inspection to the Noticee.

15.5. With respect to change in the research analyst, I note Mr Harsh Anil Gupta resigned on October 12, 2016. I further note that his details were present in the Noticee's application to SEBI for registration as RA. Thus, the Noticee was required to inform regarding the change of its research analyst to SEBI at the time of Mr Harsh Anil Gupta's resignation. However, the Noticee has informed the SEBI only after the communication of inspection findings to it. I am of the view that the change of research analysts is material with respect to a research entity.

15.6. Therefore, I find that the Noticee has violated the provisions of Regulation 13(ii) of RA Regulations, 2014 and clauses 2, 6, 7 and 8 of Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014, by not informing SEBI with respect to changes in details of its research analysts and not updating the same on the SI portal.

16. <u>Non-Compliance with the limitations on trading by Research Analyst - Rohan Patil and the Entity</u>

16.1. It was observed that the Research Analyst - Rohan Patil had traded in MCX within 5 days of giving recommendation. Inspection of the proprietary trade data of the Noticee (Research Entity) on a sample basis vis-à-vis the research reports/recommendations made by its research analysts (RAs) was also carried out. Out of a sample of 1000 instances (trades by the Noticee), it was observed that the Noticee (Research Entity) has traded within a period of 30 days before and 5 days after the recommendations on 121 instances in the scrips in which recommendations were made by its RAs. Further, in 590 instances, it was observed that the Noticee (Research Entity) had placed trades contrary to the recommendation provided by its RAs. Thus, it was alleged that the Noticee has violated the provisions of Regulations 15(1), 16(1), 16(2) and 16(3) read with Regulation 16 (5) and clauses 1, 2, 3, 6 ,7 and 8 of the Code of Conduct as specified in Third Schedule under Regulation 24 (2) of the RA Regulations, 2014.

16.2. As per Regulation 15(1) of the RA Regulations, 2014, a research entity shall have written internal policies and control procedures governing the trading and dealing by any research analyst. Regulation 16(1) of the RA Regulations, 2014 states that personal trading activities of individuals employed as research analyst by a research entity shall be monitored, recorded and wherever necessary, subjected to a formal approval process. Regulation 16(2) of the RA Regulations, 2014 states that individuals employed as research analyst by a research entity or their associates shall not deal or trade in securities that the research analyst recommends or follows, within thirty days before and five days after the publication of a research report. Regulation 16(3) of the RA Regulations, 2014 states that individuals employed as research analyst by a research entity or their associates shall not deal or trade in securities that they review, in a manner contrary to the given recommendation. Further, Regulation 16(5) of the RA Regulations, 2014 states that sub-regulations (2) to (4) shall also apply to a research entity unless it has segregated its research activities from all other activities and maintained arms-length relationship between such activities.

16.3. With respect to the trading of Mr Rohan Patil, research analyst, employed with the Noticee, it was submitted that he had traded only once in the period under the limitation period as per the RA Regulations, 2014, as he had miscalculated the number of days. However, the amount of trading is negligible, and the shares were bought by Mr Rohan Patil as long term investment, as he was also holding the said shares on August 01, 2022.

16.4. I note that in one instance, Mr Rohan Patil had executed a trade to buy 6 shares of MCX, within 5 days after publication of the research recommendation, through another broker. I also note from the Noticee's submissions that Mr Rohan Patil was holding the said shares as long term investment. However, trading in a scrip within 5 days of publication of the research report / recommendation is not permitted as per Regulation 16(2) of the RA Regulations, 2014.

16.5. With regard to exercising due diligence for trading of research analysts, the Noticee submitted that it obtains periodic disclosures from the RAs regarding their trading quarterly and it relies on the disclosures made by them. The Noticee has not provided evidence in this regard. The Noticee has not demonstrated how it monitors the personal trading activities of the research analysts, neither there was any evidence of giving formal approval to Mr Rohan Patil, who has traded in the scrip within five days of providing the research recommendation in the scrip. Thus, the Noticee has not been able to monitor the trading activities of Mr Rohan Patil by maintaining proper internal checks and control, in terms of Regulations 15(1), 16(1) and 16(2) of the RA Regulations, 2014, and has not exercised due diligence, as required under the provisions of clauses 1, 2, 3, 6,7 and 8 of the Code of Conduct as specified in Third Schedule under Regulation 24 (2) of the RA Regulations, 2014.

