BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

ADJUDICATION ORDER NO. Order/PM/PA/2023-24/26420-26424

UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND SECTION 23-I OF THE SECURITIES CONTRACTS (REGULATION) ACT, 1956 READ WITH RULE 5 OF THE SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995 AND RULE 5 OF THE SECURITIES CONTRACTS (REGULATION) (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 2005

In respect of:

Noticee No.	**Name of the Noticee**	**PAN**
1.	Krishna Hari G	ADEPG7798Q
2.	Srikrishna Gurazada	ALGPG8521K
3.	Sachin Agarwal	AGTPA9467C
4.	P Srinivasa Raju	AJDPR9360A
5.	V Mahesh	AEYPB4378J

In the matter of Karvy Stock Broking Ltd.

*(Noticees 1 to 5 are individually known by their respective name or Noticee no. and collectively referred to as the "**Noticees**")*

A. BACKGROUND

1. Karvy Stock Broking Ltd. (hereinafter referred to as "**KSBL**") is registered with Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") as a stockbroker with registration number INZ000172733. KSBL was a member registered with National Stock Exchange of India Ltd. (hereinafter referred to as "**NSE**") and BSE Ltd. (hereinafter referred to as "**BSE**") for its stock broking activities. KSBL was also registered as a depository participant (hereinafter referred to as "**DP**") with SEBI registration number IN-DP-CDSL-175-2015 and was a DP of National

Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

2. In March, 2019, NSE undertook an inspection of KSBL for the FY 2018-2019. During the said inspection, KSBL had declared that it had pledged around Rs 65 crores as on August 31, 2018 with banks/NBFCs against which an overdraft to the tune of Rs 32.28 crores was raised. Based on the submissions made by KSBL, it was observed by NSE that KSBL had raised excess funds amounting to Rs 90,835 for 9 clients, *i.e,* the clients did not have any obligation which warranted such funds to be raised by KSBL.

3. To examine the matter further, a limited purpose inspection was undertaken by NSE, covering a period from January 01, 2019 onwards. Pursuant to the said inspection, NSE submitted a preliminary inspection report dated November 22, 2019 (hereinafter referred to as "**NSE Preliminary Inspection Report**") wherein it had *inter alia* found that KSBL had pledged/misused clients' securities. Based on the NSE Preliminary Inspection Report submitted to SEBI, Whole Time Member of SEBI passed an *ex parte ad interim order* dated November 22, 2019 (hereinafter referred to as "**Interim Order**"). Post discussions with SEBI, it was decided to appoint Ernst & Young, LLP, India (hereinafter referred to as "**EY**") as a forensic auditor for the review period April 01, 2016 to September 30, 2019. EY submitted its forensic audit report (hereinafter referred to as "**FAR**") dated January 09, 2020. *Vide* order dated November 24, 2020, WTM confirmed the directions issued under the Interim Order (hereinafter referred to as "**Confirmatory Order**"). Thereafter, *vide* order dated November 23, 2020 (hereinafter referred to as "**NSE Final Order**"), the Member and Core Settlement Guarantee Fund Committee of NSE expelled KSBL from the membership of the exchange and declared it as a defaulter with immediate effect.

4. In view of the above, the competent authority of SEBI approved initiation of adjudication proceedings *inter alia* against the key persons of KSBL who allegedly contributed/colluded with KSBL in its wrongdoings as detailed in paragraph 7 below.

B. APPOINTMENT OF ADJUDICATING OFFICER

5. As noted above, SEBI initiated adjudication proceedings against the Noticees and appointed the undersigned as the adjudicating officer *vide* order dated February 08, 2021 under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**SEBI Act**") and rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as the "**SEBI Adjudication Rules**") and section 23-I of Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as "**SCR Act**") and rule 3 of the Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter referred to as the "**SCRA Adjudication Rules**") read with section 19 of SEBI Act to inquire into and adjudge under sections 15HA and 15HB of the SEBI Act and sections 23D and 23H of the SCR Act for the alleged violations detailed in paragraph 7 below.

C. SHOW CAUSE NOTICE, REPLY AND HEARING

6. A common show cause notice (hereinafter referred to as "**SCN**") bearing reference no. EAD/PM/NJMR/19494/1/2021 dated August 13, 2021 was issued to the Noticees under rule 4 of the SEBI Adjudication Rules and rule 4 of SCRA Adjudication Rules to show cause as to why an inquiry should not be held against them and penalty should not be imposed for the violations alleged to have been committed by them as detailed in paragraph 7 below. I note that the SCN was duly served on the Noticees.

7. The allegations levelled in the SCN have been summarized hereunder:

7.1. <u>Funds raised by pledging clients' securities</u>

(i) FAR observed that month-on-month borrowings availed through various credit facilities were being shared by the treasury team of KSBL to Noticee 1 on email. Further, it was observed that treasury team would instruct the operations team on the fund requirements on the basis of daily liquidity/cash flow position, basis which the operational team used to identify securities to be pledged for availing loan against securities (hereinafter referred to as "**LAS**"). The securities so pledged were decided randomly.

(ii) It was also observed that KSBL had an outstanding LAS facility of Rs 789.41 crores in September 2016 with the overall borrowings being Rs 1,051.36 crores as on that date. The overall borrowings of KSBL increased from Rs 1,051.36 crores as on September 30, 2016 to Rs 2,032.67 crores as on September 30, 2019.

(iii) Pledging of securities by KSBL was increased substantially from Rs 202 crores (value of securities as on June 30, 2017) to Rs 1,855 crores by March 31, 2018 and was increased further to Rs 2,700 crores by September 30, 2019.

(iv) KSBL explained to EY that the clients' securities were pledged even in case of clients who had no negative balance (zero or credit balances). These securities were transferred to KSBL margin/ beneficiary account with or without consent being taken from clients. KSBL could not provide any evidence of any consent being taken from any client to pledge their securities to EY. Stock lending and borrowing mechanism of the stock exchanges was not followed by KSBL in order to borrow stocks from the clients. FAR observed that securities of clients having credit balance were also pledged. Sample cases where securities of clients having credit balances were pledged are tabulated below:

Table 1

No. of days since last trade in clients' account	No. of clients having credit balance as on September 05, 2019	Value of securities in holding (Rs Crore)
<=30	35,532	480
31 to < =90	24,138	248
91 to <=180	13,113	94
181 to <=360	10,254	102
361 to <=720	3,001	60
> 720	294	30
Total	**86,332**	**1,014**

(v) As on September 05, 2019, FAR observed that at least 75% of the total quantity in client holding was pledged by KSBL even when the clients were having credit balance on that date. Further, 58% of clients holding at least 52% of value of securities that were pledged did not trade for more than one month.

(vi) In this regard, SEBI circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019 (hereinafter referred to as "**SEBI June 2019 Circular**") read with SEBI circular no. SEBI/HO/MIRSD/DOP/CIR/P/2019/95 dated August 29, 2019 (hereinafter referred to as "**SEBI August 2019 Circular**") *inter alia* provides that clients securities lying with the trading member/clearing member in "client collateral account", "client margin trading securities account" and "client unpaid securities account" cannot be pledged to the banks/NBFCs for raising funds, even with authorization by client beyond September 30, 2019. However, FAR observed that as on September 11, 2019, KSBL has pledged clients' securities to the extent of Rs 2,873.82 crores beyond September 30, 2019, which is in violation of the aforesaid circulars.

7.2. <u>Borrowings *vis-à-vis* transfers to group companies in FY 2019-20 and transactions with group companies identified through bank books</u>

(i) From the balance sheet as on March 31, 2019 (audited financials) and September 30, 2019 (unaudited financials), it was observed that loans from banks/NBFCs increased from Rs 500.77 crores as on March 31, 2019 to Rs 2,032.67 crores on September 30, 2019. Details are tabulated below:

Table 2

		Figures in Rs and crores
Particulars	**March 31, 2019**	**September 30, 2019**
Loan against securities	26.11	786.93
Other borrowings	474.66	1,245.74
Total	**500.77**	**2,032.67**

(ii) FAR also noted that out of additional borrowings of Rs 1,531.90 crores during the period April 01, 2019 to September 30, 2019, Rs 1,228.36 crores were given as loan/ advances/investments in group companies (Rs 428.36 crores as advances for investment in subsidiaries and Rs 800 crores towards loans/receivables from subsidiaries).

(iii) FAR further observed that as on September 11, 2019, total value of securities pledged was Rs 2,873 crores. Against this, loans of Rs 851.43 crores were raised from 8 banks/NBFCs.

(iv) FAR observed that net amount of approximately Rs 1,120 crores was transferred from KSBL to its various group companies. NSE also identified that KSBL had shortfall of funds to the tune of Rs 402 crores and securities (valuation) to the tune of Rs 157 crores as on November 17, 2020.

(v) The funds and securities were allegedly used for funding of trading of other clients and/or transferred to group companies. The following table represents the summary of these net transfers:

Table 3

	Figures in Rs and Crores – Inflow / (Outflows)				
Name of the group company Name	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**Total**
Karvy Realty India Limited	(86.63)	(235.49)	(109.74)	(662.33)	(1,094.19)
Karvy Capital Limited	(164.80)	(70.82)	(144.69)	31.55	(348.76)
Karvy Forex & Currency Private Limited	(5.67)	0.01	0.51	0.24	(4.92)
Karvy Middle East LLC	-	(2.17)	-	-	(2.17)
Karvy Investment Advisory Services Limited	0.01	(0.75)	-	-	(0.74)
Karvy Inc	(0.33)	-	-	-	(0.33)
Karvy Renewable Energy Projects Limited	-	-	(0.20)	0.01	(0.19)
Karvy Asia Pacific Pte Limited	-	(0.05)	-	-	(0.05)
Karvy Insurance Repository Limited	0.01	-	0.01	0.01	0.04
Karvy Investor Services Limited	(0.53)	0.63	0.46	0.34	0.89
Karvy Holdings Limited	15.82	(1.04)	22.06	(35.85)	0.98

	Figures in Rs and Crores – Inflow / (Outflows)				
Name of the group company Name	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**Total**
Karvy Private Wealth LLC Dubai	0.19	0.60	0.20	0.01	1.00
Karvy Comtrade Limited	3.84	4.17	3.56	1.46	13.03
Karvy Consultants Limited	7.90	31.67	11.48	0.27	51.31
Karvy Financial Services Limited	(25.74)	59.48	56.66	(1.33)	89.07
Karvy Data Management Services Limited (KDMSL)	22.27	37.86	167.48	(54.00)	173.61
Total	**(233.67)**	**(175.90)**	**7.78**	**(719.62)**	**(1,121.41)**

(vi) From the above, it was observed that net outflow of funds to the tune of Rs 1,443 crores was made by KSBL to two of its group companies namely, Karvy Realty India Ltd., and Karvy Capital Ltd., Thereby, these two group companies aided and abetted KSBL in misappropriating funds which was raised by KSBL by pledging clients' securities and/or shortfall of funds and securities.

(vii) It was observed that KSBL has not segregated funds and securities of its clients, which is violation of section 23D of SCR Act read with SEBI circulars nos. SMD/SED/CIR/93/23321 dated November 18, 1993 (hereinafter referred to as "**SEBI 1993 Circular**"), SEBI/HO/MIRSD/MIRSD2/CIR//P/2016/95 dated September 26, 2016 (hereinafter referred to as "**SEBI Enhanced Supervision Circular") and** CIR/HO/MIRSD/MIRSD2/CIR/P/201764 dated June 22, 2017.

7.3. Findings of NSE Preliminary Inspection Report

(i) It was observed that KSBL did not report the DP account no. 11458979, named KARVY STOCK BROKING LTD (BSE) in the filings made by it from January, 2019 to August, 2019. The said account was observed to be categorised as beneficiary client and was opened on December 20, 2000.

(ii) It was observed that KSBL had credited the funds raised by pledging clients' securities to 6 of its own bank accounts (*i.e*, stock broker-own account) instead of stock broker-client account and further has not reported these 6 own bank accounts (stock broker-own account) to exchange which is required to be reported under the provisions of SEBI Enhanced Supervision Circular. The details of the aforesaid 6 accounts are as follows:

Table 4

Sl. No.	Bank name	Bank account no.
1.	HDFC Bank Ltd.	210130000134
2.	ICICI Bank Ltd.	405034104
3.	IndusInd Bank Ltd.	606014011496
4.	Axis Bank Ltd.	916030054913843
5.	Kotak Mahindra Bank Ltd.	11210382
6.	HDFC Bank Ltd.	00210140000014

It was observed that the securities lying in the DP account no. 11458979 of KSBL, actually belonged to the clients who are the legitimate owners of the pledged securities.

(iii) It was observed that KSBL had sold excess securities (securities not available in its DP account) to the tune of Rs 485 crores through 9 related clients till May 31, 2019. Further, KSBL also transferred excess securities to 6 out of these 9 related clients to the tune of Rs 162 crores till May 31, 2019. On subsequent verification, it was observed that securities worth Rs 257.08 crores were pledged on behalf of 4 clients out of the aforesaid 9 clients, were unpledged during June 01, 2019 to August 22, 2019 and securities worth Rs 217.85 crores were recovered by KSBL from 4 out of the said 9 client accounts. KSBL has also purchased securities in 5 out of the respective 9 client accounts amounting to Rs 228.07 crores during the period from June 01, 2019 to September 08, 2019. The details of the 9 clients are as under:

Table 5

#	Client PAN	Client Code	Client Name	Relation with KSBL
1.	AAACK4247L	306184	Karvy Consultants Ltd.	Direct subsidiary.
2.	AAACW4200H	A020091	Wizard Insurance Services Pvt. Ltd.	Having common email IDs under the domain name of karvy.com and having common addresses in the UCC records.
3.	AAACZ1892J	A020004	Zenith Insurance Services Private Ltd.	
4.	AABCB8927H	A020005	Buoyant Insurance Services Pvt. Ltd.	

#	Client PAN	Client Code	Client Name	Relation with KSBL
5.	AABCN5526A	A08002	Nova Wealth Management Services Pvt. Ltd.	
6.	AABCV4837C	HBH5691	Vitalink Wealth Advisory Services Pvt. Ltd.	
7.	AACCC0267C	A020002	Classic Wealth Management Services Pvt. Ltd.	
8.	AACCC2342L	A020006	Champion Insurance Services Pvt. Ltd.	
9.	AACCP6255D	A0200098	Pelicon Wealth Advisory Services Pvt. Ltd.	

