

**SECURITIES AND EXCHANGE BOARD OF INDIA  
CONFIRMATORY ORDER**

**UNDER SECTIONS 11, 11(4) AND 11B (1) OF THE SECURITIES AND  
EXCHANGE BOARD OF INDIA ACT, 1992**

**In respect of:**

| <b>S. No.</b> | <b>Name of the Entity / Intermediary</b> | <b>PAN / SEBI Registration no.</b> |
|---------------|------------------------------------------|------------------------------------|
| 1.            | Shares Bazaar AIF                        | IN/AIF3/23-24/1263                 |
| 2.            | Shares Bazaar Private Limited            | ABECS9026N                         |

*(The above Entities are individually referred to by their corresponding names and collectively referred to as “**Entities**”)*

**In the matter of Shares Bazaar AIF**

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**A. BACKGROUND:**

1. Securities and Exchange Board of India (“**SEBI**”) conducted a preliminary examination in respect of the entities, Shares Bazaar Private Limited (“**SBPL**”), a SEBI registered Stock Broker and Research Analyst, and Shares Bazaar AIF, a SEBI registered Category III Alternative Investment Fund (“**AIF**”), based on a reference dated July 19, 2022 from National Stock Exchange of India Limited (“**NSE**”), to look into possible violations of provisions of Securities and Exchange Board of India Act, 1992 (“**SEBI Act**”) and various regulations framed thereunder.

**B. INTERIM ORDER**

2. Pursuant to SEBI’s preliminary examination, an *ad-interim ex-parte* order dated February 01, 2024 (hereinafter referred to as “**Interim Order**”) was passed by SEBI against SBPL and Shares Bazaar AIF wherein *inter alia* the following were noted:

- 2.1. NSE issued a press release on July 12, 2022 and thereafter, forwarded a reference to SEBI on July 19, 2022 in respect of SBPL *inter alia* stating that NSE issued a legal notice to SBPL for misrepresenting to the public that it was associated with NSE. Further, as per the “mystery shopping exercise” report by Ernst & Young, SBPL offered advisory services and portfolio management services with assured return under the program - “Making Millions Financially Free (MMFF Program (2021-25))”.
- 2.2. Taking cognizance of the press release issued by NSE, BSE initiated proceedings against SBPL and *vide* its order dated December 30, 2022, BSE expelled SBPL as a trading member as SBPL was observed to have offered assured returns scheme i.e., MMFF.
- 2.3. Based on SEBI’s preliminary examination, SBPL was *prima facie* observed to have engaged in illegal money mobilisation in the nature of a Ponzi/ Multi-Level Marketing scheme.
- 2.4. SBPL, as a manager cum sponsor of Shares Bazaar AIF (Trust), failed to disclose the regulatory actions taken against it by BSE and NSE in the declaration dated January 10, 2023 and the final Private Placement Memorandum (“PPM”) filed with SEBI on March 29, 2023.
- 2.5. Based on the factual matrix, it was *prima facie* concluded that Shares Bazaar AIF/ SBPL obtained AIF registration through misrepresentation and thereby *prima facie* violated regulation 3(5) read with Form A, regulation 11(2) and 20(1) read with clause 1(c) of fourth schedule of the SEBI (Alternative Investment Funds) Regulations, 2012 (“**AIF Regulations**”). Further, SBPL is *prima facie* alleged to be not a “fit and proper person” due to misrepresentation and illegal money mobilisation and thereby *prima facie* violated regulation 4(f) of AIF Regulations read with clause 3(a) of the schedule II of the SEBI (Intermediaries) Regulations, 2008 (“**Intermediaries Regulations**”).
3. Based on the information collected during the preliminary examination and findings as recorded in the *Interim Order*, pending further investigation in the matter, certain directions were issued against Shares Bazaar AIF *vide* the aforesaid *interim order* which were *inter alia*, as follows:

- 3.1. Shares Bazaar AIF was restrained from taking new commitments/ investments from any investors;
  - 3.2. Shares Bazaar AIF was restrained from drawing down funds from the investors for the commitments already received;
  - 3.3. Shares Bazaar AIF should immediately inform its existing/ prospective investors, if any, about the directions in the Interim Order.
  - 3.4. The Custodian of Shares Bazaar AIF, Orbis Financial Corporation Limited, should not permit any debit/ credit transactions in the trading/ demat and bank account of Shares Bazaar AIF, managed by the Custodian.
4. Vide the aforesaid *Interim order*, the entities were also advised to submit their replies, if any, within 21 days from the date of service of the *Interim order* and to indicate whether they desire to avail an opportunity of personal hearing in the matter.