16.6. With respect to the allegation of similar and contrary trades placed by the research entity within 30 days before and 5 days after the publication of the research recommendation, the Noticee has submitted that its research activities were segregated from its all other activities and there was arms' length relationship between such activities.

16.7. I note from the Noticee's submissions that its employees in the RA activities were not employed in the broking activities or proprietary trading. Further, there is no contrary finding in this regard. Based on the observations made in paragraph 17 below, I note that the Noticee's RA activity was segregated from other activities. Thus, as per Regulation 16(5) of the RA Regulations, 2014, the provisions of Regulation 16(2) to 16(4) of the RA Regulations, 2014 will not apply on the Noticee. Thus, the violation of provisions of Regulations 15(1), 16(1), 16(2) and 16(3) read with Regulation 16(5) of RA Regulations, 2014, as alleged against the Noticee, with respect to trading of the the research entity within 30 days before and 5 days after the publication of the research recommendation does not stand established.

16.8. In view of the observations at paragraph 16.5 above, I find that the Noticee has violated the provisions of Regulations 15(1), 16(1) and 16(2) and clauses 1, 2, 3, 6 ,7 and 8 of the Code of Conduct as specified in Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

17. <u>Not ensuring independence of Research Activities from its other business activities; non-maintenance of an arms-length relationship and segregation/separation between its research activity and other activities and Non-compliances in respect of Compensation of Research Analysts and Research Analysts under supervision and control of employees of Broking and other services</u>

17.1. It was observed that the research analysts employed by the Noticee report to the directors of the Noticee who are looking after other departments, viz. broking, etc. From the organization structure, it was observed that there is no specific director to whom the research team reports. Vide letters dated October 30, 2021, the Noticee informed that there is no specific Director who has been delegated the role of Research Head. It further submitted that each of its directors is free to look at any department and may place appropriate directions to the subordinate staff and that the staff employed in the Research department are paid their salary from the Broking department revenue.

17.2. It was also observed from the Noticee's Board Resolution dated March 20, 2020 that the review of compensation of Research Analysts employed by the RA for the financial year 2020-21 was undertaken by the Board of Directors of Bonanza who also oversee the PMS, depository participant, broking and advisory activities of Bonanza Portfolio Limited. Thus, allegedly, the review of compensation of Research Analysts employed by RA-Bonanza was not undertaken by any independent committee. Further, the Noticee and one of its research analyst have allegedly not complied with the limitations on trading applicable on it and as prescribed under Regulations 16 of RA Regulations, 2014. It was also observed that RA registration details of the Noticee were not mentioned on the KYC forms used for onboarding of the broking clients, as no separate KYC forms were being filled for the RA clients, as they were also the broking clients.

17.3. In view of the aforesaid, it was alleged that the Noticee has violated the provisions of Regulations 15(2), 17(2), 17(4), 18(10), 24(1) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

17.4. As per Regulation 15(2) of the RA Regulations, 2014, a research analyst shall have appropriate mechanisms to ensure independence of its research activities from its other business activities. Regulation 18(10) of the RA Regulations, 2014 states that a research entity shall ensure that individuals employed as research analysts are separate from other employees who are employed in sales, trading, dealing, corporate finance advisory or any other business activity that may affect the independence of the research reports. Further, Regulation 24(1) of the RA Regulations, 2014 requires the research analyst / research entity to maintain arms-length relationship between its research activity and other activities.

17.5. As per Regulation 17(2) of the RA Regulations, 2014, compensation of all individuals employed as research analysts shall be reviewed, documented and approved annually by board of directors / committee appointed by board of directors of the research entity, which does not consist of representation from its merchant banking, investment banking or brokerage services divisions. Further, Regulation 17(4) of the RA Regulations, 2014 states that an individual employed as research analyst by a research entity shall not be subject to supervision or control of any employee of the merchant banking, investment banking or brokerage services divisions of the research entity.