(iv) KSBL has transferred securities worth Rs 27.8 crores, off-market, from the beneficial owner accounts of 156 clients who have not executed a single trade with them. Further, securities worth Rs 116.3 crores were observed to have been transferred from 291 clients who have not traded with KSBL since June 01, 2019.

(v) *Prima facie* a net amount of Rs 1,096 crores was observed to be transferred by KSBL to its group company *i.e.,* Karvy Realty Private Limited from April 01, 2016 to October 19, 2019.

(vi) Basis the above, it was alleged that KSBL has violated the provisions of SEBI 1993 Circular and clauses A(1) and A(3) of the Code of Conduct prescribed for stock brokers under Regulation 9 of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 (hereinafter referred to as "**Stock Broker Regulations**").

7.4. Findings of NSE Final Order

In addition to the observations in the FAR, NSE has observed certain other violations in NSE Final Order as provided below:

(i) Misappropriation of securities of other clients for meeting the obligation of 9 clients amounting to Rs 484.56 crores;

(ii) Non-availability of client funds to the tune of Rs 67.58 crore as on September 24, 2019. The shortfall had further increased to Rs 319 crores (which was claimed by KSBL as part of available funds). The said funds were subsequently observed to be not free and unencumbered based on letter from Union Bank of India dated November 29, 2019;

(iii) Non-settlement of funds for 1,17,318 clients who have not traded for more than 3 months amounting to Rs 78.86 crores as on November 22, 2019 and non-settlement of securities of 81,119 clients who have not traded for more than 3 months amounting to Rs 827.93 crores as on November 22, 2019;

(iv) Incorrect submission of data under SEBI Enhanced Supervision Circular;

(v) Negative networth of Rs. 1,388.08 crores as on September 30, 2019 after considering loans and advances to group companies/ associates.

7.5. <u>Further examination by NSE</u>

(i) <u>Funding of debit balance clients</u>

(a) NSE further examined and identified clients' securities and mapped the same with a specific demat account (for example: client beneficiary/margin/collateral/pledge account, *etc.*), fully paid and partly/unpaid clients, total shortfall of funds and securities and respective clients to whom the shortfall of funds and securities pertains.

(b) NSE carried out examination of funding by KSBL to its clients for further exposure when debit balances arise. It was observed that KSBL has funded its clients for trading and the average funded amount to the 13 clients (out of sample of top 25 debit balance clients) was in the range of Rs 21 lakhs to Rs 24 crores, during April 01, 2018 to November 05, 2020, the details of which are tabulated below:

Table 6

#	Client code	Client name	Highest funded amount (Rs)	Lowest funded amount (Rs)	Average funded amount (Rs)
1	306615	Vijay Chimandas Jhammani	7,16,13,653	1,57,53,186	5,78,56,707
2	306621	Neeta Vijay Kumar Jhamnani	18,30,87,604	1,90,712	5,08,19,347
3	307413	Kanchan Mandhana	26,90,748	18,03,428	21,84,780
4	316V0255	Vinod Kumar Poddar	2,19,07,577	40,20,935	1,37,14,554
5	A020002	Classic Wealth Management Services Private Ltd	35,82,18,078	45,55,808	12,13,05,782
6	A020004	Zenith Insurance Services Private Limited	38,30,47,860	6,30,41,430	23,84,45,773
7	A020005	Buoyant Insurance Services Private Limited	24,22,04,594	77,41,874	7,37,75,491
8	A0200098	Pelican Wealth Advisory Services Private Limited	10,37,25,546	10,93,022	4,46,24,384
9	A020091	Wizard Insurance Services P Ltd	27,13,98,170	2,78,43,084	8,23,80,412
10	A45073048	Nishant Singh	30,57,50,586	6,05,43,452	24,70,66,683
11	A45073052	Pankaj Dobhal	2,35,18,028	97,41,196	1,84,27,493
12	HBH5691	Vitalink Wealth Advisory Services Private Limited	34,33,18,880	9,14,317	8,69,77,560
13	KM10004549	Devendra Kumar Sharma	9,71,84,983	49,38,901	3,56,61,690

(c) It was observed that the aforesaid funding of debit balance clients allegedly violated clause 2.6 of annexure to the SEBI Enhanced Supervision Circular.

(ii) <u>Non settlement of client funds and securities by KSBL</u>

(a) During the period from November 22, 2019 to November 22, 2020, funds of 2,32,323 clients aggregating to Rs 125.20 crores and securities of 1,57,769 clients aggregating to value of Rs 2,345.82 crores were settled.

(b) As on November 22, 2020, the total outstanding funds and securities of 95,961 clients to be settled by KSBL was Rs 402 crores and Rs 457.65 crores (valuation of securities) respectively.

(c) The details of funds and securities of its clients not settled by KSBL as on November 22, 2019 is tabulated below:

Table 7

Particulars	Number of clients	Value of funds (In Rs and crores)	Value of securities (In Rs and crores)
Clients with only securities	47,502.00	-	317.81
Clients with only funds	1,37,232.00	217.16	-
Clients with both funds & securities	1,34,099.00	310.02	2,544.24
Total	**3,18,833.00**	**527.18**	**2,862.05**

(d) In view of the above, it is observed that KSBL has violated the provisions of SEBI circular bearing no. MIRSD/SE/Cir-19/2009 dated December 03, 2009 (hereinafter referred to as "**SEBI 2009 Circular**").

7.6. Role of Noticees

(i) The FAR observes that based on emails, Noticee 1 (Chief Financial Officer), Noticee 2 (Compliance Officer), Noticee 3 (Finance Head), Noticee 4 (Back Office Operations Head) and Noticee 5 (Chief Executive Officer of Karvy Data Management Services Limited), as well as several others from the treasury team were updated on the dealings with banks/NBFCs on the pledging of securities and LAS facilities availed against it.

(ii) It was alleged that due to the involvement of Noticees in affairs of KSBL, they had violated regulation 4(1) and 4(2)(m) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**") read with section 27 of SEBI Act.

8. During the course of proceedings, certain additional material with respect to role of Noticee 1 and Noticee 5 was brought to the notice of the undersigned. Accordingly, in line with principles of natural justice, the necessary additional material was forwarded to them *vide* letter and email dated December 16, 2022 (hereinafter referred to as "**SSCN**"). The details of such additional material are elaborated hereunder.

    (i) Credit facility sanction letter dated April 10, 2019 issued by Axis Bank Ltd. to KSBL signed by Krishna Hari G.

    (ii) Asset power sanction letter dated January 10, 2019 issued by Axis Bank Ltd. to KSBL signed by Krishna Hari G.

    (iii) Renewal of credit limits letter dated March 25, 2019 issued by IndusInd Bank Ltd. to KSBL signed by Krishna Hari G.

    (iv) Credit renewal arrangement letter dated September 25, 2019 issued by ICICI Bank Ltd. to KSBL signed by V Mahesh.

    (v) Loan agreement dated January 10, 2019 signed between KSBL and Axis Bank Ltd signed by Krishna Hari G.

    (vi) Memorandum recording past transactions of creation of mortgage by delivery of title deeds dated October 25, 2017 entered between KSBL and HDFC Bank Ltd. signed by Krishna Hari G.

    (vii) Deed of hypothecation dated October 01, 2019 entered between KSBL and ICICI Bank Ltd. signed by V Mahesh.

(viii) Agreement for accepting deposits as margin for L.C/Guarantee limits dated May 08, 2019 entered between KSBL and IndusInd Bank Ltd. signed by Krishna Hari G.

(ix) Supplemental deed of hypothecation dated March 15, 2019 entered between KSBL and HDFC Bank Ltd. signed by Krishna Hari G.

(x) Annual return of KSBL (MGT-7) filed for FY 2017-2018 wherein Krishna Hari G has been named as a CFO.

(xi) Annual return of KSBL (MGT-7) filed for FY 2018-2019 wherein Krishna Hari G has been named as a CFO.

(xii) Minutes of board meeting of KSBL held on December 04, 2018, November 06, 2018, September 29, 2019, January 30, 2019, and September 28, 2019 wherein Krishna Hari G and V Mahesh are present.

(xiii) Director details of V Mahesh downloaded from MCA.

9. The replies recieved from the Noticees, hearing opportunities given to them, and adjournments sought are tabulated below:

Table 8

Noticee	**Hearing opportunities granted and status**	**Reply submitted**
Krishna Hari G (Noticee 1)	Hearing opportunity was granted on June 13, 2022 by letter dated May 30, 2022. The said letter was delivered at the address where SCN was served, however, Notice 1 did not avail the hearing opportunity. Hearing opportunity was granted on June 29, 2022 vide email at "GKHARI1809@GMAIL.COM" and by letter dated June 22, 2022. The said email and letter were delivered. However, Noticee 1 did not avail the hearing opportunity. Hearing opportunity was granted on July 13, 2022 *vide* email and letter dated July 04, 2022 to Superintendent of Police, Chanchalguda Central Jail, Hyderabad on receiving information that Noticee 1 is lodged in the said jail. *Vide* email sent on July 13, 2022, Noticee 1 requested for 1 month to submit reply. Thereafter, Noticee 1 sought extension to submit reply *vide* emails on July 21, 2022, July 24, 2022, August 19, 2022, August 23, 2022, September 05, 2022.	Yes. Reply submitted vide emails sent on October 14, 2022 and December 29, 2022.

Noticee	Hearing opportunities granted and status	Reply submitted
	Noticee 1 appeared before the undersigned through Cisco Webex on September 26, 2022, wherein authorized representative of Noticee 1 requested for time till October 06, 2022 to submit a reply. *Vide* email on October 10, 2022, authorized representative of Noticee 1 requested for additional 10 days to submit reply. Noticee 1 appeared before me again on October 17, 2022 through Cisco Webex, wherein his authorized representatives reiterated the submissions made vide email sent on October 14, 2022 and stated that they do not wish to submit any additional submissions with respect to Noticee 1.	
Srikrishna Gurazada (Noticee 2)	Hearing opportunity was granted on June 06, 2022 vide email sent on May 27, 2022. The said email was delivered. However, Noticee 2 did not avail the hearing opportunity. Hearing opportunity was granted on June 29, 2022 vide email on June 21, 2022 and by letter dated June 21, 2022. The said email and letter were delivered. However, Noticee 2 did not avail the hearing oppotunity. Vide email sent on June 30, 2022, Noticee 2 requested for 30 days time to submit his reply to the SCN. Noticee 2 was granted time till July 07, 2022 to submit his reply and a hearing was scheduled on July 08, 2022. Noticee 2 requested for additional 3 weeks' time to submit reply to the SCN *vide* his email on July 06, 2022. Another hearing opportunity was granted to the Noticee on July 19, 2022 vide email sent on July 07, 2022. *Vide* email on July 16, 2022, Noticee 2 waived personal hearing opportunity granted to him.	Yes. Reply received *vide* email on July 16, 2022.
Sachin Agarwal (Noticee 3)	Hearing opportunity was granted on June 13, 2022 by letter dated May 30, 2022 which was sent to the same address at which the SCN was delivered. The hearing notice was delivered. However, Noticee 3 did not avail the hearing opportunity. Hearing was granted on June 29, 2022 vide letter dated June 21, 2022 and email sent on June 22, 2022. The said letter and email were delivered. Vide email sent on June 28, 2022, wife of Noticee 3 responded that Noticee 3 has passed away on April 21, 2021.	Yes. Reply submitted by spouse of Noticee 3 vide email sent on June 28, 2022.
P Srinivasa Raju (Noticee 4)	Hearing opportunity was granted on June 06, 2022, which was delivered vide email on May 27, 2022. Noticee 4 responded *vide* email on June 06, 2022 requesting additional time period of 4 weeks. Hearing opportunity was granted on June 29, 2022 vide email on June 21, 2022 and by letter dated June 21, 2022. The said email and letter were delivered. However, Noticee 4 did not avail the hearing oppotunity. Vide email sent on June 30, 2022, Noticee 2 requested for 30 days time to submit his reply to the SCN. Noticee 4 was granted time till July 07, 2022 to submit his reply and a hearing was scheduled on July 08, 2022. Noticee 4 requested for additional time to submit reply to the SCN vide his email on July 06, 2022.	Yes. Reply received *vide* email on July 17, 2022.

Noticee	Hearing opportunities granted and status	Reply submitted
	Another hearing opportunity was granted to the Noticee on July 19, 2022 vide email sent on July 07, 2022. Vide email on July 17, 2022, Noticee 4 waived personal hearing opportunity granted to him.	
V Mahesh (Noticee 5)	Hearing opportunity was granted on June 06, 2022 vide email sent on May 27, 2022. The said email was delivered, however, Noticee 5 did not avail the said hearing opportunity. Vide email sent on June 06, 2022, Noticee 5 requested for an extension on account of ill-health. Hearing opportunity was granted on June 29, 2022 vide email sent on June 22, 2022. Noticee 5 availed the said hearing on June 30, 2022, and requested two days to make additional submissions.	Yes. Reply received *vide* emails sent on June 09, 2022, July 04, 2022 and February 07, 2023.

10. Replies of Noticee 1 are summarized hereunder:

10.1 KSBL is a closely held, promoter driven public limited company, having its registered office at Hyderabad, Telangana. Mr. C Parthasarathy is Chairman and Managing Director (CMD) of KSBL. KSBL was engaged in the businesses of: (i) stock broking, (ii) distribution of financial products, (iii) wealth management services; and (iv) currency derivatives.

10.2 The career trajectory of Noticee 1 in KSBL is outlined below:

(i) Joined KSBL in December, 1996 as Manager (F&A) in Karvy Depository Services, one of the business divisions of Karvy Consultants Limited, and was given responsibility of maintenance of books of accounts and to report the financial performance of the said business division.

(ii) In 1999, was transferred to central finance & accounts department of KSBL and promoted as Senior Manager (F&A) and was given responsibility of handling the accounts payable (creditors for expenses) of KSBL.

(iii) In 2001, got promoted as Assistant General Manager (F&A), and handled the preparation of financial statements/results of KSBL.

(iv) In 2003, was offered to handle the management accounts and information system, to report the financial performance of various business divisions of KSBL.

(v) In 2004 got promoted as Deputy General Manager (F&A) and General Manager (F&A) in the year 2006.

(vi) In 2011, was promoted as head of corporate finance and accounts department of KSBL, designated as Vice President (F&A) (hereinafter referred to as "**VP (F&A)**"). Noticee 1 used to report to Mr. C Parthasarathy, CMD of KSBL.