#### **C. SERVICE OF INTERIM ORDER, REPLY AND HEARING**

5. The Interim Order was served on both the Entities *vide* email dated February 01, 2024. The Authorised Representative (“AR”) of the Entities sought inspection of documents *vide* letter dated February 06, 2024. Thereafter, the AR inspected the documents on February 20, 2024.
6. The Entities filed a common reply dated March 30, 2024. Thereafter, the Entities were granted an opportunity of personal hearing on June 18, 2024. On the said date, the AR of the Entities appeared before me and reiterated the submissions made *vide* their letter dated March 30, 2024. Further, during the personal hearing, certain clarifications were sought and the Entities were advised to submit their replies within the specified time. The Entities filed their additional written submissions *vide* letter dated June 25, 2024.
7. The contentions raised in the Entities’ written submissions are summarised below.
- 7.1. BSE granted SBPL trading membership and SEBI granted registration to SBPL as a Stock Broker and Clearing Member to SBPL on February 01, 2022. SBPL applied for activation of trading to BSE and while it was awaiting the trading

approval, it started the development of a website through which its constituents could trade on BSE. SBPL intended to apply for corporate membership with NSE and MCX and also offer other services such as Research Analysis, Investment Advice and Portfolio Management to its clients, functionalities were built into the said website. Inadvertently, the software developer hosted the website under development on a live server instead of doing so on a test server. An investor appears to have mistakenly considered that SBPL's website was live and that it was offering PMS and complained to SEBI on March 3, 2022. Based on the said complaint, SEBI addressed a letter dated March 7, 2022 to SBPL advising it to stop all unregistered investment advisor/ research analyst/ portfolio management activities. SBPL vide letter dated March 28, 2022 assured SEBI that it was not carrying out any unregistered activity and undertook that they would not do so. SBPL immediately arranged to take down the website and also filed a complaint with KPHB Police Station Hyderabad against Mr. Tirumala Venkata Lakshmi Ramesh, the erstwhile CEO of SBPL and terminated his services.

**7.2.** On May 11, 2022, NSE issued a cease and desist order against *SBPL inter alia* to cease and desist with immediate effect from claiming to be associated with NSE as a trading member. Since the website under development had been taken down pursuant to the letter dated March 17, 2022 from SEBI, no further action was taken by SBPL. NSE issued a press release dated July 12, 2022 stating that SBPL was not its member or authorized person. SBPL vide its email dated July 15, 2022 informed NSE that it had taken down the website and also deleted all references to NSE on the website under development. Based on this NSE press release, which failed to consider that the website under development had been taken down, BSE issued a show cause notice dated July 21, 2022 to SBPL for providing services other than stock broking and for assuring returns. BSE then issued a supplementary show cause notice on August 25, 2022. SBPL replied to the SCNs and thereafter, BSE wrongfully terminated the membership of SBPL on December 30, 2022. SBPL is exploring legal options to challenge the said wrongful order of BSE.

**7.3.** In the meanwhile, SEBI granted registration to SBPL as a Research Analyst on July 27, 2022. Further, SBPL sponsored and set up a trust and applied for

registration as Category III AIF with SEBI and registration was granted on April 27, 2023. Shares Bazaar AIF (“SB AIF”) issued its private placement memorandum dated March 29, 2023 to prospective investors and achieved its first closing on November 30, 2023 with a capital commitment of INR 21 crore which was informed to SEBI on January 05, 2024. Thereafter, SEBI passed the Interim Order.

**7.4.** The finding of illegal money mobilization through alleged PMS is based on the press release by NSE, which in turn, is based on the website being developed by SBPL, which was inadvertently hosted on a live server. The action by BSE against SBPL was based on the erroneous press release by NSE and therefore, erroneous and unsustainable. SB AIF was advised and guided by SKI Capital Services Limited, merchant banker (“SKI”/ “merchant banker”) registered with SEBI while filing the applications for registration as an AIF and while filing subsequent documents relating to the same. At the time of application for registration as an AIF was filed by SB AIF on October 12, 2022, no orders had been passed by BSE against SBPL. The details regarding the notices issued by BSE had been brought to the notice of SKI and they did not advise the Noticees to disclose the same in the PPM. The email dated December 22, 2022 sent by SEBI advising to update the disciplinary history in the PPM was not received by the Noticees. The same may have been received by SKI who was managing the application process and so the Noticees were not aware of SEBI’s aforesaid directive. Therefore, the need for the Interim Order is based on an erroneous reference made by NSE, erroneous orders passed by NSE and based on failure of the merchant banker advising SBPL regarding application for registration as an AIF. SB AIF has only achieved First closing and a capital commitment and has not received any funds from its investors.