17.6. It was observed from the Noticee's Board Resolution dated March 20, 2020 that the compensation of its research analysts was being reviewed by the board of directors who were also monitoring other activities of the Noticee. I note that the same is provided under Regulation 17(2) of the RA Regulations, 2014. Further, there is no evidence that directors of other divisions were having representation in a committee formed to review the compensation of research analysts. With respect to mention of RA registration number on the KYC forms, I note that no such requirement has been provided in the RA Regulations, 2014.

17.7. With respect to the observation that there was no specific director to whom the research team reports, the Noticee has submitted that the research team was reporting to the overall board of directors. I note that reporting to the board of directors will not affect the independence of the research analysts. Further, there is no observation that the research team was reporting to a specific director handling broking, merchant banking or investment banking activities. Thus, the alleged violation of provisions of Regulation 17(4) of RA Regulations, 2014 does not stand established.

17.8. I further note from the Noticee's submissions that the RAs employed in the research team were only working in the capacity of RAs. There is no finding in the inspection report to the contrary. Further, there is no observation that compensation of the RAs in the research team is dependent on broking, merchant banking or investment banking activities of the Noticee. Also, the research team was reporting to the board of directors and as per the board resolution dated March 20, 2020, their compensation was being annually reviewed by the Board of directors. Therefore, I am of the view that the research activities of the Noticee were independent of the other business activities of the Noticee.

17.9. Further, the Noticee has also provided a copy of its Board Resolution with respect to its meeting held on May 10, 2022, wherein it was resolved that the compensation of research analysts shall be reviewed independently by the board of directors or the committee or by a committee consisting of directors other than those who are controlling broking, investment banking or merchant banking activities.

17.10. Thus, I find that the allegation against the Noticee of the violation of provisions of Regulations 15(2), 17(2), 17(4), 18(10), 24(1) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014, does not stand established.

18. <u>Non-compliances in respect of maintenance of records and content in respect of research reports/ recommendations</u>

18.1. Out of the total 2239 recommendations made by the Noticee in the Inspection Period, there were a total of 980 technical recommendations made by it. The Noticee had not provided any documentary evidence for maintaining rationales for the technical recommendations, either in the reply to Pre-Inspection Questionnaire (PIQ) or during inspections. Further, the Noticee had orally submitted that it had not recorded any rationale for providing its 980 technical recommendations (around 44% of its total recommendations/ reports). Further, as the Noticee has not recorded rationales for 980 of its Technical Recommendations, it was observed that the Noticee has not taken steps to ensure that facts in the Reports are based on reliable information and is not having any adequate documentary basis, supported by research, for preparing a research report.

18.2. From the research reports provided by the Noticee, it was observed that the Noticee did not provide graph of daily closing price for the securities covered in the research report for the period assigned or for a 3-year period whichever is shorter.

18.3. It was also observed from the records of technical recommendations provided by the Noticee vide email dated October 30, 2021 and the samples of published research reports that the technical recommendations and research reports were not duly signed. The same was also admitted by the Noticee at the time of inspection. Further, as perused from the records of communication of the technical recommendations made through the trading terminal of the Noticee (odin flash) and extracts of Whatsapp / telegram group, it was observed that the terms used in making recommendations are not defined. In view of the aforesaid, it was alleged that the Noticee alleged that the Noticee has violated the provisions of Regulations 18(7), 20(1), 20(3), 25(1)(i) and (iii) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

18.4. Regulation 18(7) of the RA Regulations, 2014 requires a research analyst / research entity to have adequate documentary basis, supported by research, for preparing a research report. Regulation 20(1) of the RA Regulations, 2014 requires a research analyst / research entity to take steps to ensure that facts in its research reports are based on reliable information and shall define the terms used in making recommendations, and these terms shall be consistently used. As per Regulation 20(3) of the RA Regulations, 2014, if a research analyst / research entity has assigned a rating or price target to a subject company's securities for at least one year, in a research report, then such report shall also provide the graph of daily closing price of such securities for the period assigned or for a three year period, whichever is shorter. As per Regulation 25(1)(i) of the RA Regulations, 2014, a research analyst / research entity shall maintain duly signed and dated research reports.