(vii) Noticee 1 superannuated in 2015, however, he was given extension of two years.

(viii) In September 2017, on attaining age of 60 years, Noticee 1 requested Mr. C Parthasarathy to relieve him from duties. However, he was asked to continue as Mr. C. Parthasarathy wanted him to assist in raising funds. Due to his health condition and serious health problems of his father-in-law, Noticee 1 resigned from the services in September 2019.

10.3 It has been alleged in the SCN that Noticee 1 was CFO of KSBL, however, official designation of Noticee 1 was VP (F&A). The exact nature of his duties were as follows:

(i) Managing finance and accounting activities of KSBL;

(ii) Ensuring preparation and reporting financial results of KSBL on monthly and yearly basis, ensuring preparation of consolidated financial results on yearly basis and completion of statutory audit;

(iii) Developing financial systems and procedures aligned with KSBL's business strategy;

(iv) Overseeing accounting and finance processes to ensure their accuracy as well as complying with accounting principles and company policy;

(v) Advising and assisting with the preparation of company business plans especially with regard to forecasts and budgets;

(vi) Maintaining company cash flow monitoring for fixed asset purchases, general ledger expenses, creditors for expenses, repayment of loans and interest on borrowings etc.

(vii) Management accounts and information system -- reporting business wise, region-wise/branch-wise performance reports;

(viii) Manage and ensure compliance of income tax and GST matters of KSBL;

(ix) Assisting CMD in fund raising activities through private equity investment and banking, especially in preparation of financial budgets and forecasting.

10.4 The corporate finance and accounts department of KSBL, was maintaining financial books of accounts consisting of fixed assets, investments in subsidiary companies, borrowings, company level current assets and current liabilities and general ledger expenses in SAP (financial accounting software) and was preparing and reporting the financial results of KSBL to CMD as per the provisions of Companies Act, 2013. Stock broking business division of KSBL was responsible for acquiring clients, opening trading accounts for clients, verification of KYCs of clients while opening trading accounts and demat accounts, creating client IDs, maintaining/managing client ledgers, trading in stocks as per the requests/orders of clients, settlement of securities to/from clients, meeting exchanges' pay-in and pay-out obligations, collection from client receivables and payments to client creditors, compliances of regulations by furnishing periodical reports to regulators, handling and managing the inspections conducted by SEBI, stock exchanges and depository participants on periodical basis. Whereas the stock broking business division had to maintain the books of accounts/records of the stock broking business division as per the regulations/reporting requirements of SEBI, stock exchanges and depository participants.

10.5 The functions of operations (back office) department were centralized at head office, Hyderabad and the books of accounts were maintained in a separate software application "PRAGNYA". The books of accounts consist of clients (customers) accounts/ledgers, clients' securities in demat accounts, client bank accounts, receipts from clients & payments to clients through client bank accounts, exchange settlement bank accounts for meeting the exchanges pay-in and pay-out obligations, deposits with exchanges, exchange related expenses, brokerage income and related expenses, GST/stamp duty/ STT payable and payment of the said liabilities etc. For the purpose of annual closure of accounts, the books of accounts of stock broking business used to be audited by statutory auditors of KSBL *i.e.,* 'KPMG', at the end of every year. Operation (back office) division of stock broking business used to provide all the information required by KPMG and assisted them in all respects, for completing the audit of books of accounts of the business division managed in 'PRAGNYA'. Upon completion of said audit, a 'trial balance' from 'PRAGNYA' was generated and provided to corporate finance & accounts, for incorporating the same in the 'financial books', maintained in SAP (finance accounting software). The corporate finance and accounts department prepared financial statements/results of KSBL duly incorporating 'back office trial balance' and provided the same to KPMG for the purpose of annual audit. After completion of the audit, the audited accounts of KSBL used to be submitted to CMD and the board of KSBL.

10.6 Further, the books of accounts of broking business division used to be inspected, periodically, by SEBI and stock exchanges. The said inspections were handled by the business head and operations (back office) department head of stock broking business. The staff of corporate finance & accounts or Noticee 1 never participated in the inspections conducted by regulators or interacted with the inspecting team.

10.7 Based on the instructions of operations (back office) department, the payments to clients/customers used to be processed by the treasury department of broking business division. Treasury department is part of broking business division to manage the client funds. The activities of the broking business were wholly and exclusively handled, supervised and managed by stock broking business division.

10.8 There was clear demarcation of the duties and responsibilities of corporate finance & accounts and business divisions. The staff/team of corporate finance & accounts department is different from that of the staff/team of business divisions of KSBL.

10.9 With regard to allegation in paragraph 3(b) of the SCN, Noticee 1 was promoted as VP (F&A) of KSBL during 2011 and the borrowings from HDFC Bank were existing since 2003, many years prior to Noticee 1 being promoted as VP (F&A). The business division was responsible to report the compliance of regulations of SEBI/stock exchanges and Noticee 1 was not responsible for any data provided to stock exchange under the enhanced supervision provisions as stipulated under SEBI circular, therefore, Noticee 1 has not violated SEBI Enhanced Supervision Circular.

10.10 With regard to allegation contained in paragraph 3(c) of the SCN, securities of clients in DP accounts were under the control of stock broking business division. The shares were identified and pledged by stock broking business division of KSBL. Noticee 1 was not responsible for handling any of the clients' securities, therefore, the allegation that he might have created pledge on their securities and generated funds is based on mere surmises. No documentary evidence has been provided to show that he has signed any of the document which resulted in creation of pledge.

10.11 With regard to allegation in paragraph 3(d) of the SCN,

(a) Buying and selling of securities on behalf of the clients was the business activity of stock broking business division of KSBL. Noticee 1 had no knowledge about the sale of excess securities, transfer of excess securities, pledging and unpledging of the securities and purchase of securities in 9 related clients. Noticee 1 came to know through FAR about the written submissions by Mr. Rajiv Ranjan Singh to EY on December 20, 2019, in which it was alleged that Noticee 1 had given 6 client codes in 2014-15 followed by another 3 client codes in 2018 to increase the turnover and market share. The above allegations made against Noticee 1 are totally false, baseless and misleading. Noticee 1 did not manage finance & accounts of these 9 entities. Mr. Rajiv Ranjan Singh, CEO, stock broking business was fully responsible for purchasing and selling of securities in these 9 entities. Further, EY did not seek any clarification from Noticee 1, for allegations made against him by Mr. Rajiv Ranjan Singh. This is in gross violation of principles of natural justice, equity and fair play since Noticee 1 has not been given any chance to rebut the presumption at the time of investigation and SCN has been directly issued against him.

(b) Further, the said 9 entities were floated by Karvy group in the year 2003, to obtain licenses as corporate agents for the purpose of marketing insurance products of various insurance companies. While registering the said companies with RoC, name of Noticee 1 was given as one of the directors, without his knowledge/acceptance. When he enquired about inclusion of his name as one of the directors in the said entities, he was informed to continue for some time, and they would affect the change as soon as possible. Noticee 1 was never involved in the business activities of these companies, did not receive any remuneration/compensation/fees or any kind of monetary or non-monetary benefits for being the director in 7 entities out of these 9 entities.

(c) After carrying out the insurance business for almost two years, the licences of these companies were withdrawn due to the fact that IRDAI published insurance broker regulations for corporate, enabling Karvy group to apply and obtain licence for corporate insurance broker to market insurance products of multiple insurance companies with a single corporate broker licence. These insurance companies were continued for the purpose of receiving the renewal commission on the insurance policies procured by them in the past. Noticee 1 resigned as a director in the said 7 entities in 2011-12. In any case, Noticee 1 cannot be held responsible for any activity carried out by them after 2011-12 *i.e.,* when Noticee 1 resigned. Therefore, any violation alleged against these companies cannot be fastened upon Noticee 1.

In view of the above, Noticee 1 denies that he has violated SEBI 1993 Circular and clauses A (1), A (2), A (3), A (4) & A (5) of Code of Conduct as provided under Schedule II read with Regulation 9 of the Stock Brokers Regulations.

10.12 With regard to allegation contained in paragraph 3(e) and 3(g) of the SCN, Noticee 1 was not responsible for the operations of stock broking business. The sale of excess securities to the tune of Rs. 485 crores through 9 related clients took place in May 2019 and Noticee 1 had already resigned from these entities way back in 2011-12. Hence, Noticee 1 cannot be held liable for any violation of any provision carried out by them after he resigned.

10.13 With regard to allegation contained in paragraph 5 of the SCN, the details of month-on-month borrowings were being shared by treasury team of KSBL, for the purpose of accounting and reporting the same in financial results, which were prepared and submitted to Mr. C. Parthasarathy, CMD on periodical basis. The borrowings were being availed by KSBL from HDFC Bank since 2003-04, prior to Noticee 1 being promoted as VP (F&A). C. Parthasarathy used to assure that he is in talks with prospective investors who are willing to purchase KSBL's parent company's stake in subsidiary companies, so as to enable raise the funds by KSBL and the said funds will be used to repay the debts.

10.14 With regard to allegation contained in paragraphs 6 to 9, 18 and 19 of the SCN, the area was completely looked after by stock broking business division. Noticee 1 had no role in pledging the clients' securities. There was a strict chinese wall between his department and stock broking business division and only limited information on need-to-know basis was being shared. Hence, as a VP (F&A), though Noticee 1 was aware of the overall position, he was never aware of all the transactions taking place in stock broking business division. The information regarding loan taken was being shared with Noticee 1 for purpose of accounting. The books of accounts of stock broking business division were maintained separately as per the regulations of SEBI and stock exchanges, by the operations (back office) department of stock broking business division.

10.15 The clients' securities were handled and managed by operations (back office) department of the stock broking business division. The business division was responsible to make settlement of 'securities pay-in obligation' to exchanges as well as 'securities pay-out obligation' from exchanges. Further, the business division was also responsible to make settlement of stocks to the clients/customers, who bought shares and also received settlement of stocks from clients/customers who sold the shares, as per the regulations of SEBI/stock exchanges. Stock broking business division of KSBL was responsible to collect the amounts from debtors-clients/customers and make payment to creditors-clients/customers, maintained in stock broking operation's (back office) department's software application 'PRAGNYA'. The head of business and head of operations (back office) department were wholly responsible for the above said activities. The corporate finance & accounts department was never involved in any of the said activities and Noticee 1 was never aware of the mixing of client's securities with brokers securities and thereafter pledging clients' securities. In view of the above, Noticee 1 denies that he was responsible for pledge of securities to the value of Rs. 2700 crores and further denies that he has violated provisions of SEBI June 2019 Circular and SEBI Enhanced Supervision Circular.

10.16 With regard to allegation in paragraphs 13 to 16 of the SCN, Noticee 1 resigned and left the services of KSBL in September, 2019. He is not aware of shortfall of funds to the tune of Rs.402 crores and securities to the tune of Rs.157 crores as on November 17, 2020. Hence, as a VP (F&A) though he was aware of the overall position, he was never aware of all transactions taking place in stock broking business division.

10.17 The books of accounts of stock broking business division were maintained separately as per the regulations of SEBI and stock exchanges. Corporate finance & accounts department was never involved in business operations and never dealt with SEBI and stock exchanges. In view of the aforesaid, Noticee 1 denies that he has violated section 23D of SCR Act read with SEBI 1993 Circular and SEBI Enhanced Supervision Circular.

10.18 With regard to allegation at paragraph 17 of the SCN, Noticee 1 denies that he was responsible for any of the following. Further, he has contended that no documentary evidence has been adduced to show that he was responsible for said activities.

(a) Misappropriation of securities of other clients for meeting obligation of 9 clients amounting to Rs. 484.56 crores;

(b) Non-availability of client funds to the tune of Rs. 67.58 crore as on September 24, 2019. Increase in the shortfall to Rs. 319 crores (which was claimed by KSBL as part of available funds).

(c) Non-settlement of funds for 1,17,318 clients who have not traded for more than 3 months amounting to Rs. 78.86 crores as on November 22, 2019 and non- settlement of securities of 81,119 clients who have not traded for more than 3 months amounting to Rs. 827.93 crores as on November 22, 2019;

(d) Incorrect submission of data under enhanced supervision;

(e) Negative networth of Rs. 1388.08 crores as on September 30, 2019 after considering loans and advances to group companies/ associates;

10.19 With regard to allegations contained at paragraphs 20 to 23 of the SCN, Noticee 1 was not attending office due to poor health conditions and subsequently he resigned from the services, therefore, he is not offering any comments. Noticee 1 also denies that he has violated provisions of SEBI 2009 Circular.

10.20 With regard to allegation contained in paragraph 25 of the SCN, Noticee 1 was not responsible for handling any of the clients' securities. He has not signed any documents relation to creation of pledge. The information regarding loan taken was being shared with him for accounting purposes only. No documentary evidence has been adduced in the SCN to show that he was responsible for the alleged violations.

10.21 Noticee 1 has relied on the following cases to support his submissions:

(i) Decision of Hon’ble SAT in P.G. Electroplast Ltd. and Ors. vs. SEBI (Appeal no. 281 of 2017), decided on August 2, 2019;

(ii) Decision of Hon’ble SAT in Pritha Bag vs. SEBI (Appeal No. 291 of 2017), decided on February 14, 2019;

(iii) Decision of Hon’ble SAT in Sayanti Sen vs. SEBI (Appeal No. 163 of 2018) decided on August 09, 2019;

(iv) Order passed by WTM SEBI in Amazan Capital limited bearing ref no. WTM/GM/EFD/38/2017-18 dated August 03, 2017;

(v) Order passed by adjudicating officer in the matter of M/s Brooks Laboratories Ltd bearing no. AO/SBM/EAD-3/57/2017;

(vi) Order passed by adjudicating officer in the matter of Action Financial Services Ltd. bearing no. SS/AS/2019-20/4025-4038 dated August 21, 2019

(vii) Decision of Hon’ble SAT in S.N.Sharma vs. SEBI (Appeal No. 472 of 2020) decided on September 09, 2021;

(viii) Decision of Hon’ble SAT in Jai Prakash Kabra & Ors. vs. SEBI (Appeal No. 58 of 2021) decided on September 02, 2021;

(ix) Decision of Hon’ble SAT in Gurmeet Singh & Ors. vs. SEBI (Appeal No. 406 of 2020) on September 20, 2021;

(x) Judgment of Hon’ble Supreme Court in the case of State of Haryana vs. Brij Lal Mittal & Ors. (1998) 5 SCC 343;

(xi) Judgment of Hon’ble Supreme Court in the case of Sham Sunder & Ors. vs. State of Haryana, (1989) 4 SCC 630;

(xii) Judgment of Hon’ble SC in Municipal Corporation of Delhi vs. Ram Kishan Rohtagi & Ors, (1983) 1 SCC;

(xiii) Judgment of Hon’ble SC in Nandkishore Prasad vs. State of Bihar (1978) 3 SCC 366;

(xiv) Judgment of Hon’ble SC in L. D. Jaisinghani vs. Naraindas N Punjabi (1976) 1 SCC 354;

(xv) Decision of Hon'ble SAT in the matter of Videocon International vs. SEBI (2002)4 CLJ 402;

(xvi) Decision of Hon'ble SAT in Parsoli Corporation vs. SEBI (Appeal No 146/2011), decision dated August 12, 2011;

(xvii) Decision of Hon'ble SAT in Narendra Ganatra vs. SEBI (Appeal No 47 of 2011), decision dated July 29, 2011;

(xviii) Order passed by adjudicating officer in respect of M/s Milkyways Mercantiles Private Limited and M/s SPFL Securities Limited decided on March 16, 2017.