**7.5.** NSE came to its findings based on a “mystery shopping exercise” conducted by Ernst & Young (“EY”). However, as understood by the Noticees through inspection of documents, SEBI does not have a copy of the same and it has not examined the veracity of the said “mystery shopping exercise” conducted by EY.

**7.6.** NSE's reference and SEBI's examination report refers to a "sample" agreement obtained by E&Y through SBPL's erstwhile CEO, Mr. Tirumala Venkata Lakshmi Ramesh, and an investor, who is later confirmed to be a Mr. Vipin Amar Patel (as per the examination report). However, even as per the examination report, it is admitted that the said sample agreement between the Ex-CEO and Mr. Patil is an unsigned agreement. Evidently, the said "sample agreement" was a draft of an agreement which was to be used as and when PMS services were offered by SBPL. The said draft agreement was only being discussed and did not have the approval of the Board of Directors of SBPL. At best, the erstwhile CEO may have shared a draft of the PMS agreement with one of the investors known to him to elicit his views and understand the market. SBPL filed a police complaint against the erstwhile CEO alleging inter alia that he had shared confidential data and documents of the company without its approval. A copy of the complaint dated March 10, 2022 has been submitted.

**7.7.** As regards the alleged unauthorized money collection, SBPL reiterates the submissions made in its letters dated October 04, 2022 and December 16, 2022. Further the following was stated:

**7.7.1.** The bank account no. 7777XXX9202 with ICICI Bank, Kukatpally Main Road Branch, was opened and operated by the erstwhile CEO till he was removed as CEO.

**7.7.2.** The Making Millions Financially Free ("MMFF") program was conceived by the erstwhile CEO and the same did not have the approval of the Board of Directors of SBPL. The Noticees understand that the erstwhile CEO has replicated this Business model in other companies where he is/ was CEO.

**7.7.3.** The remarks made at the time of crediting funds into the account or while making payment cannot be the basis to assume or infer that SBPL was offering PMS. For instance, SBPL had issued and privately placed Compulsorily Convertible Redeemable Debentures ("CCD") to 198 investors to raise funds for its operations. The Company Secretary of SBPL used the following terms in respect of payouts made to the CCD holders- "Capital Referral" to denote the refund of Principal and "Dividend Payout" to denote interest payout. No incentive was provided for referral by SBPL. A copy of the CCD certificate issued by SBPL is submitted.

- 7.8.** Mr. Ravi Dandapani holds CCDs and had repeatedly stated, in his email correspondences with SEBI, that he had “loaned” money for which he received an interest payout. This refers to the debentures held by him. Copies of email correspondences between Mr. Dandapani and SEBI official is enclosed.
- 7.9.** With respect to the correspondence between SEBI and Mr. Vipin Amar Patil and Mr. Karunakar Ganti, it is pertinent to note that Mr. Patil is a CCD holder, who has been receiving interest payouts as a debenture-holder. The Examination report alleges that investments made by Mr. Patil towards a PMS run by SBPL. However, no actual investment was made in the securities market by SBPL or on behalf of Mr. Patil. Rather, Mr. Patil paid subscription monies towards the CCDs issued to him. Mr. Karunakar is also a CCD holder. Even as per his email dated December 27, 2022 to SEBI, he never had a beneficiary account nor did he invest in any PMS. All monies paid by Mr. Ganti were towards subscription of debentures, which provided him with appropriate returns. A copy of the correspondence between Mr. Ganti and SEBI is enclosed.
- 7.10.** Till date no communication has been received by SBPL from EOW – Telangana in respect of the SEBI reference or otherwise.
- 7.11.** There was no urgent need for passing the interim order without seeking any explanation from the Noticees.
- 7.12.** The entities have reiterated that the report which included the “mystery shopping exercise” conducted by Ernst & Young as commissioned by NSE has not been placed on record by SEBI. Admittedly, even SEBI does not have a copy of the same. Since the E&Y report forms the basis of the reference by NSE, the Examination Report, and the *Ad-interim Ex-parte order*, the Interim Order has been passed without considering the relevant documents and records.
- 7.13.** The Noticees have again submitted that no details or particulars of the said alleged “Ponzi scheme” have been set out in the Interim Order or the Examination Report. The observations regarding the said alleged Ponzi scheme are nothing but conjectures derived from a perusal by SEBI, of the bank accounts of Entity no. 2 and payments by them in the normal course of business.