18.5. In this regard, the Noticee has submitted that all the technical calls of more than one week were being maintained and with respect to 980 technical recommendations in which the rationale were not documented in the research reports, these calls were momentary and immediate like technical breakouts, due to which there was a time limitation. It further submitted that the rationale could be demonstrated for any research recommendation.

18.6. In this regard, I note that the Noticee has not provided rationale in the 980 technical research recommendations. Noticee’s explanation that the technical calls were immediate and there was not enough time to document the rationale, is not acceptable, as the same could have been documented at the end of the day, if not immediately. The Noticee has submitted that it has now started documenting the rationale. I note that the same could have been done earlier too.

18.7. With respect to the provision of graph of daily closing price for the securities covered in the research report for the period assigned or for a 3-year period whichever is shorter, the Noticee had submitted that in many cases, the technical calls were of very short duration, which would render the daily closing price graph irrelevant. I note that no further details have been provided by the Noticee, and no specific mention has been made by the Noticee in any of the research reports, of the Noticee’s assertion that the closing price graph will not be relevant in the particular research report. Thus, Noticee’s submission is not tenable.

18.8. With respect to not signing of the research reports, the Noticee has submitted that as the reports were in computerized and stored in soft copies, they were not required to be signed. It is clearly stated in Regulation 25(1) of the RA Regulations, 2014 that the research reports shall be duly signed and dated. Therefore, Noticee’s submission is not acceptable.

18.9. It was also observed during inspection that the terms used in the technical recommendations made through the trading terminal and WhatsApp / telegram group were not defined. The terms used in making recommendations needs to be defined as per regulation 20(1) of the RA Regulations, 2014. I note that Noticee had used terms like 'TGT' for 'target', 'SL' for 'Stop Loss', 'CMP' for 'Current Market Price', etc. I note that these terms are commonly used short forms and the observation pertains to the trading terminal and WhatsApp and Telegram groups, all of which are broadly instant messaging media. Thus, the violation in this regard is merely technical in nature.

18.10. In view of the foregoing observations, I find that the Noticee has violated the provisions of Regulations 18(7), 20(1), 20(3), 25(1)(i) and (iii) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

19. Not making required disclosures in Research Reports and Recommendations

19.1. It was observed from the Technical Recommendations sent in the WhatsApp and Telegram groups and on the trading terminal of the Noticee that required disclosures were not being provided by the Noticee and the research analysts employed by the Noticee. It was also observed that Noticee and the research analysts employed by the Noticee were not making disclosures with respect to ownership and material conflicts of interest, in respect of its registration status or financial interest in the subject company at the time of making recommendations in articles published on various websites and various public appearances on Youtube. Thus, it was alleged that the Noticee has violated the provisions of Regulations 19, 21(1) and clauses 1, 2 3, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

19.2. As per Regulation 21(1) of the RA Regulations, 2014, a research analyst or research entity including its director or employee shall disclose the registration status and details of financial interest in the subject company, if he makes public appearance. Regulation 19 specifies various disclosures to be made by a research analyst or research entity in its research reports and public appearance with regard to ownership and material conflicts of interest, receipt of compensation, whether the research analyst has served as an officer, director or employee of a subject company, whether the research analyst or research entity has been engaged in market making activity of the subject company and all other disclosures as specified by SEBI under any other regulations.

19.3. I note that disclosures with respect to ownership, material conflicts of interest and receipt of compensation were not made along with the technical recommendations made through the trading terminal and WhatsApp / Telegram channels. Although these recommendations were in the form of short messages, the same should have been accompanies by the aforesaid disclosures, in compliance with the provisions of RA Regulations, 2014.

19.4. With respect to making disclosures under Regulations 19 and 21(1) of the RA Regulations, 2014, I note that the employees of the Noticee had made recommendations through various articles published on the websites and various public appearances on TV channels. In this regard, the Noticee has submitted that it had made required disclosures to the media, however, the same is not present with the Noticee. In the absence of the evidence with respect to informing of the required disclosures by the Noticee to the TV channels and websites, Noticee submissions are not tenable.