10.22 While levying penalty, SEBI is required to consider other factors also as per the judgment of Hon’ble Supreme Court in the matter of Adjudicating Officer, SEBI vs. Bhavesh Pabari (Civil appeal nos. 11311 of 2013), decided on February 28, 2019. Further, the repetitive nature of offence may also be considered as one of the factors while levying the penalty. The same is also held by Hon’ble Supreme Court. The alleged fraud, if any, by no means falls under the category of repetitive offence.

10.23 With respect to SSCN, Noticee 1 has submitted the following:

(i) Role of Noticee 1 has not been separately defined. Only role attributed to him has been that he has received various bank documents as an authorized signatory of KSBL based on the authorization accorded to him *vide* board resolution dated June 28, 2017.

(ii) Documents have been attached as annexures to SSCN, no effort has been taken by learned adjudicating officer to link the same with the allegations contained in the SCN. This is in itself gross violation of principles of natural justice, equity and fair play and establishes that the SCN is ambiguous.

(iii) SCN is the first limb of the quasi-judicial process and the findings/ allegations in the same ought to be spelt out specifically and not vaguely. Reliance is placed upon the judgment of Hon'ble Supreme Court in the case of Canara Bank vs. Debasis Das, (2003) 4 SCC 557.

(iv) It appears that documents culled out from the investigation report have been provided without appreciation of allegations as to whether the documents are relevant or not. It is the duty of the regulatory authority that all the documents collected by them during the course of investigation need to be provided to the noticees. Only few documents allegedly signed by Noticee 1 have been provided. No allegation has been levelled on the basis of this document and no conclusion has been drawn.

(v) Materials have been brought to notice of Noticee 1 very late. This establishes that the adjudicating officer was privy to certain information which was not provided to him to give comprehensive response. By failing to do so, the adjudicating officer has not followed the ratio laid by Hon'ble Supreme Court in Reliance Industries Ltd. vs. SEBI (2022) 10 Supreme Court Cases 181.

(vi) Noticee 1 has requested that complete set of documents collected by SEBI during the course of investigation be provided to him in a comprehensive manner along with complete SCN and complete set of allegation to enable to him file a comprehensive reply, failing which it will amount to gross violation of principles of natural justice, equity and fair play and also principles of good conscience.

(vii) The board of KSBL at a meeting held on 28 June 2017, accorded the authorization to Mr. C Parthasarathy, CMD, KSBL for making borrowings for KSBL from financial institutions, mutual funds, banks and other bodies corporates. The board of KSBL further authorized Mr. C Parthasarathy, CMD of KSBL to delegate the powers with regard to providing information, making applications, execution of all deeds/documents/agreements, to accept on behalf of the company such modifications as may be acceptable and submission of such forms/returns/ reports to statutory/regulatory authorities severally on behalf of the company, to senior officials viz, Mr. G. Krishna Hari, VP (F&A), and Mr. V. Mahesh-Senior Official- Karvy group, Mr. P. B. Ramapriyan, Vice-President and Mr. Sachin Agarwal, General Manager - F&A.

(viii) Noticee 1 has only received the bank documents as an authorized signatory of KSBL on behalf of KSBL based on the authorization/ delegation accorded to him *vide* board resolution dated June 28, 2017. Noticee 1 was one of the authorized signatories in the above said resolution. The stock broking division of KSBL was responsible for acquiring clients, opening trading accounts for clients, verification of KYCs of clients while opening trading accounts and demat accounts *etc*. He was never privy to any of the books of accounts, funds raising through pledging of securities *etc*. of stock broking division of KSBL.

(ix) Official designation of Noticee 1 is VP (F&A) and he is falsely named as a CFO without any basis which is evident from minutes of board meetings of KSBL attached as annexures 13 to 17 to SSCN. Further, at the aforesaid board meetings, Noticee 1 was present as a functional head of the corporate finance and accounts department and as an invitee to the board meeting to provide clarification/ explanation, if any, required by the board on the financial statements of KSBL.

11. Reply of Noticee 2 is summarized hereunder:

11.1 <u>Background on role of Noticee 2 in KSBL</u>

(i) Noticee 2 was nominated as a Compliance Officer in 2017 when the existing Compliance Officer (Mr. Muarali Govind) left abruptly. He was told that it was a stopgap arrangement because of the requirement of regulations. He was reporting to CEO *i.e.,* Rajiv Ranjan Singh and at all points of time, he was working as per the instructions of CEO.

(ii) KSBL has a compliance team led by Group Compliance Head consisting of 5 individuals who handled all regulatory related changes, complaints, implementation and reporting. Noticee 2 did not have any other person reporting to him to with regard to compliance.

(iii) The compliance team would directly report to board of KSBL. Noticee 2 was neither part of this team, nor this team reports to him. All the correspondence/letters/digital signatory were prepared by said group compliance team. Noticee 2 has not attended any personal hearings or reviews by any regulatory authority and all such meetings were attended by the group compliance head. As a Compliance Officer, Noticee 2 was never called for any board meetings/AGM. All compliance related updates to the board were done by the Group Compliance Head.

(iv) Noticee 2 was a hands on product development person in the middle level management. Key responsibilities of Noticee 2 *inter alia* included to understand the product/software requirements of various divisions/branches and coordinate with the vendor for implementing the same, monitor the trading applications and coordinate with the vendors for any bugs/requirements, coordinating with internal departments for day-to-day activities and training and mentoring his team members. He was never a key managerial personnel (hereinafter referred to as "**KMP**") and he was never involved in any major decision makings of the organisation. Noticee 2 was also not disclosed as a KMP in any of the filings made by KSBL before various authorities. Noticee 2 was not associated with any other company in the Karvy group as an employee or director *etc.* He does not hold any shares in KSBL or its group companies. Further, he is not related to promoters/directors of KSBL.

(v) In so far as allegations relating to alleged transfer of funds by KSBL to other group entities are concerned, Noticee 2 was not involved in it. Finance team was managing the funds of KSBL. Noticee 2 did not play any role with regard to borrowings/agreements with any financial institutions. He did not have access to any banking activities and the fund raising was done by finance team in discussion with business team. Noticee 2 was merely a middle level compliance officer, who was neither involved in the aforesaid activities nor there is anything on record to demonstrate his involvement in the alleged transfer of funds *etc* by KSBL, or that he was the beneficiary of transfer of funds, in any manner.

11.2 Finding 1: Funds raised by pledging clients' securities

(i) Funds were raised by pledging of stocks pertaining to clients who had unpaid obligation and by whom margin for intraday trade was given. Pledging of stocks pertaining to unpaid obligation was done by operations team, based on the data provided by finance & accounts department on day to day basis. Further, pledging of stocks towards margin for intraday trading/future trading was done by operations team based on instructions provided by business team and finance team. The decision to pledge the securities used to be taken by finance & accounts department and business team and the operations team used to execute the instructions based on decisions. Noticee 2 was not part of the decision making with regard to pledging of securities *etc* at any point of time.

(ii) The activity of pledging was going on much prior to Noticee 2 being nominated as Compliance Officer. Further, post his nomination, no specific information/ power was given to him to review or monitor the said pledge activity. He did not have access to such pledging data also in the system. At the relevant time, Noticee 2 had no knowledge regarding the mode and manner of deployment of funds raised by pledging the securities or the element of fraud involved in the pledging of securities *viz*. transferring funds to the group companies.

(iii) Pledging of securities of a client by brokers was industry wise practice at the relevant time. Same is also adequately borne out by SEBI June 2019 Circular, *inter alia,* giving brokers time till October 2019, to reverse the pledges of securities of the clients –which were created for raising finances by the brokers. Consequent to the aforesaid circular, the management was making efforts to reverse the pledges, but given the short time frame the same could not be achieved resulting in violation of the said SEBI circular.

11.3 Finding 2: Borrowings *vis-à-vis* transfers to group companies in FY 2019-20 and Finding 3: Transactions with group companies identified through bank books

Since Noticee 2 was not involved in the finance functions of KSBL, therefore, he is not aware of the details pertaining to alleged borrowings, transfer of funds to group companies *etc*. Noticee 2 was not associated with Karvy Realty (India) Limited or Karvy Capital Limited, the companies which have allegedly aided and abetted KSBL in misappropriation.

11.4 Paragraphs 16 to 23 of the SCN

(i) With respect to non-segregation of funds and securities of clients, the same is done in the back office system and is managed by operations team. There is clear segregation of funds and securities in the back office. KSBL has never done any proprietary trading and all the records in back office contain only securities and funds pertaining to clients.

(ii) Regarding misappropriation of clients' securities and diversion of proceeds to group companies, KSBL has a separate finance and accounts team which was headed by CFO. Noticee 2 is not aware of any diversion of funds.

(iii) As to (i) misreporting/non-reporting of data under enhanced supervision to NSE; and (ii) non reporting of DP account number 11458979, named KARVY STOCK BROKING Ltd (BSE) to exchange, the data provided by operations team to internal audit team is updated by group compliance team, Noticee 2 was not part of this activity. Noticee 2 was also not involved in pledging of credit clients' securities to banks and NBFCs.

(iv) Non settlement of funds and securities was done by operations and accounts teams, Noticee 2 does not have any role to play in it. Regarding funding to clients having debit balances by providing further exposure, no funding was provided to clients over and above T+5 in general except for few clients who are managed by CEO and for such accounts the monitoring and decision making is done by CEO and there is no role of Noticee 2 in this activity.

11.5 <u>Observations regarding FAR</u>

(i) Page 11 of FAR, List of key employees: Designation of Noticee 2 has been set out as “Vice President -RMS Head & Compliance Officer” and his reporting is shown to CEO *i.e.,* Rajiv Ranjan Singh. Noticee 2 was not appointed as RMS Head.

(ii) Page 14 and 41 of FAR, Role of management and directors: Since Noticee 2 is not a director, he is not aware of board meetings and the minutes thereof. Based on exchange of emails, Noticee 2 has been roped in the FAR. Noticee 2 was marked copies in few emails as he was co-ordinating with bankers for the regular settlement of trades as KSBL has HDFC Bank Ltd., ICICI Bank Ltd., Axis Bank Ltd. *etc.* as its clearing banks for exchange settlements. Noticee 2 was not involved in any decision making process with regard to pledging of securities for any overdraft facility. He was never concerned with data in any such email except to check for the settlement obligation, if any.

(iii) Page 37 of FAR, Regarding interest payment on stock margin: Noticee 2 was not part of finance/ accounts team and he does not have any power to make any payments. These emails were marked copy to him to provide daily valuation of securities to accounts team. The interest payment agreements were made by finance and business team and Noticee 2 was not aware of such agreements.

(iv) Page 39 of FAR, Emails dated July 28, 2019, July, 01, 2019 and July 04, 2019 pertaining to crediting of interest as legal consultancy fees: Noticee 2 was not part of finance/accounts team and he did not have any power to make any payments. These emails were copied to Noticee 2, in order to provide daily valuation of securities to accounts team. The interest payment agreements were made by finance and business team and Noticee 2 was not aware of such agreements.

12. Reply of Noticee 4 is summarized hereunder:

12.1 Noticee 4 has been erroneously stated in the SCN as "Operational Head" whereas he was only a General Manager-Back Office Operations, who was reporting to Operational Head *viz.* Mr Rajiv Ranjan- Chief Executive Officer. Noticee 4 was promoted as General Manager of KSBL in 2018. Noticee 4 is a middle level operations employee without any decision making powers. As a General Manager, his key responsibilities were:

(a) Monitoring of trade process for all the segments *i.e.,* cash, F&O and currency for all the registered exchanges.

(b) Coordinating with institution desk to process the trades and submit contracts online as per the requirement.

(c) Generation of MIS reports and providing MIS to business team on requirement basis.

(d) Providing data for the concerned divisions on a need basis, as most of the data required is available for the concerned in their online logins.

(e) Monitoring of application jobs that run during the end of the day process to ensure data transfer to trading application.

(f) Coordination with the application vendors for any changes and developments.

(g) Providing data on monthly basis to accounts team for payment of statutory charges.

(h) Monitoring email application which is used to send daily mails to clients to ensure all are sent.

12.2 Noticee 4 was reporting to Mr. Sudhendhoo Gandhi, who was the Head of Operations from 2011 to 2017, and who in turn was reporting to CEO. In 2017, consequent to resignation of Mr Sudhendhoo Gandhi, while the management was looking for appointing someone in his place, Noticee 4, as part of the operations team, was reporting to CEO. At all points of time, Noticee 4 has worked as per the instructions of CEO. “Operations team” is a data processing team, consisting of approximately 50 employees. The team also coordinates with DP for transaction statements and execution of power of attorney instructions.

12.3 Noticee 4 was not associated with any other company in the Karvy group as an employee or director *etc*. Noticee 4 also does not hold any shares in KSBL or its group companies. Further, Noticee 4 is not related to promoters/directors of KSBL.

12.4 <u>Finding 1: Funds raised by pledging clients’ securities</u>

(i) KSBL was providing T+ 5 facility to clients and for funding of margins, the securities of clients were pledged with financial institutions. The securities were also pledged to provide intraday trading exposure to clients and also to process good-till-date orders placed by clients.