**7.14.** Admittedly, the funds received by Entity no. 2 have not been invested in the securities market; therefore, the allegation or finding that Entity no. 2 offered Portfolio Management Services (“PMS”) is erroneous, false and unsustainable. On the other hand, the 2 persons whom SEBI examined unambiguously stated that they had invested in securities through their own beneficiary accounts, and that they had received interest payments for the loans extended by them to Entity no. 2; it is clear that the said persons referred to the debentures issued by Entity no. 2 to them when they spoke about loans. Furthermore, the said persons also confirmed that they obtained research advice from Entity no. 2 which is a registered Research Analyst. Thus, Entity no. 2 reiterates that it has mobilized funds legally and in a transparent manner.

**7.15.** In response to the specific query regarding Compulsorily Convertible Debentures issued by Entity no. 2, it is submitted that the CCDs were issued to raise funds for expansion of its business. A copy of the Board Resolution authorizing the issue is submitted. Entity no. 2 was, however, not able to use the funds for expansion on account of the proceedings initiated first by NSE and then by BSE and SEBI against them and therefore, in the interim invested the funds in Debentures issued by its sister company, Kisaan Parivar Private Limited. After BSE wrongfully expelled Entity no. 2, it redeemed most of the CCDs issued by it using internally accrued profits.

**7.16.** The Entities reiterate that even at this preliminary stage of investigation, no substantive evidence has been adduced to show that Entity no. 2 was not a “fit and proper person” as per schedule II of the SEBI(Intermediaries) Regulations, 2008; furthermore, it is pertinent to note that till date to the knowledge of Entity no. 2, no order has been passed by SEBI finding that Entity no. 2 is not a fit and proper person. The Entities further state that at the time of submission of the Private Placement Memorandum (“PPM”) for Entity no. 1, the Merchant Banker, SKI capital services Limited conducted their own due diligence and vide its declaration dated March 27, 2023, similarly, the Trustee of Entity no. 1 and vide its declaration dated March 15, 2023 have certified that Entity no. 2 was a “Fit and Proper Person” as per Schedule II of the Intermediaries Regulations. Thus, Entity no. 1 had no reasons to apprehend that it was not a “Fit and Proper Person” as per the Intermediaries Regulations

that they were not a “Fit and Proper Person” as per the Intermediaries Regulations and therefore, there was no error in the declarations dated March 15, 2023 and the declaration dated March 27, 2023, copies of which are enclosed.

**7.17.** Entity no. 1 states that the Examination Report provided during the Inspection dated February 20, 2024 recommends action to be taken against Entity no. 2 amongst other persons; there is no mention of Entity no. 1. However, direction have been issued against Entity no.1 in the Interim Order. Entity no. 1 states that the directions passed against it in the Interim Order has crippled the entity’s business prospects, despite no adverse recommendation against it in the Examination Report. It is also pertinent to note that effectively the Interim Order has terminated the business of Entity no. 1 and made the registration as AIF redundant without following the due process as set out in the Intermediaries Regulations. There is a clear discrepancy between the action recommended vide the Examination Report and the directions in the Interim Order and indicates that the Interim Order has acted against Entity no. 1 without any investigation and justification and the Interim Order and the directions therein ought to be withdrawn on this ground alone.

#### **D. CONSIDERATION**

- 8.** The *prima facie* findings in the *Interim Order* are that Shares Bazaar AIF obtained its registration by submitting a false declaration wherein it failed to disclose that its manager-cum-sponsor, SBPL was expelled by BSE as a trading member and that NSE had issued a press release against it. Further, SBPL was also *prima facie* observed to have engaged in unauthorised money mobilisation activity.
- 9.** I have considered the allegations levelled in the Interim Order, the written submissions of the Entities and other material available on record. I note that in the instant case, the directions issued against the Entities are interim in nature and have been issued based on *prima facie* findings. The present proceedings before me are in the nature of confirmatory or revocation proceedings which allow me the very limited remit of assessing whether the directions issued against the Entities based on the *prima facie* findings arrived at in the Interim Order need to be

confirmed, revoked or modified in any manner in light of the submissions made by them. I understand that a detailed enquiry/ investigation into this matter is being conducted by SEBI. The outcome of the enquiry/ investigation will decide the further course of action and initiation of further proceedings in the matter in accordance with law. I now proceed to consider the aforesaid issue in light of the specific contentions raised by the Entities.