19.5. In view of the foregoing observations, I find that the Noticee has violated the provisions of Regulations 19, 21(1) and clauses 1, 2 3, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

20. Not taking SCORES login and providing false information for the same

20.1. It was observed that the Noticee had submitted in PIQ (Pre inspection Questionnaire) that "*it has obtained SCORES user ID and password for redressal of investor grievances and the SCORES ID is Pfm00037*". However, from the internal records, it was found that the Noticee has not taken any SCORES registration for its Research Analyst activities. Accordingly, the submission and declaration of the Noticee in the PIQ with respect to SCORES ID was alleged to be false. Thus, it was alleged that the Noticee has violated the provisions of Regulation 29(2), SEBI Circular no CIR/OIAE/1/2014 dated December 18, 2014 and the clauses 1, 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

20.2. As per Regulation 29(2) of the RA Regulations, 2014, it is research analyst / research entity's duty to give assistance and provide cooperation to the inspection authority, and furnish such information, as may be required in connection with the inspection. SEBI Circular no CIR/OIAE/1/2014 dated December 18, 2014 mandates a research analyst / research entity to obtain SCORES authentication and also provides that failure to obtain the same will be deemed as non-redressal of investor grievance and also indicate wilful avoidance of the same.

20.3. In this regard, the Noticee submitted that it already had SCORES login for its broking and PMS activities and it has not received any complaints from any of the clients with respect to RA activities through SCORES. Noticee has further submitted that immediately after the same was brought to the notice, the Noticee applied for the SCORES login for its RA activities.

20.4. I note that the Noticee being registered with SEBI, as a Research Analyst, was required to obtain SCORES login, which it had not obtained at the time of submitting its response to the Pre inspection Questionnaire (PIQ). The Noticee was required to provide the accurate information in the Pre inspection Questionnaire. However, it has provided incorrect details with respect to its SCORES registration for RA activities. In view of the same, I find that the Noticee has violated the provisions of Regulation 29(2) of the RA Regulations, 2014, SEBI Circular no CIR/OIAE/1/2014 dated December 18, 2014 and the clauses 1, 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

21. <u>Not abiding by provisions of the Act and Regulations</u>

21.1. It has been alleged that by not abiding by various provisions of RA Regulations, 2014, the Noticee has violated the provisions of Regulation 13(i) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

21.2. The findings in the foregoing paragraphs are summarized below.

21.2.1. The Noticee has not mentioned the term 'Research Analyst' in all its correspondences, and not mentioning the registration details in the research reports and its website.

21.2.2. The Noticee has not informed about material changes with respect to changes in its research analysts to the SEBI and has not updated various details on the SI portal.

21.2.3. The Noticee has not been able to monitor the trading activities of research analyst employed with the Noticee.

21.2.4. The Noticee has not recorded and maintained rationale with respect to 980 technical recommendations during the inspection period, not provided graph of daily closing price for the securities covered in the research report for the period assigned or for a 3-year period whichever is shorter and has not signed various research reports.

21.2.5. Noticee has not provided required disclosures along with its research recommendations through WhatsApp, Telegram groups and trading terminals, and in its published articles and while appearing in the media.

21.2.6. The Noticee had not obtained SCORES registration at the time of inspection. However, in its reply to the pre-inspection questionnaire, wherein SCORES registration details were asked, the Noticee had incorrectly provided the SCORES login ID with respect to its PMS activities.

21.3. In view of the above, I find that the Noticee has not abided by many provisions of RA Regulations, 2014 and therefore, it has also not abided by Regulation 13(i) of the RA Regulations, 2014, which specifies conditions with respect to granting of the Research analyst / research entity certificate, that it shall abide by the provisions of SEBI Act, 1992 and RA Regulations, 2014. Thus, the Noticee has not acted with due skill, care and diligence, has not observed high professional standard, has not complied with all regulatory requirements, and has not adhered to proper procedures, thereby violating the provisions of clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014. Thus, the allegation of violation of the provisions of Regulation 13(i) and clauses 2, 6, 7 and 8 of the

Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014 stand established.