(ii) At the relevant time, the pledging of securities was done as per the instructions of finance and accounts department/treasury team and business team. Operations team does not have any role or right in pledging clients’ securities except to process/prepare the instructions. It does not have any right to pledge clients’ securities apart from the instructions received from finance and business teams. Noticee 4 did not have any role in execution of the pledge instructions, he was only monitoring the instructions received from the finance and business teams, which are processed by the operations team. Noticee 4 had no knowledge/awareness regarding the element of fraud involved in the pledging of securities.

(iii) The decision to fund, the set of clients to be funded, extent of funding *etc.,* used to be taken by the business team. Business team used to inform the clients list and exposure required for the clients, based on that, securities used to be identified on the approved list of banker's, and pledge instruction slips were prepared. Thereafter, the instructions used to be sent to treasury team for authorising and pledging.

(iv) Pledging of clients' securities by brokers was industry practice at the relevant time. Same is also adequately borne out by SEBI June 2019 Circular, *inter alia*, giving brokers time till October 2019, to reverse the pledges of securities of the clients – which were created for raising finances by the brokers. Noticee 4 did not have any awareness about the alleged nefarious purpose of pledging the securities of the clients *viz.* transferring funds to the group companies. Consequent to issuance of SEBI June 2019 Circular, the management was making efforts to reverse the pledges, but given the short time frame, the same could not be achieved resulting in violation of SEBI circular.

12.5 <u>Finding 2: Borrowings *vis-à-vis* transfers to group companies in FY 2019-20 and Finding 3: Transactions with group companies identified through bank books</u>

Regarding alleged transfer of funds by KSBL to other group entities, Noticee 4 was not involved in the same. KSBL has a separate finance and accounts team, which was headed by CFO, who were looking into the finances of KSBL. Noticee 4 had no role to play in the finance function of KSBL. Fund raising was done by finance team in discussion with business team and Noticee 4 was not involved in such decision making. There is nothing on record to demonstrate involvement of Noticee 4 in the alleged transfer of funds *etc.* by KSBL, or that he was the beneficiary of transfer of funds, in any manner. Noticee 4 is also not associated with Karvy Realty (India) Limited or Karvy Capital Limited, the companies which have allegedly aided and abetted KSBL in misappropriation.

12.6 <u>Paragraphs 16 to 23 of the SCN</u>

(i) With respect to non-segregation of funds and securities of clients, the same is done in the back office system and is managed by operations team. KSBL has never done any proprietary trading and all the records in back office contain only securities and funds pertaining to clients. The group companies and related party's accounting, was not accounted in back office, the back office system is purely client stock accounting.

(ii) Regarding misappropriation of clients' securities and diversion of proceeds to group companies, KSBL has a separate finance and accounts team which was headed by CFO. Noticee 4 is not aware of any diversion of funds. Noticee 4 did not have any power to pledge clients' securities with any financial institutions without approval of management.

(iii) As to (i) misreporting/non-reporting of data under enhanced supervision to NSE; and (ii) non reporting of DP account number 11458979, named KARVY STOCK BROKING Ltd (BSE) to exchange, the data provided by operations team to internal audit team is updated by group compliance team, Noticee 4 did not got any update on non-reporting/misreporting from internal audit for him to validate and verify.

(iv) Pledging of credit clients' securities to banks and NBFCs was done as per the instructions of finance and accounts department and business team.

(v) Regarding funding clients having debit balances by providing further exposure, Noticee 4 was not a part of any RMS activities.

(vi) With respect to non-settlement of client funds and securities, the same was done as per the regulatory guidelines from the back office system on a regular basis. The back office system generates the files for process and based on availability of funds and free securities, the files were processed. Noticee 4 did not have any role to stop any client settlements. It was the management's decision to prioritize the client settlements.

12.7 <u>Observations regarding FAR</u>

(i) Page 11 of FAR, List of key employees: Designation of Noticee 4 has been set out as "General Manager -Back Office Operations", as opposed to "Operational Head" as stated in the SCN, and his reporting was to CEO *i.e.,* Rajiv Ranjan Singh.

(ii) Page 14 and 41 of FAR, Role of management and directors: Noticee 4 was not aware of LAS or the credit facilities *etc.* Noticee 4 is not a director, therefore, he is not aware of board meetings and the minutes. Based on email exchanges, Noticee 4 has been roped in the FAR. Noticee 4 was marked in few emails as he was co-ordinating with the lenders for release of securities for exchange pay-in purpose. Noticee 4 was not involved in any decision making process with regard to pledging of securities or for any overdraft facility.

(iii) Page 26 of FAR, Bankers emails: Noticee 4 was marked in copy to this email for information purpose only and he was not involved in any agreements with regard to loans/OD and other facilities with bank.

(iv) Page 39 of FAR, Emails dated July 28, 2019, July, 01, 2019 and July 04, 2019 pertaining to crediting of interest as legal consultancy fees: Noticee 4 was not part of finance/accounts team and he did not have any power to make any payments. These emails were copied to Noticee 4, in order to provide daily valuation of securities to accounts team. The interest payment agreements were made by finance and business team and Noticee 4 was not aware of such agreements.

13. Reply of Noticee 5 is summarized hereunder:

13.1 <u>Role of Noticee 5 in KSBL and KDMSL</u>

(i) The allegations in the SCN pertain to alleged violations committed by KSBL during the period 2016 to 2019. Based on the violations committed by KSBL, various persons, including Noticee 5, have been alleged to be vicariously liable for the alleged actions of KSBL, by taking recourse to provisions of section 27 of the SEBI Act. Noticee 5 was neither part of the treasury team nor the 'operational team' of KSBL. Noticee 5 was neither the director nor KMP/official/employee of KSBL. He had no role or involvement in the affairs of KSBL. Noticee 5 was not part of KSBL during the said period as he was the MD of KDMSL since October 01, 2011 and even the SCN has been issued to him in his capacity of CEO/MD of KDMSL and not as director/official/employee of KSBL.

(ii) SCN has been issued to Noticee 5, without there being anything credible evidence to demonstrate/substantiate his role in management and affairs of KSBL or any nexus with the alleged violations. Based on certain emails (contained in annexures to FAR), the context of which has been completely overlooked and ignored, alleged acts of KSBL has been fastened on Noticee 5, which is legally untenable.

(iii) Post becoming a MD of KDMSL, Noticee 5 had devoted all his time to the activities and operations of KDMSL. The business operations of KDMSL expanded in the area of providing back end support services (like digitization and processing of applications for various banking and insurance companies, aadhar enrolment, PAN processing and various e-governance projects). Except KDMSL, Noticee 5 was not involved in the management and affairs of any of the group companies, including Karvy Realty (India) Ltd and Karvy Capital Ltd, which as per the SCN have allegedly aided and abetted KSBL in misappropriating the funds.

(iv) During the inspection by NSE in May 2019, as a consequence of surfacing of the alleged violations, committed by KSBL, the management of the Karvy group came under massive stress. There was immense pressure to provide data/information to the regulator in an organised manner and also to take steps to rectify the violations. During May 2019, when NSE and SEBI had conducted inspections into the books of KSBL, the Group Chairman, Mr C Parthasarthy, requested Noticee 5 to coordinate with various internal teams and provide necessary support and information required by the regulators for conducting the inspection. It was in this backdrop, Noticee 5 commenced coordinating with internal teams for consolidating the required information to be provided to regulators. His role was limited to that of coordinator, so as to expedite the submission of the information to regulators.

(v) When Noticee 5 had entered the scene, the alleged violations had already been committed by KSBL long time back. It was the time, *inter alia,* for taking corrective/remedial steps and to provide the information *etc* to the regulators in a proper, coordinated and meaningful manner. Corrective/remedial steps included interfacing with the banks, with whom the securities were pledged by KSBL and taking steps to get the securities released, providing the information to the regulators including gathering financial details of KSBL from the various departments of KSBL and other group companies, collating them, getting it cross checked by respective departmental/functional heads/teams and forwarding the same to the regulator. The limited involvement of Noticee 5 in the matters relating to KSBL, post May 2019 (*i.e.,* during correctional/remedial period), in the peculiar backdrop of events as have panned out, cannot make him vicariously liable for the alleged violations committed by KSBL. It was in this specific context, certain emails were exchanged by Noticee 5 with KSBL officials and regulators, post May 2019, which have been interpreted out of context and have been given the colour of being involved in the activities of KSBL. While inferring so, it has been completely ignored and overlooked that the information which was forwarded /exchanged by email *etc*, was pertaining to the activities, which had already taken place long time back. No involvement of Noticee 5 in the actual activities or the alleged acts has been shown in the SCN.

13.2 <u>Finding 1 and 2: Funds raised by pledging clients' securities and borrowings *vis-à-vis* transfers to group companies in FY 2019-20</u>

With regard to observations in paragraphs 5 to 9 of the SCN, the same pertains to KSBL, with which Noticee 5 is not concerned. Noticee 5 was not part of treasury team or operational team of KSBL. He was not involved in the borrowing and advancing of loan/ investment in KSBL, and pledging of shares with 8 banks/NBFCs *etc* as alleged.

13.3 <u>Finding 3: Transactions with group companies identified through bank books</u>

(i) With regard to the observation of fund transfers during the period from FY 2016-17 to FY 2019-20 set out in paragraph 14 of the SCN from KSBL to KDMSL, KDMSL had regular fund transactions with KSBL since 2008 onwards, and the said fund transactions were in context of either investment by KSBL as share capital, or short-term borrowings/inter corporate deposits (ICD) and the same cannot be branded as diversion of funds from proceeds of clients' securities to KDMSL. During the period from FY 2016-17 to 2019-20 there was regular borrowing and repayment of funds. Regular financial transaction between group companies which are in the ordinary course of business is not unusual. The details of the regular borrowing and repayment of funds would be evident from the bank statements and ledger statements of KDMSL in the books of KSBL. Therefore, based on the genuine commercial transaction with KSBL, no adverse inference can be drawn against KDMSL. Though the SCN sets out fund transfer of KSBL to its group companies during the period from FY 2016-17 to FY 2019-20, there is no allegation in the SCN that KDMSL has aided and abetted KSBL in misappropriating funds in any manner, which is levelled only *qua* Karvy Realty (India) Ltd and Karvy Capital Ltd.

(ii) As per Table 3 above, KDMSL has to receive an amount of Rs 173.61 crores from KSBL and not the other way round. Therefore, the issue of KDMSL being party to misappropriation of amounts does not arise.

(iii) Since Noticee 5 was a MD of KDMSL (a subsidiary company of KSBL), details of borrowings availed through credit facilities (by various companies, including KDMSL, of Karvy group) were shared with him. Noticee 5 was solely concerned with the borrowings/credit facilities *etc* of KDMSL and he had nothing to do with the borrowing/credit facilities *etc* of KSBL. Noticee 5 was not involved in any identification of securities etc to be pledged with banks/NBFCs as alleged.

13.4 <u>Emails in FAR</u>

(i) It appears that based on certain emails exchanged by Noticee 5 (Annexure C of FAR), it has been inferred that he was involved in the activities of KSBL, as stated above, the emails have been interpreted out of context.

(ii) Email dated September 24, 2019 (page 13 read with page 72 of FAR): It has been mentioned that there was an email dated September 24, 2019 sent by Noticee 5 (V Mahesh) to Noticee 1 (Krishna Hari G). In this regard, on page 72 of FAR, the screenshot of the email has been captured, which clearly shows that the email was in fact received by Noticee 5 from Noticee 3 (Sachin Agarwal) of KSBL. This was required to be shared with the officials of NSE inspection team. Since the email was not marked to Noticee 1, Noticee 5 had forwarded the email to Noticee 1, and had spoken to him to validate before providing any data to the inspecting team. This has been wrongly construed so as to mean as if the email has been sent by Noticee 5.

(iii) Email dated November 19, 2019 (page 26 read with page 62 of FAR): On the instructions of Group Chairman, Mr C Parthasarthy, Noticee 5 was also coordinating with the bankers for release of clients' securities by providing alternate securities. Since Noticee 5 was also interacting with the bank, a copy of a certificate required to be provided by KSBL, was also marked to him.

(iv) Email dated August 02, 2019 (page 26 read with page 64 of FAR): As stated before, since Noticee 5 was coordinating with the banks for revised limits *etc,* the email was marked to him. In the process of reducing the working capital against pledge of securities, some payments were made to HDFC Bank Ltd. and the content of the email clearly indicates that KSBL was in the process of reducing the limits, by way of collections from the clients of KSBL and ensuring release of clients' securities to be returned to clients.

(v) Submission provided by C Parthasarthy and Noticee 5 (V Mahesh) on November 12, 2019 (page 31 read with page 68 of FAR): There was a call that took place between KSBL and EY. Noticee 5 was also present in the call along with Mr C Parthasarthy, since he was instructed by him to be present and assist him. The statement was prepared by the accounts team, which was sent to them and explained. The explanation/details were provided for the entire Karvy group of companies. As Noticee 5 was coordinating for assisting Mr C Parthasarthy, he was also present in the call to provide details of KDMSL and its subsidiaries. The mere presence of Noticee 5 does not relate to the alleged activities of KSBL during the period 2015–2019.

(vi) Email on page 32 read with page 70 of FAR: The email under reference is for the entire Karvy group. The group is divided into financial services and non-financial services. The non-financial services fall under KDMSL and its subsidiaries. This is a statement of cash flow which was shared to understand the funds that KDMSL and its subsidiaries have utilised. Noticee 5 had no knowledge of the funds that would be deployed for the broking activities.

13.5 <u>Other references in FAR</u>

(i) Page 10, Table 4 (Potential linkages of nine potentially related entities): Regarding serial no. 9, Kalyansundaram Sridhar was a director in Vitalink Wealth Advisory Services Private Limited prior to his resignation in 2011. He is also a director in EFIN Services (India) Pvt. Ltd. He had started this company and Noticee 5 was co-opted as a director. EFIN has no relation to any of the companies of KSBL or its associates. EFIN was closed for operations in 2014 itself *i.e.,* much prior to the alleged misappropriation by KSBL.

(ii) Page 11, List of key employees: Noticee 5 has been mentioned as a MD of KDMSL, while other personnel mentioned have been shown as an employee of KSBL broking activity. This crucial fact has been completely ignored and overlooked.

(iii) Page 14, Role of management and directors: As stated before, on the instructions of Group Chairman, Mr C Parthasarthy, Noticee 5 was instructed to help and coordinate around May 2019, when KSBL came under crisis due to change (and potential changes) in regulatory regime. It was in this context, Noticee 5 was marked on the emails exchanged with the banks, as he was part of the team coordinating for revised facilities/revised limits and to ensure that the stock pledged are released *etc*.