**10.** The submissions made by the Entities have been examined in detail and the issues raised therein have been addressed in the following paragraphs.

**A. Submissions on preliminary matters**

**10.1. Non-compliance with Intermediaries Regulations**

**10.1.1.** The Entities have argued that the *Interim Order* has terminated the business of Entity no. 1 and made the registration as AIF redundant without following the due process as set out in the Intermediaries Regulations. Further, they have stated that there was no urgent need for passing interim order without seeking any explanation.

**10.1.2.** I note that the Sections 11 and 11B of the SEBI Act empower SEBI to pass *ex-parte interim order*, pending investigation/ detailed examination, in order to prevent further contraventions of securities law and to protect the interest of investors in securities market. While passing such directions, it is not necessary for SEBI to provide the Entities with an opportunity of pre-decisional hearing. In any case, post-decisional opportunity of hearing has been granted and availed by the Entities thereby ensuring that the principles of natural justice are complied with. The preliminary examination concluded that the Shares Bazaar AIF *prima facie* obtained its registration through misrepresentation and its sponsor cum manager, SBPL was *prima facie* observed to have engaged in unauthorised money mobilisation in the nature of a Ponzi/ Multi-Level Marketing scheme. Considering that the registration was obtained through misrepresentation, *Interim Order* was required to be passed to prevent Shares Bazaar AIF from continuing to raise money from investors. The available evidence supported the *prima facie* case against the Entities and

the balance of convenience was also in favour of passing interim directions since irreparable damage would have been caused to the integrity of the securities market had such directions not been passed.

**10.2. No action recommended against Entity no. 1**

**10.2.1.** The Entities have stated that the Examination Report provided to them during inspection of documents does not recommend any adverse direction against Entity no.1 i.e., Shares Bazaar AIF, however, directions have been issued in the interim order. Further, they have contended that this discrepancy indicates that the Interim Order was passed against Shares Bazaar AIF without any investigation or justification.

**10.2.2.** I note that the Examination Report referred to by the Entities examines the unauthorised money mobilisation of Entity no. 2 i.e., SBPL as a Research Analyst. The present proceedings before me are against Shares Bazaar AIF for obtaining registration through alleged misrepresentation and against SBPL for its role as the manager cum sponsor of Shares Bazaar AIF. The said Examination Report was provided to the Entities in compliance of the judgement of the Hon'ble Supreme Court in the case of T. Takano which mandates disclosure of all relevant documents. The alleged violations by the Entities and the factual matrix that led to such *prima facie* conclusions were elaborated in the Interim Order. The Examination Report is part of a fact finding exercise and does not decide the entire ambit of any measure that SEBI may take to prevent or remedy any harm to the securities market. The action against Shares Bazaar AIF is a necessary consequence of findings in the Examination Report against SBPL.

**10.3. Relevant documents not considered**

**10.3.1.** The Entities have stated that the “mystery shopping exercise” conducted by Ernst & Young as commissioned by NSE forms the basis of NSE reference, examination report and the Interim Order. Since the said report is not placed on record and the Entities have contended that the Interim Order was passed without considering the relevant documents.

**10.3.2.** I note that the *prima facie* findings against the Entities in the Interim Order including that of illegal money mobilisation by SBPL were based on a preliminary examination carried out by SEBI. I also note that a copy of the Examination Report detailing the illegal money mobilisation by SBPL was provided to the Entities during inspection of documents. Therefore, I do not find any merit in this contention of the Entities.

**10.4. Findings based on BSE Order/ NSE press release**

**10.4.1.** The Entities have submitted that the finding of illegal money mobilization by SBPL through alleged Portfolio Management Services (PMS) is based on the press release by NSE, which in turn, is based on the website which was being developed by SBPL and taken down subsequent to SEBI's advisory. Further, they have stated that BSE wrongfully terminated the membership of SBPL based on NSE's erroneous press release and SBPL is exploring legal options to challenge the said order. The Entities have stated that no investments were made in securities and therefore, the allegation or finding that Entity no. 2 offered PMS is erroneous.

**10.4.2.** I note that BSE expelled SBPL as a trading member *vide* its order dated December 30, 2022 wherein *inter alia* the following was recorded.