22. Therefore, I find that the Noticee has violated the following provisions:

22.1. Regulation 13(iii) of RA Regulations, 2014 and clauses 2, 6, 7 and 8 of Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014;

22.2. Regulation 13(ii) of RA Regulations, 2014 and clauses 2, 6, 7 and 8 of Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014;

22.3. Regulations 15(1), 16(1) and 16(2) and clauses 1, 2, 3, 6 ,7 and 8 of the Code of Conduct as specified in Third Schedule under Regulation 24 (2) of the RA Regulations, 2014;

22.4. Regulations 18(7), 20(1), 20(3), 25(1)(i) and (iii) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014;

22.5. Regulations 19, 21(1) and clauses 1, 2 3, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014;

22.6. Regulation 29(2) of the RA Regulations, 2014, SEBI Circular no CIR/OIAE/1/2014 dated December 18, 2014 and the clauses 1, 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014

22.7. Regulation 13(i) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.

ISSUE II - Do the violations, if any, attract penalty under Section 15A(a), 15A(c) and Section 15EB of the SEBI Act, 1992?

23. I note that the above violations make the Noticee liable for monetary penalty under Section 15A(a), 15A(c) and Section 15EB of the SEBI Act, 1992, the text of which is reproduced hereunder:

    SEBI Act, 1992

    Penalty for failure to furnish information, return, etc.

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

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

    (b) …

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

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

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

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

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

25. While determining the quantum of penalty under Section 15A(a), 15A(c) and Section15EB of the SEBI Act, 1992, it is important to consider the factors stipulated in Section 15J of the SEBI Act, 1992, which read as under:

SEBI Act, 1992

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

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

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

(c) the repetitive nature of the default.

26. 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

Noticee. Further, as per the available records, it is observed that Noticee has not been penalised earlier for any of the aforesaid violations. Thus, violations are not repetitive in nature. However, I cannot ignore the fact that 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. I find that in many instances, Noticee has rectified the issues, however, such non-compliance deserves and attracts suitable penalty.

ORDER

27. Having considered all the facts and circumstances of the case, the material available on record, the submissions made by Noticee and also the factors mentioned in Section 15J of the SEBI Act, 1992, and also taking into account judgment of the Hon'ble Supreme Court in SEBI vs. Bhavesh Pabari (2019) 5 SCC 90, I, in exercise of the powers conferred upon me under Section 15-I of the SEBI Act, 1992 and Rule 5 of the Adjudication Rules, hereby impose following penalty upon the Noticee.

Name of Noticee	Violation provisions	Penal Provisions	Penalty
Bonanza Portfolio Limited	Regulations 13(i), 13(ii), 13(iii), 15(1), 16(1), 16(2), 19, 21(1) of RA Regulations, 2014 and clauses 1, 2, 3, 6, 7 and 8 of Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.	Section 15EB of SEBI Act, 1992	₹ 5,00,000/- (Rupees Five Lakh Only)
	Regulation 29(2) of the RA Regulations, 2014, SEBI Circular no CIR/OIAE/1/2014 dated December 18, 2014 and the clauses 1, 2, 6, 7 and 8 of the Code of Conduct as specified in	Sections 15EB and 15A(a) of SEBI Act, 1992	₹ 2,00,000/- (Rupees Two Lakh Only)

Name of Noticee	Violation provisions	Penal Provisions	Penalty
	the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.		
	Regulations 18(7), 20(1), 20(3), 25(1)(i) and (iii) and clauses 2, 6, 7 and 8 of the Code of Conduct as specified in the Third Schedule under Regulation 24(2) of the RA Regulations, 2014.	Sections 15EB and 15A(c) of SEBI Act, 1992	₹ 2,00,000/- (Rupees Two Lakh Only)
		Total Penalty Amount	**₹ 9,00,000/- (Rupees Nine Lakh Only)**

28. 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.

29. 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.

30. In terms of Rule 6 of the SEBI Adjudication Rules, 1995, copy of this order is sent to the Noticee and also to the Securities and Exchange Board of India.

BARNALI MUKHERJEE
Digitally signed by BARNALI MUKHERJEE
Date: 2024.07.24 18:38:09 +05'30'

DATE: JULY 24, 2024 **BARNALI MUKHERJEE**

PLACE: MUMBAI **ADJUDICATING OFFICER**