(iv) In any event based on the said emails or the other observations as stated hereinbefore, it cannot be concluded that Noticee 5 was in any manner "in charge" of KSBL or was "responsible to" KSBL for the conduct of its business, which is the legal requirement for making a person vicariously liable for the acts of the company.

13.6 <u>Regarding section 27(1) of SEBI Act</u>

(i) In so far as section 27(1) of SEBI Act is concerned, same is only applicable to "persons" who are 'in charge' of, and, are "responsible to" the company, when the company had committed violations. Significantly, meeting of both the conditions (*i.e.,* being 'in charge of' and being 'responsible to') is imperative, for bringing a particular 'person' within the fold of section 27(1) of SEBI Act. Persons are said to be "responsible to" the company, if they fall under the definition of "officer in default" as contemplated under section 2(60) of the Companies Act, 2013. In respect of KSBL, Noticee 5 does not fall under any of the categories of persons as enumerated under section 2(60) of the Companies Act, 2013. If Noticee 5 cannot be alleged to be "responsible to" KSBL for its conduct, the issue of him being liable under section 27(1) of SEBI Act does not arise. In any event, with respect to section 27(2) of SEBI Act, same is restricted in its reach only to any "director", "manager", "secretary" or "officer" of the company. Noticee 5 is not a "director" nor "manager", "secretary" or "officer" of KSBL. Therefore, provisions of section 27(2) are also not applicable to Noticee 5. Further, it is well settled that vicarious liability on the part of the person must be pleaded and proved and not inferred. Reliance is placed on National Small Industries Corporation Limited vs. Harmeet Singh Paintal & Ors. (2010)3SCC330.

(ii) Noticee 5 has also relied on the following decisions of Hon’ble SC:

(a) K.K. Ahuja vs. V.K. Vora and Ors., (2009)10SCC48;

(b) Varanasaya Sanskrit Vishwa Vidyalaya & Anr. vs. Dr. Rajkishore Tripathi and Anr, 1977 AIR 615;

(c) Bank of India vs. Degala Surya Narayana, (AIR 1999 SC 2407);

(d) M.S.Bindra vs. UOI and Ors., (1998) 7 SCC 310;

(e) Nandakishore Prasad vs. State of Bihar, (1978) 3 SCC 366;

(f) Union of India vs. H.C.Geol, (AIR 1964 SC 364);

(g) L.D.Jaisinghani vs. Naraindas N Punjabi, (1976) 1 SCC 354;

(h) Razikram vs. J.S.Chauhan and Ors., AIR 1975 SC 667;

(i) Amba Lal vs. UOI and Ors., AIR 1961 SC 264;

(j) Gulabchand vs. Seth Kudilal and Ors., AIR 1966 SC 1734.

13.7 With respect to SSCN, Noticee 5 has submitted the following:

(i) The hearing was completed on June 30, 2022, post completion of hearing, SEBI cannot keep charging with fresh allegations.

(ii) With respect to Noticee 5 signing credit renewal arrangement letter dated September 25, 2019 issued by ICICI Bank Ltd. to KSBL and deed of hypothecation dated October 01, 2019 entered between KSBL and ICICI

Bank Ltd., as KSBL was under stress to provide information to regulators, Noticee 5 was requested to liase with banks for providing alternate securities and releasing clients' securities. At the time of signing the aforesaid agreements, Noticee 1 (VP F&A), Noticee 3 (General Manager- F&A) and P.B Ramapriyan (VP) were not available, hence Noticee 5 had to sign basis the authorisation received in board meeting held on June 28, 2017, as an exception.

(iii) The violations committed by KSBL alleged in SCN pertain to period around 2016, therefore, Noticee 5 signing documents in October, 2019 does not have any connection with the alleged violations committed by KSBL.

(iv) With respect to the board meetings attended by Noticee 5 held on December 04, 2018, November 06, 2018, September 29, 2019, January 30, 2019 and September 28, 2019, generally, during the board meetings, the operations of subsidiaries including KDMSL would be discussed, therefore, as MD of KDMSL, Noticee 5 was invited to board meetings of KSBL as an invitee. His participation as an invitee used to be KDMSL centric, wherein board of KSBL would review activities of KDMSL and Noticee 5 would update them. Noticee 5 had nothing to do with proceedings or decisions of KSBL. There are instances where Noticee 5 has not attended board meetings of KSBL as nothing pertaining to KDMSL was discussed in those meetings. Out of the 7 board meetings in FY 2019-20, Noticee 5 was invited for only 5 meetings, as in the other 2 meetings, there was no agenda item for discussion on KDMSL.

14. <u>Similar submissions made by Noticee 2, 4, and 5:</u>

(i) SCN is vague regarding role of Noticee 2, 4 and 5. SCN does not demonstrate as to how certain provisions are applicable. For instance, section 23D of SCR Act is applicable only to registered intermediaries (*i.e.,* stock brokers), clauses of Code of Conduct as prescribed under the Stock Brokers Regulations are only applicable to stock brokers. Further, regulation 4(2)(m) of PFUTP Regulations is restricted in its applicability to "market participant" *i.e.,* an intermediary who enters into transactions on behalf of clients, same is not applicable to individuals like Noticee 2, 4 and 5 who are not intermediaries or market participants and who do not have any clients.

(ii) It has also not been shown in SCN how section 27 of SEBI Act is applicable to Noticee 2, 4 and 5 or how violations were allegedly committed by KSBL when Noticee 2, 4 and 5: (a) were in charge of KSBL; or (b) were responsible to KSBL, as required in terms of section 27(1) of SEBI Act. Noticee 2, 4 and 5 cannot be held vicariously liable for the alleged acts of KSBL. It has not been shown as to how Noticee 2, 4 and 5 fall within the ambit of section 27(2) of SEBI Act. Noticee 2, 4 and 5 were neither directors nor KMPs of KSBL. In any event, Noticee 2, 4 and 5 were not aware regarding the alleged fraud *etc*, had acted *bonafide* and exercised requisite due diligence. Further, there is nothing to indicate that the alleged fraud has been committed by KSBL with consent or connivance of Noticee 2, 4 and 5 or is attributable to their neglect. Violation of PFUTP Regulations, SCR Act and SEBI Act is a serious charge and there must be strong evidence for the same, the same cannot be alleged based on mere surmises and conjectures, as has been done in the instant case.

(iii) <u>Mitigating factors</u>

(a) Noticee 2 and 4 were not aware about the alleged violations or the magnitude thereof, till the time SEBI officials visited KSBL office for inspection in September, 2019.

(b) There is no allegation that Noticee 2, 4 and 5 had made any profits or that they were the beneficiary of the alleged misappropriation of clients' securities and diversion of proceeds to group companies, in any manner.

(c) Noticee 2, 4 and 5 have not gained any unfair advantage or caused loss to investors, same has not been alleged in the SCN.

(d) There are no complaints against Noticee 2, 4 and 5 in context of alleged violation or otherwise, by the investors or anyone else.

(e) Noticee 2 and 4 were not involved in any decision making for pledging of securities or for raising any funds from any financial institutions.

(f) Noticee 2 and 4 do not hold any shares of any of the Karvy group of companies or any position in the Karvy group of companies.

D. CONSIDERATION OF ISSUES AND FINDINGS

(I) Whether Noticees under section 27 of SEBI Act can be held liable for the violations of KSBL detailed below?

(a) Non segregation clients' funds and securities;

(b) Misappropriation of clients' securities and diverting proceeds to group companies;

(c) Misreporting/non-reporting data under enhanced supervision to NSE;

(d) Not reporting DP account no. 11458979 to exchanges;

(e) Pledging credit clients' securities with bank/NBFCs;

(f) Funding clients having debit balances by providing further exposure;

(g) Not settling funds and securities of its clients.

(II) Does the violation, if any, attract monetary penalty under section 15HA of SEBI Act, section 15HB of SEBI Act, section 23D of SCR Act and section 23H of SCR Act?

(III) If the answer to Issue No. II is in affirmative, then what should be the quantum of monetary penalty?

(I) Whether Noticees under section 27 of SEBI Act can be held liable for violations of KSBL detailed below?

(i) Non segregation clients' funds and securities;

(ii) Misappropriation of clients' securities and diverting proceeds to group companies;

(iii) Misreporting/not-reporting data under enhanced supervision to NSE;

(iv) Not reporting DP account no. 11458979 to exchanges;

(v) Pledging credit clients' securities with bank/NBFCs;

(vi) Funding its clients having debit balances by providing further exposure; and

(vii) Not settling funds and securities of its clients.

15. Before proceeding, it is important to highlight the order passed by WTM in respect of KSBL, its directors and related parties bearing no. WTM/SM/MIRSD/MIRSD-SEC-4/26042/2023-24 dated April 28, 2023 (hereinafter referred to as "**WTM 2023 Order**"). In the said order, WTM has *inter alia* held KSBL liable for the following violations:
    (i) Raising funds for self-use by pledging clients' securities;
    (ii) Transfer of such funds to its own group companies;
    (iii) Non-settlement of clients' funds and securities;
    (iv) Not reporting DP account no. 11458979 to exchanges; and
    (v) Misreporting/not-reporting data under enhanced supervision to NSE.

16. The limited question for adjudication before me is whether the Noticees of KSBL under section 27 of SEBI Act can be held liable for aforesaid violations committed by KSBL. Section 27 of SEBI Act is reproduced below:

    Contravention by companies.

    27. (1) Where a contravention of any of the provisions of this Act or any rule, regulation, direction or order made thereunder has been committed by a company, every person who at the time the contravention was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the contravention was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such contravention.

(2) Notwithstanding anything contained in sub-section (1), where an contravention under this Act has been committed by a company and it is proved that the contravention has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly.

Explanation : For the purposes of this section,—

(a) "company" means any body corporate and includes a firm or other association of individuals; and (b) "director", in relation to a firm, means a partner in the firm.

17. From the above, for a person to be liable for the acts of a company, he/she should be "in charge of" and "responsible to" the company. Such a person will not be held liable if he/she proves that (i) contravention was committed without his/her knowledge; or (ii) had exercised due diligence to prevent commission of such contravention.

18. Thus, it becomes imperative to examine if any or all of the Noticees were "in charge of" and "responsible to" the company *i.e,* KSBL in the present case. I note that FAR has identified the Noticees as "key employees" and has stated their designation and reporting officer as follows:

Table 9

#	**Name of employee**	**Designation/role**	**Reporting to**
1.	V Mahesh or VM (Noticee 5)	CEO and Managing Director of KDMSL	N.A
2.	G Krishna Hari (Noticee 1)	CFO of KSBL	C Parthasarathy
3.	P Srinivasa Raju or Srinivas Raju (Noticee 4)	General Manager – Back Office Operations	Rajiv Ranjan Singh
4.	Srikrishna Gurazada or Krishna Gurazada (Noticee 2)	Vice President – RMS Head and Compliance Officer of KSBL	Rajiv Ranjan Singh

#	Name of employee	Designation/role	Reporting to
5.	Sachin Agarwal (Noticee 3)	Vice President – Finance and Accounts	G Krishna Hari

The FAR further states:

"Role of management and directors

KSBL did not provide the minutes of the board meetings where LAS / credit facilities were approved. Consequently, we are unable to identify the management team members / board members that may have been aware of / approved raising of such funds as well as knowledge of the fact that clients' securities were being pledged.

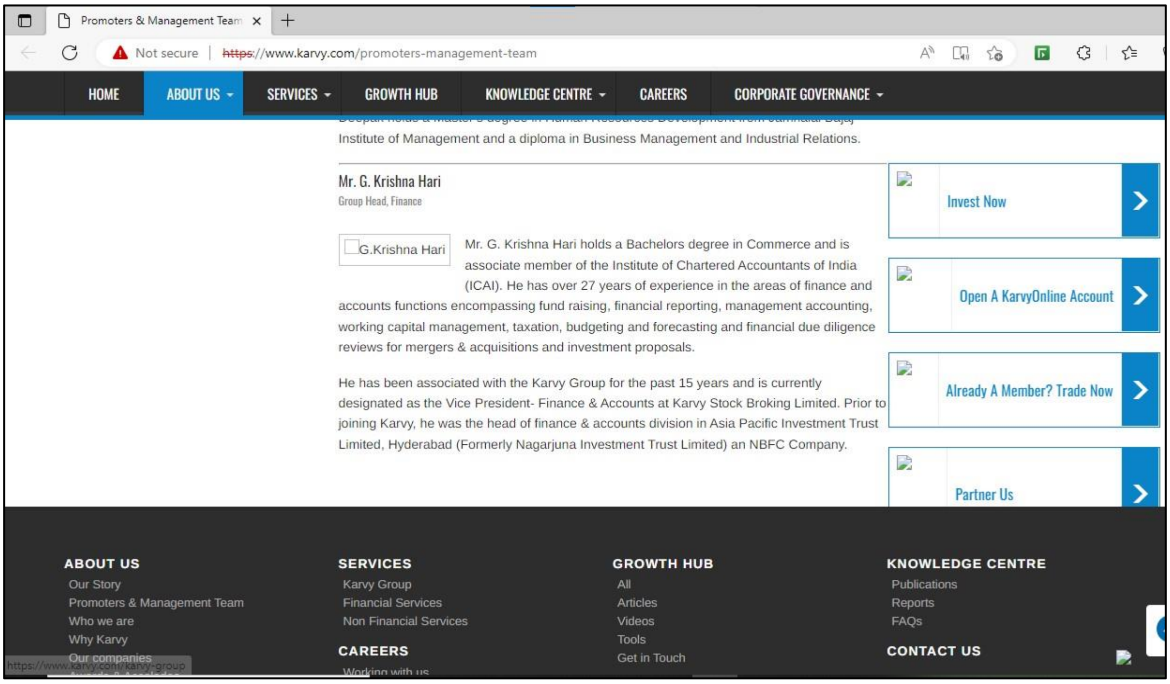
Based on emails, Krishna Hari G (CFO), V Mahesh (CEO KDMSL), Srikrishna Gurazada (Compliance Officer), Srinivasa Raju (Backoffice Operations Head), Sachin Agarwal (Finance Head) as well as several others from the treasury team were updated on the dealings with banks / NBFCs on the pledging of securities and LAS facilities availed against it."