- a. SBPL did not dispute the assured returns scheme i.e., MMFF program offered by it.
- b. SBPL submitted that the assured returns scheme was provided by its CEO, Mr. Venkata Tirumala. No credible action has been taken against its CEO despite serious nature of allegation except by filing an ambiguous complaint with the Police Station. The complaint filed with KPHB Police Station fails to list out specific misconduct committed by its CEO regarding assured returns scheme.
- c. SBPL informed that the directors decided to stop the assured returns activity in the month of January, 2022 and its CEO has resigned in the month of February, 2022; however, assured returns scheme continued thereafter as evident from material available on the internet and the press release dated July 12, 2022 issued by NSE.

**10.4.3.** In this regard, it is pertinent to note that the Interim Order *inter alia* alleges that the SBPL was operating a Ponzi scheme on the pretext of an assured returns scheme. As stated earlier, the *prima facie* conclusion of unauthorised money mobilisation by SBPL was based on a preliminary examination carried out by SEBI and not solely based on the press release/ reference of NSE or BSE Order. The Interim Order also explains the reason for the allegations levelled against the Entities substantiated with adequate supporting documents. Therefore, I find the submission of the Entities in this regard to be incorrect.

**10.4.4.** Further, I note that the limitation period for filing an appeal against the BSE order has expired almost 2 years ago and the said order has attained finality. Considering the submissions made by SBPL before BSE and that the limitation has expired, I am not inclined to accept the submission that SBPL is still exploring options to challenge the BSE order after almost 2 years.

**10.4.5.** The submissions of the Entities regarding the alleged illegal money mobilisation by SBPL have been dealt with in the subsequent paragraphs of this Order.

**B. Submissions on *prima facie* conclusions:**

**10.5. Unauthorised money mobilisation by SBPL**

**10.5.1. Ex-CEO responsible for the alleged infraction**

- a. The Entities have stated that MMFF program was conceived by its erstwhile CEO without the Board's approval. They have also stated that a complaint was filed against its ex-CEO. I note that during the course of SEBI's examination, SBPL submitted that its ex-CEO released the MMFF program without the Board approval. The same submission was made before BSE as well. As recorded in the Interim Order, the complaint filed against its ex-CEO was for allegedly defrauding the company by sharing valuable data and not for providing the assured return scheme i.e., MMFF program, without the authorisation of SBPL's Board. Accordingly, I do not find this

submission to carry any significance due to lack of any credible action against the ex-CEO for illegal money mobilisation.

- b.** The Entities have argued that SBPL's erstwhile CEO might have shared a draft of the PMS agreement with investors to elicit views and the agreement obtained by SEBI from Mr. Patil is an unsigned one. I note that as per the Examination Report, the unsigned PMS agreement dated November 02, 2021 between Mr. Patil and SBPL states that he had invested INR 5 lakh with SBPL under an assured return scheme of 48% per annum. In accordance with the said agreement, SBPL's bank account (7777XXX9202) shows receipt of INR 5 lakh from Mr. Patil. Further, as per the Examination Report, Mr. Patil had also stated that he received payment of monthly returns till his withdrawal. The terms of the PMS agreement when read with the bank account transaction and Mr. Patil's statement shows that the submission of the Entities in this regard is evidently incorrect.
- c.** The Entities have submitted that SBPL's bank account no. 7777XXX9202 with ICICI Bank was operated by its erstwhile CEO till he was removed. The Examination Report records that the SBPL raised money under the assured returns scheme at least till December 16, 2022 and as per the Entities own submission, its ex-CEO's services were terminated in March 2022. The Examination Report also records that another investor had shared a copy of a service agreement dated July 14, 2022 which was signed by one of the directors of SBPL. While SBPL has sought to place the blame for the infractions solely on its ex-CEO, the existence of a PMS agreement between SBPL and an investor, bearing the signature of one of SBPL's directors, entered into in the month of July 2022 (*i.e. after the termination of the CEO*) shows that this submission is patently erroneous.

**10.5.2. CCDs; and not Ponzi scheme**

- a.** The Entities have stated that the remarks made at the time of crediting funds into the account or while making payment cannot be the basis

to assume or infer that SBPL was offering PMS. They have also claimed SBPL had privately placed Compulsorily Convertible Redeemable Debentures ("CCD") to 198 investors to raise funds for its operations and terms "Capital Referral" and "Dividend Payout" were to denote Principal and interest payout made to the CCD holders.