<u>LIABILITY OF NOTICEE 1</u>

19. Herein certain fundamental facts to highlight as per admission of Noticee 1 in his reply are: (i) Noticee 1 had joined Karvy group in 1996 as Manager (Finance and Accounts) and he was transferred to KSBL in 1999; (ii) Since 2001, Noticee 1 was handling preparation of financial statements of KSBL, and in 2011, he was designated as VP (F&A); (iii) Noticee 1 was VP (F&A) of KSBL during the period when the violations were committed by KSBL and he used to report to C Parthasarathy, MD of KSBL; (iv) as VP (F&A), Noticee 1 was managing finance and accounting activities of KSBL, maintaining company cash flow, monitoring repayment of loans *etc.;* (v) he resigned in September, 2019.

20. To begin with, I note that on the karvy.com website, under the "About Us" section, Noticee 1 is categorised as "Group Head, Finance" *(Image 1 below)*. Further, as per the FAR, Noticee 1 was director of subsidiaries of KSBL, *namely*, Karvy Financial Services Ltd. (KFSL), Karvy Consultants Ltd. (KCL) and Karvy Holdings Ltd. (KHL).

Image 1



21. SCN alleges and it was subsequently confirmed by the WTM 2023 Order that KSBL had an outstanding LAS facility of Rs 789.41 crores in September 2016 with the overall borrowings being Rs 1,051.36 crores. The overall borrowings of KSBL increased from Rs 1,051.36 crores as on September 30, 2016 to Rs 2,032.67 crores as on September 30, 2019. Pledging of securities by KSBL was increased substantially from Rs 202 crores (value of securities as on June 30, 2017) to Rs 1,855 crores by March 31, 2018 and was increased further to Rs 2,700 crores by September 30, 2019. KSBL had admitted to EY that the clients' securities were pledged even in case of clients who had no negative balance (zero or credit balances). These securities were transferred to KSBL margin/beneficiary account with or without consent being taken from clients. As on September 05, 2019, FAR observed that at least 75% of the total quantity in client holding was pledged by KSBL even when the clients were having credit balance on that date. Further, 58% of clients holding at least 52% of value of securities that were pledged belonged to such clients who had not traded for more than one month prior to such pledging. Further, NSE has observed that KSBL has funded some of its clients for further exposure even when such clients had debit balance. It observed that it funded such debit balance clients for trading and the average funded amount to the 13 clients (out of

sample of top 25 debit balance clients) was in the range of Rs 21 lakhs to Rs 24 crores, during April 01, 2018 to November 05, 2020.

22. Main submission of Noticee 1 is that there was a clear demarcation between the activities of corporate finance and accounts department of which he was a VP, and stock broking division of KSBL. He has claimed that the corporate finance and accounts department of KSBL was maintaining financial books *inter alia* of borrowings and was preparing and reporting financial results of KSBL to its MD, Mr. C Parthasarathy. He has further claimed that the activities of the broking business were wholly and exclusively handled by the stock broking business division of KSBL. The stock broking business division of KSBL was maintaining books of accounts/records as per SEBI regulations, maintaining/managing client ledgers, trading in stocks as per the requests/orders of clients, settlement of securities to/from clients, meeting exchanges' pay-in and pay-out obligations, *etc*. Even though Noticee 1 has admitted to be aware of the overall position, he has claimed to be not aware of transactions taking place in stock broking business division of KSBL.

23. He has further submitted that the books of KSBL were maintained in a separate software application "PRAGNYA" which was used for generating trial balance. The said trial balance was given to the corporate finance and accounts team for incorporating in financial books. Business head and operation (back office) division of stock broking business used to handle inspections by SEBI and stock exchanges. Based on the instructions of operations (back office) division, the payments to clients/customers used to be processed by the treasury department/division of broking business division/department. Treasury department was part of broking business division/department to manage the client funds.

24. I find that the demarcation being emphasised upon by Noticee 1 is not supported by any evidence. After working for close to two decades with KSBL (as per his own admission), it is expected that he would atleast have some document regarding the separation of responsibilities between corporate finance and accounts department and stock broking division which would add credence to his claim. FAR also does not mention any such separation of activities. It only states that:

(i) KSBL's treasury team would instruct the operations team on the fund requirements on basis of the daily liquidity/cash flow position. The operations team used to identify the securities to be pledged (based on approved list provided by banks/NBFCs) and determine the value of securities to be pledged (page 21 of FAR).

(ii) Transaction in client bank accounts and settlement bank accounts were accounted in 'Pradnya' (the back office software) and those in own bank accounts were accounted in SAP by KSBL (page 27 of FAR).

25. It is difficult to believe that VP (F&A), who is responsible for overall finances of a company, would not be aware of how borrowings of KSBL are doubling in a span of 3 years and pledging is increasing 13 times in 2 years. Generally, a CFO is assumed to be aware of the assets & liabilities of a company, loans taken, collateral given for such loans *etc.* In Ajay Kumar Dalmia vs. SEBI (Appeal no. 179 of 2021), dated April 08, 2022, Hon'ble SAT in a case pertaining to role of CFO in a fraudulent issue of global depository receipts held that:

"….we find that the appellant was the Chief Financial Officer which is equivalent to a Whole Time Finance Director in terms of Clause 49 of the Listing Agreement and SEBI LODR Regulations, 2015. It is not open to the appellant to contend that he was not aware of the implications of the execution of the pledge agreement with EURAM Bank. We are, therefore, satisfied that the appellant alongwith the Company and other Directors had violated Section 12A of the SEBI Act read with Regulations 3 and 4 of the PFUTP Regulations."

Further, I note that the WTM 2023 Order records that Yugandhar Meka, non-executive director of KSBL, had raised the issue of misuse of clients' funds with Noticee 1 in January, 2017, but Noticee 1 responded stating that no client security has been pledged by KSBL. The aforesaid finding indicates that not only Noticee 1 was complicit in the illegal activities being carried out at KSBL, but he was also actively hiding such activities to avoid regulatory scrutiny.

26. I note that letters/agreements were provided to Noticee 1 with SSCN, which are signed by Noticee 1, and which show that loan was availed against demat shares. For example, credit facility sanction letter dated April 10, 2019 issued by Axis Bank Ltd. to KSBL was signed by Noticee 1. The credit facility sanction letter states that an overdraft amount of Rs 100 crore is being sanctioned and the primary security is pledge of dematerialized shares. Similarly, renewal of credit limits letter dated March 25, 2019 issued by IndusInd Bank Ltd. was signed by Noticee 1 which revises the credit limit to Rs 70 crores and the security/margin is pledge of demat shares. The signing of the aforesaid letters by Noticee 1 necessitates him being aware of the loan taken by KSBL and the securities being pledged as security for the said loans. Noticee 1 has not been able to refute the aforesaid signatures except by stating that he had signed the said documents based on authorization delegated to him by Mr. C Parthasarathy, who was in turn authorized *vide* a resolution passed by board of directors of KSBL at a meeting held on June 28, 2017.

27. At this stage, I find it relevant to rely on findings of FAR, page 20 of FAR, under the heading "6.1.1 Borrowing trends" read with page 54, states that month-on-month borrowings availed through various credit facilities were shared by the treasury team to CFO *i.e,* Krishna Hari G (Noticee 1) on email. Annexure 8.1 of FAR, Part 2 contains an email dated January 04, 2018 sent by Srinivas Rao J to Sachin Agarwal (Noticee 3), marking a copy to Krishna Hari G (Noticee 1) bearing subject *"Reg- LAS-TL-OD-CP-Interest Workings for the month of Dec 2017".* The screenshot of the attachment to the aforesaid email shows funds availed from various sources by KSBL and the interest against it as on April 30, 2017, May 31, 2017, June 30, 2017, July 31, 2017, August 31, 2017 and September 30, 2017. Further, Annexure 8.1 of FAR, Part 3 contains an email dated January 03, 2019 sent by Srinivas Rao J to Sachin Agarwal (Noticee 3) marking a copy to Krishna Hari G (Noticee 1) bearing subject *"Reg-LAS-TL-OD-CP-Interest Workings for the month of Dec 2018".* The screenshot of the attachment to the aforesaid email shows funds availed from various sources by KSBL and the interest against it as on April 30, 2018, May 31, 2018, June 30, 2018, July 31, 2018, August 31, 2018 and September 30, 2018. The above two sample emails show that Noticee 1 was being marked in emails regarding borrowings which include borrowing of funds by pledging clients' securities. This

further lends support to my finding that Noticee 1 was aware of the loans being availed against shares of clients.

28. Noticee 1 has pleaded that details of month-on-month borrowings shared by treasury team with Noticee 1 were for accounting and reporting purposes, and that such borrowings were being availed by KSBL since 2003-04 *i.e.,* before Noticee 1 was promoted as VP (F&A). I find that the above submission amounts to admission on part of Noticee 1 that he was aware regarding the illegal borrowings of funds by KSBL using clients' securities. As regards the borrowing being availed by KSBL before Noticee 1 was appointed as VP(F&A), similar to my stance before, in absence of Noticee 1 not placing anything before me that he had protested against such borrowing before his superiors or had informed regulatory authorities against such illegal activities being committed by KSBL, I cannot accept this contention.

29. Paragraph 3(b) and (c) of the SCN alleges that KSBL has violated the provisions of SEBI Enhanced Supervision Circular by transferring funds raised through pledging of clients' securities to 6 of its own bank accounts instead of client accounts and not reported such accounts to the stock exchanges. Regarding the aforesaid allegation, Noticee 1 has submitted that borrowings from HDFC Bank Ltd. were existing since 2003, which is years prior to Noticee 1 was promoted as VP (F&A) in KSBL (*i.e,* from 2011) and that the business division of KSBL was responsible to report the compliance of regulations. I again find that Noticee 1 has not put before me anything to show that borrowings from HDFC Bank Ltd. date back to 2003, and that business division of KSBL was exclusively handling such compliance, therefore, I cannot accept this submission.

30. I find that FAR also records on page 25 and 26, read with pages 59, 62, 63, Annexure 8.5 and 8.8 that Noticee 1 was marked in emails from IndusInd Bank Ltd. and ICICI Bank Ltd. regarding pledge of clients' securities. The email from IndusInd Bank Ltd. on September 30, 2019 states that it was not aware that client shares were pledged with the bank from KSBL's account and that it reserves the right to liquidate the same and take appropriate action against KSBL. The email from ICICI Bank Ltd. sent on November 19, 2019 required KSBL to provide a management certificate confirming that shares pledged to ICICI Bank Ltd. are client shares in lieu of receivables

outstanding against such clients. I find that being marked in such critical emails itself supports my view that Noticee 1 had knowledge regarding pledging of clients' securities by KSBL.

31. Another piece of evidence available on record are minutes of board meetings of KSBL which was held on September 29, 2019. In the said meeting, Noticee 1 was an invitee as VP (F&A) of KSBL. The said minutes at serial no. 4.2 have recorded that Noticee 1 had signed the standalone financial statements such as balance sheet, statement of profit and loss and cash flow statement for the year ending March 31, 2019. Further, minutes of board meeting (held on December 04, 2018) of KSBL in which Noticee 1 was an invitee being VP (F&A) of KSBL records that *"V Mahesh further mentioned that basis the above, KDMSL and its subsidiary companies would be approaching banks/financial institutions for raising of funds and strategise for repayments of ICDs availed from Karvy group of companies.".* One of the subsidiary companies of KDMSL and KSBL for which debt reduction was being targeted is Karvy Renewable Energy Projects Ltd. (hereinafter referred to as "**KREPL**"). FAR records that there was net outflow of Rs 19 lakhs to KREPL by KSBL between the period FY 2016 to 2020. The aforesaid examples show that Noticee 1 had knowledge of decisions/actions taken through board processes of KSBL *inter alia* regarding group companies of KSBL to which funds have been found to be transferred.

32. Paragraph 3(d), 3(g), 13 to 16 of the SCN which has been reproduced in paragraphs 7.2 and 7.3 above states that:

(i) KSBL had sold excess securities (securities not available in its DP account) to the tune of Rs 485 crores through 9 related clients till May 31, 2019. KSBL also transferred excess securities to 6 out of these 9 related clients to the tune of Rs. 162 crores till May 31, 2019. On subsequent verification, it was observed that securities worth Rs 257.08 crores were pledged on behalf of 4 clients out of the aforesaid 9 clients, were unpledged during June 01, 2019 to August 22, 2019 and securities worth Rs 217.85 crores were recovered by KSBL from 4 out of the said 9 client accounts. KSBL has also purchased securities in 5 out of the respective 9 client accounts amounting to Rs 228.07 crores during the period from June 01, 2019 to September 08, 2019.

(ii) The 9 clients were either direct subsidiary of KSBL or had common email IDs and common addresses with KSBL. The 9 clients had the following client codes: 306184, A020091, A020004, A020005, A08002, HBH5691, A020002, A020006 and A0200098. I note from the WTM 2023 Order as well as the submissions of the Noticees in the present matter that these 9 client companies were created by KSBL.

(iii) FAR observed that net amount of approximately Rs 1,120 crores was transferred from KSBL to its various group companies. NSE has also identified that KSBL had shortfall of funds to the tune of Rs 402 crores and securities (valuation) to the tune of Rs 157 crores as on November 17, 2020. The funds and securities were allegedly used for funding of trading of other clients and/or transferred to group companies. It was observed that net outflow of funds to the tune of Rs 1,443 crores was made by KSBL to two of its group companies namely, Karvy Realty India Ltd., and Karvy Capital Ltd.