- b.** During the course of personal hearing, the Entities were advised to provide the reasons for issuance of CCDs. In response, the Entities have stated that CCDs were issued to raise funds for expansion of SBPL's business and also submitted a copy of the Board Resolution authorizing the issue. On perusal of the Board Resolution, I note that the said resolution was passed on October 06, 2023 and a copy of the Debenture Certificate submitted before me was issued almost a year before the Board Resolution was passed i.e., on December 20, 2022. Based on SEBI's preliminary examination of the bank account no. 7777XXX9202, SBPL was observed to have collected money during the period from March 16, 2021 to October 26, 2022 i.e., since almost 2 years before the purported issuance of CCDs. These discrepancies and the failure of any of the investors contacted by SEBI to even mention their subscription to CCDs of SBPL cast a doubt on the veracity of the purported issuance of CCDs. On the other hand, the existence of a website advertising assured returns/ PMS (*claimed to have been taken down after SEBI advisory*), unsigned PMS agreements shared by investors and bank account transactions in line with the PMS agreement (transaction amounts, narrations such as "PMS", "Di" (*Dividend*) and "Re" (*Referral*) used) further strengthens the suspicion of illegal money mobilisation activity.
- c.** The Entities have also contended that two investors had stated that they had 'loaned' money to SBPL for which they received an interest pay out and the loan referred by them were the CCDs issued by SBPL. As recorded in the Interim Order, the two investors who had claimed to have provided loan to SBPL did not furnish any documentary evidence to support their claim. I also note that during

the course of examination, SBPL never claimed that these transactions were related to CCDs/ loans in any of its correspondences with SEBI. Although the said two investors had claimed that they had provided loans to SBPL albeit without providing any supporting documents evidence, two other investors, as mentioned above, had shared their PMS agreements (*unsigned*) with SBPL. I am not inclined to accept claims of CCD issuances which are not backed by documentary evidence.

- d. The Entities have claimed that SBPL was unable to utilize the funds raised through CCDs for expansion of its business and so it invested the funds in Debentures issued by its sister company, KPPL and later redeemed most of CCDs using internally accrued profit. Based on the SBPL's Bank account no. 7777XXX9202 statement, the preliminary examination *prima facie* found that the monies collected were utilized to either pay off dues of previous investors in MMFF scheme or to finance the activities of KPPL. The documentary evidence submitted by the Entities supporting their claim regarding issuance of CCDs was found to be inadequate for the reasons explained above. In the absence of any explanation or supporting document to explain the reason for receipt of funds from investors, I do not find any reason to differ with the *prima facie* conclusion that SBPL was fraudulently operating a Ponzi/ Multi-Level marketing scheme.

#### **10.6. False declarations**

- 10.6.1.** The Entities have submitted that at the time of application for registration as an AIF by Shares Bazaar AIF on October 12, 2022, no orders were passed by BSE against SBPL. They have also stated that the details regarding the notices issued by BSE were brought to the notice of its merchant banker and it failed to advise the Entities to disclose the same in the PPM.

- 10.6.2.** I note that as per the AIF Regulations, the primary responsibility to ensure that the information provided in the application for registration is

complete and true, is cast on the applicants. Therefore, the Entities cannot evade their responsibility by merely stating that they were not duly advised to do so.

**10.6.3.** The Entities have also stated that the email dated December 22, 2022 sent by SEBI advising to update the disciplinary history in the PPM was not received by them. I note that a copy of the impugned email dated December 22, 2022 was provided to the Entities during the inspection of documents. On perusal of the said email, it is evident that the said email was addressed to the Shares Bazaar AIF and its merchant banker. Even if the Entities had not received the said email, the Entities' declaration was signed on January 10, 2023 i.e. after the BSE Order was passed and therefore, their failure to disclose such material information which would have had a bearing on their application for registration as an AIF is not justified.

**10.6.4.** Further, as per the Entities' own submission, NSE had also issued a cease and desist order against SBPL in May 2022 which was followed by NSE's press release in July 2022 wherein investors were *inter alia* cautioned against the assured returns scheme purportedly offered by SBPL. These regulatory actions taken against SBPL were also not disclosed in the application which was filed on October 10, 2022 or in any subsequent communication with SEBI. This pattern of concealment of material information *prima facie* points to SBPL's dishonest and unethical conduct in obtaining registration as an AIF.

## **10.7. Fit and proper person criteria**

**10.7.1.** The Entities have submitted that till date, to the knowledge of Entity no. 2, no order has been passed by SEBI finding that Entity no. 2 is not a fit and proper person. I note that the criteria for determination of "fit and proper person" is laid down in Schedule II of the Intermediaries Regulations. In the instant proceedings, SBPL has been *prima facie* found to be not a fit and proper person on account of unauthorised money mobilisation and misrepresentation in obtaining AIF registration. Therefore, I find that this submission of the Entities to be misplaced.

**10.7.2.** The Entities have contended that at the time of submission of the Private Placement Memorandum for Entity no. 1, the Merchant Banker, SKI capital services Limited and Trustee of Entity no. 1 conducted their own due diligence and vide their declarations, certified that Entity no. 2 was a “Fit and Proper Person”. I note that at the stage of the Interim Order, directions were issued against the Entities to prevent raising money from investors by using the AIF registration which was obtained through misrepresentation. It is pertinent to clarify that appropriate action in accordance with the provisions of law will be initiated against every entity who is identified to have been a part of this misrepresentation. Therefore, I find that the failure of the merchant banker and the trustee of Shares Bazaar AIF to carry out proper due diligence does not impact the disqualification of SBPL as a “fit and proper person”.

**10.7.3.** The Entities have argued that no substantive evidence has been adduced to show that Entity no. 2 was not a “fit and proper person”. As discussed earlier in this Order, SBPL failed to disclose the regulatory actions taken against it, i.e., NSE’s cease and desist order, NSE’s press release, and BSE’s expulsion order, in the application for registration as an AIF or any subsequent correspondence. Instead they submitted false declarations stating that there were “*no supervisory or regulatory action against it in the previous 5 years*” and that “*no order was passed against it for violation of securities laws*”. Further, all these regulatory actions were taken against SBPL on account of money mobilisation by offering assured returns. As per SEBI’s preliminary examination, SBPL continued to engage in illegal money mobilisation activity even after submission of an undertaking to the contrary dated September 26, 2022 to SEBI. These actions and omissions casts a significant doubt on the integrity, honesty, ethical behaviour and character of SBPL. Therefore, I do not find any merit in this submission.

## **E. CONCLUSION**

**11.** The *Interim Order* was passed to prevent Shares Bazaar AIF from raising money from investors using a registration that was *prima facie* obtained through

misrepresentation and concealment of material information. In view of the reasons as discussed in the preceding paragraphs, I find that the submissions of the Entities are insufficient to refute the *prima facie* conclusions drawn against them in the Interim Order. Consequently, the findings in the Interim Order that SBPL is *prima facie* not a “fit and proper person”, and that the Entities obtained AIF registration through misrepresentation resulting in *prima facie* contravention of regulation 3(5) read with Form A, regulation 11(2) and 20(1) read with clause 1(c) of fourth schedule of the AIF Regulations, and regulation 4(f) of AIF Regulations read with clause 3(a) of the schedule II of the SEBI (Intermediaries) Regulations, 2008, stand confirmed.

**F. ORDER:**

- 12.** Considering the material on record, replies of the Entities and findings thereupon mentioned in the preceding paragraphs, pending investigation/ detailed examination/ enquiry, I, in exercise of the powers conferred upon me under Sections 11, 11(4) and 11B (1) read with Section 19 of the SEBI Act, hereby confirm the directions of the Interim Order dated February 01, 2024.
- 13.** The observations made in the present Order are tentative in nature and pending further investigation/ detailed examination/ enquiry. The investigation/ detailed examination/ enquiry shall be carried out without being influenced by any of the directions passed or any observation made either in the Interim Order or in the present Order. Based on the outcome of the investigation/ detailed examination/ enquiry, appropriate proceedings may be initiated in accordance with law.
- 14.** This Order is without prejudice to the right of SEBI to take any other action against Shares Bazaar AIF and/ or its Manager cum Sponsor i.e., Shares Bazaar Private Limited in accordance with law.
- 15.** This Order shall come into force with immediate effect.
- 16.** A copy of this Order shall be served upon Shares Bazaar AIF, Shares Bazaar Private Limited, Custodian of Shares Bazaar AIF – Orbis Financial Corporation

Limited, all the recognised Stock Exchanges and Depositories to ensure compliance with the above directions.

-Sd-

**ANANTH NARAYAN G.**

**DATE: OCTOBER 30, 2024**

**WHOLE TIME MEMBER**

**PLACE: MUMBAI**

**SECURITIES AND EXCHANGE BOARD OF INDIA**