33. In relation to the above allegation, FAR at page 33, under the heading *“6.2.7 System technical error and dealings with nine potentially related parties of KSBL*” read with annexure 8.15 states that an email was sent by Rajiv Ranjan Singh to forensic auditor regarding the said 9 clients. The said email refers to role of Noticee 1 (Krishna Hari G). The relevant extract is reproduced verbatim:

“During 2014-15, I was given 6 Client codes (306184, A020002, A020004, A020005, A020006 & A 020091) <u>by the CFO, Mr G Krishnahari to start trading activities</u>. Later, in 2018, three more accounts (A0200098, A02004 & HBH5691) were given to augment trading. <u>I was given to understand by Mr G Krishnahari</u> that these accounts are accounts of our business associate insurance brokers and trading could be carried out in such accounts for increasing turnover/ market share. <u>He also informed me that the management of KSBL has approved such accounts to be used for the purpose of increasing turnover and market share</u>. The CFO also instructed to ensure that uninterrupted trading and necessary exposure limits were always available for

the said clients. My core responsibility was to ensure active trading in these accounts for the larger purpose of increasing turnover and market share. Accordingly, I had organized trading in these accounts through a team of dealers during the period 2016-19. The normal trading strategy was to spot short term/ long term opportunities in the Equity and Derivatives segment. During the years 2018-19 and 2019-20 on account of various reasons such as volatile markets, unprecedented drastic fall in some of the holdings and sudden closure of books during Aug – Nov resulted in significant trading losses which we are in the process of reconciling & ascertaining" (emphasis supplied)

34. Noticee 1 has contended that buying and selling of securities on behalf of the clients was the business activity of stock broking business division of KSBL and he had no knowledge about sale of excess securities, transfer of excess securities, pledging and unpledging of the securities and purchase of securities in 9 related clients. Noticee 1 came to know through FAR about the written submissions by Mr. Rajiv Ranjan Singh to EY in which it was alleged that Noticee 1 had given 9 client codes to increase the turnover and market share. The above allegations made against Noticee 1 are totally false. EY did not seek any clarification from Noticee 1, for allegations made against him. Noticee 1 was not involved in the business of the 9 companies and he ceased to be a director in 7 of them in 2012. I find that apart from claiming that the statement by Rajiv Ranjan Singh is false, Noticee 1 has not placed anything to substantiate that the said 9 client codes were not supplied by him. I find that even if Noticee 1 resigned from directorship of 7 out of 9 companies in 2012, the fact that he was aware that KSBL is transferring securities of clients and funds raised through pledging of clients' securities to the 9 client codes in his position of VP(F&A) of KSBL is sufficient to hold him liable. There is nothing on record to show that the Noticee 1 had raised any query or objection to continuous heavy trading or large outstanding in the accounts of these 9 related clients of KSBL. This shows that he was complicit in the whole scheme with the management of KSBL.

35. I find that apart from statement of Rajiv Ranjan Singh, FAR also records another email which imputes that Noticee 1 had knowledge regarding the transactions with the 9 related clients of KSBL. Page 32 of FAR, under the heading "6.2.5 Group level liquidity/cash flow deficit" read with annexure 8.14 contains an email dated January

31, 2018 sent by Srinivas Rao to Noticee 1 (Krishna Hari G) which includes an attachment containing cash flow statement for the day ended on January 31, 2018. The aforesaid email has been provided in the FAR as a sample email to show that finance and accounts team of KSBL used to compute cash flow statements on a daily basis for the Karvy group which indicated the surplus/deficit of that day and email it to Noticee 1 (Krishna Hari G) and the treasury team. The cash flow statement contains a section titled "Position of drawing power" which *inter alia* contains different headings such as "LAS". FAR states that some of the emails were also marked to Noticee 5 (V Mahesh). It further states that except for January 12, 2018, all other sample dates had deficit ranging from Rs 31.39 crores to Rs 108.53 crores. The above email shows that transfers to and transactions with Karvy group companies were within the knowledge of Noticee 1.

36. With respect to transaction with group companies of Karvy, Noticee 1 has submitted that he had resigned in September, 2019, therefore, he is not aware of shortfall of funds to the tune of Rs.402 crores and securities to the tune of Rs.157 crores as on November 17, 2020. He has again submitted that he was aware of the overall position but he was not aware of all transactions taking place in stock broking business division. I find that it is clearly alleged in the SCN and reproduced in paragraph 7.2 above that funds were being transferred to group companies of KSBL from FY 2016-2017. For example, in FY 2016-2017, Rs 86.63 crores were transferred to Karvy Realty India Ltd. and such fund transfers continued till FY 2019-20. Thus, I am unable to accept the contention of Noticee 1 that as he had resigned in September, 2019, hence he is not aware of position of securities and funds transferred as on November 17, 2020; when funds were being transferred by KSBL to its group companies for consecutive 4 years before such date. I find that my view is supplemented with observation in FAR. Page 13 of FAR, under the heading *"Transactions with related parties"* states that an email dated September 24, 2019 was sent by V Mahesh (Noticee 5) to Krishna Hari G (Noticee 1) indicating the amount paid to Karvy Reality (India) Limited, which is provided below as follows:

(a) Rs 290 crores has been potentially utilized for trading in securities by 10 potentially related parties.

(b) Rs 189 crores has been given to 8 potentially related parties through KDMSL.

(c) Rs 50 crores has been utilized for acquiring flats at Sai Ram project and Karvy Nova Ventures through KRIL.

I find that the above email is a clear evidence that Noticee 1 was updated on the transfers made to group companies of KSBL.

37. Noticee 1 has denied that he was responsible for any of the violations of KSBL alleged in paragraph 17 of SCN and reproduced in paragraph 7.4 above (*i.e,* Findings of NSE Final Order). I find that due to the position occupied by Noticee 1 coupled with the evidence placed in the preceding paragraphs, Noticee 1 cannot escape liability for misappropriation of clients' securities, non-availability of client funds, non-settlement of funds and securities, incorrect submission of data under SEBI Enhanced Supervision Circular and negative net worth of KSBL.

38. Noticee 1 has also stated that he cannot be held responsible for non-settlement of client funds and securities by KSBL as alleged in paragraphs 20 to 22 of SCN and as reproduced in paragraph 7.5(ii) above as he was not attending office of KSBL due to poor health conditions. I note that as on November, 22, 2019, clients' securities worth Rs 2,862 crores were not settled and client funds of Rs 527 crores were also not settled of total 3,18,833 clients. *Firstly*, Noticee 1 has not clarified his period of sickness and he has not adduced anything to support the same. *Secondly*, I find that the non-settlement of client funds and securities is not a function of any particular year, rather it is due to years of illegal activities of KSBL. Thus, even if it is assumed that Noticee 1 was unwell during FY 2019-2020 (the year he resigned from KSBL), I find that he had already signed agreements pledging clients' securities, and was marked on emails regarding borrowings and transfers to related parties from FY 2017 onwards as per FAR. Therefore, this contention of Noticee 1 also cannot be accepted.

39. Noticee 1 in his additional submissions has stated that adjudicating officer has not levelled any allegation and no conclusions were drawn basis the documents provided with the SSCN. I find that the SSCN states that the agreements were signed by Noticee 1 and/or Noticee 5, minutes of board meeting were attended by Noticee 1 and 5 *etc.* Thus, all documents attached with the SSCN are self-

explanatory and his submission is without merit. Noticee 1 has also requested for all documents collected by SEBI during the course of investigation. All the documents relied upon for the purposes of this order, have been provided to Noticee 1, thus, this submission also does not deserve further consideration.

40. In his response to SSCN, Noticee 1 has also argued that he was VP (F&A) as evident from board minutes and not CFO as stated in annual returns issued with SSCN. I find that VP (F&A) is an internal position, whereas to the outside world as evident from annual returns filed for the FYs 17-18 and 18-19, he was CFO. Therefore, this argument appears merely a farce to confuse me.

41. Noticee 1 has relied upon certain decisions, which I find it appropriate to address now. In the case of *P.G Electroplast Ltd. (supra)*, Hon'ble SAT had noted that there is no evidence to show that the alleged act was committed by any of the directors from which a reasonable inference could be drawn that the said directors could also be vicariously liable. I find that the aforesaid case is distinguishable on the ground that in the preceding paragraphs, relying on observations of FAR, board meetings, pledge agreements *etc,* I have shown that Noticee 1 was involved in the affairs of KSBL. I find that decisions of Hon'ble SAT in *Pritha Bag (supra)* and *Sayanti Sen (supra)* are also distinguishable. In both cases, the appellants were not directly involved in the company's affairs - one was an additional director who did not attend any board meetings, and the other was an independent director. In contrast, there is sufficient evidence is available on record in the present case which points to culpability of Noticee 1.

42. As regards decision of WTM in *Amazan Capital Limited (supra)*, I agree with the finding therein, that before fixing liability on any director (in the present case, a key person), there is a need to examine their role and conduct and that their liability should flow out of knowledge and consent. In *Action Financial Services Ltd (supra),* the adjudicating officer gave benefit of doubt to certain noticees as nothing was brought on record regarding their individual roles and responsibilities. Decision of Hon'ble SAT in *Videocon International (supra)* states that serious charges should not be based on surmises. In *Nandkishore Prasad (supra),* Hon'ble SC held that a

tribunal should arrive at its conclusion based on evidence. I find that in the present case, role, knowledge and consent of Noticee 1 has been demonstrated sufficiently.

43. The facts of the present case are completely distinguishable from facts before adjudicating officer in *Brooks Laboratories Ltd. (supra)* wherein he held that there is no evidence in support the charge that noticee therein was a director on the board during the relevant period, I find that tenure of Noticee 1 as a key person in KSBL is not even contested in the present case.

44. In *S.N Sharma (supra)* and *Jai Prakash Kabra (supra)*, Hon'ble SAT held that merely by being a signatory to a board resolution, the appellant therein cannot be held liable. Similarly, in *Gurmeet Singh (supra),* Hon'ble SAT held that merely because the appellant was part of the resolution which approved the issuance of GDR and opening of bank account, it does not lead to a conclusion that the appellant was part of alleged fraudulent scheme. In the present case, Noticee 1 is being held liable after holistic examination of evidence such as role brought out in FAR, credit letters signed by Noticee 1 and board meetings attended by him, and not just basis one piece of evidence. It is also worth noting that in *S.N Sharma (supra),* the appellant was a non-executive independent director.

45. I have perused the judgments of Hon'ble SC in *Brij Lal Mittal & Ors. (supra)* and *Sham Sunder & Ors (supra)*, and I note that section 27 of SEBI Act is based on a similar principle contained in the said judgments that to be held liable, a director/partner must be "in charge of" and "responsible for" the conduct of the business. Further, I note that in *Ram Kishan Rohtagi & Ors (supra)*, Hon'ble SC has emphasized the need for evidence in holding directors vicariously liable.

46. Noticee 1 has relied upon order of AO in *M/s Milkyways Mercantiles Private Limited and M/s SPFL Securities Limited (supra)* to state that "intent" and "fraud" are pre-requisites in all parts of regulations 3 and 4 of PFUTP Regulations. He has relied upon orders of Hon'ble SAT in *Parsoli Corporation (supra)* and *Narendra Ganatra (supra)* to state that higher degree of probability is required for proving charge of fraud. Further, he has relied upon judgment of *L. D. Jaisinghani (supra)* to state that evidence should leave no reasonable doubt about guilt. I find that the position

regarding *mens rea* and degree of proof has been dealt by Hon'ble SC in SEBI vs. Kanaiyalal Baldevbhai Patel and Ors. (2017)15SCC1, wherein it held the following:

"To attract the rigor of Regulations 3 and 4 of the 2003 Regulations, mens rea is not an indispensable requirement and the correct test is one of preponderance of probabilities. Merely because the operation of the aforesaid two provisions of the 2003 Regulations invite penal consequences on the defaulters, proof beyond reasonable doubt as held by this Court in Securities and Exchange Board of India v. Kishore R. Ajmera (supra) is not an indispensable requirement. The inferential conclusion from the proved and admitted facts, so long the same are reasonable and can be legitimately arrived at on a consideration of the totality of the materials, would be permissible and legally justified."

LIABILITY OF NOTICEE 2

47. Notice 2 has submitted that KSBL had a group compliance team of 5 individuals who were handling regulatory work. Noticee 2 was not part of this team, and the team does not report to him. He was appointed as a Compliance Officer in KSBL in 2017. As a Compliance Officer, Noticee 2 was never called for any board meetings/annual general meeting. All compliance related updates to the board were done by the Group Compliance Head. Noticee 2 was a product development person in the middle level management. He was appointed in the position of Compliance Officer, when the existing Compliance Officer left abruptly. I find that Noticee 2 has not explained why despite being the Compliance Officer of KSBL, he was not part of the compliance team reporting to the board of KSBL. Noticee 2 has not submitted any evidence of existence of any such compliance team or non-reporting of such team to him.

48. I note that Noticee 2 was appointed in KSBL on March 15, 2000. FAR records that Noticee 2 was Vice President-Risk Management Services ("**RMS**") Head and Compliance Officer of KSBL reporting to Rajiv Ranjan Singh (CEO). However, Noticee 2 has contested that he was not appointed as RMS Head. I find that Noticee 2 has not placed anything on record to support his claim such as his appointment letter, board resolution *etc* which gives details of the responsibilities held by him in KSBL or which will support his claim that he was not RMS Head. On the other hand,

the designation of Noticee 2, as mentioned in FAR, was provided by KSBL itself to EY. Therefore, I find no reason to distinguish from the findings of FAR that the positions occupied by him in KSBL were RMS Head and Compliance Officer.

49. Noticee 2 has pleaded in his reply that he was not aware of and he cannot be held responsible for (i) KSBL raising funds by pledging clients' securities; and (ii) KSBL transferring funds to other group companies, as finance team of KSBL was managing funds of KSBL. He has explained that stocks pledging was done by operations team based on instructions by the business and finance team. He has also submitted that regarding (i) misreporting/non-reporting of data under enhanced supervision to NSE; and (ii) non reporting of DP account number 11458979, named KARVY STOCK BROKING Ltd (BSE) to exchanges, the data was provided by operations team to internal audit team which was updated by group compliance team, and Noticee 2 was not part of this activity. Non-segregation of funds and securities of clients was done by the back office system and managed by operations team. Non settlement of funds and securities was done by operations and accounts team, Noticee 2 did not have any role in this.

50. In relation to the above submission, FAR records that KSBL had initiated a campaign for Asset Collection Drive (ACD) in April 2017. The key features of the scheme were to reach out to clients whose accounts were opened before January 01, 2017 having zero or negative asset/cash balance and explain to them about the investment strategies available in market. The process of such margin collection drive commenced in May, 2019 and continued till September, 2019. Clients' securities were transferred from their demat account to KSBL account in lieu of interest payments. The interest payments were recorded as 'legal retainership fees', 'consultancy fee', 'lease payments' and 'sub brokerage (mutual funds)'. The securities were further pledged by KSBL with banks/institutions for their own use. FAR records that based on review of sample emails of such clients, it appears that the clients were not specifically informed that their securities will be further pledged by KSBL. Annexure 8.18 of FAR contains a screenshot of an email dated February 04, 2019 sent from Deepak Kumar (from Delhi branch of KSBL*) inter alia* to Noticee 2. The email discusses the interest payment on stock margin for clients who had lent out their stocks starting from December 18, 2018. It further states that similar emails

were noted in March, 2019 and April, 2019. Further, annexure 8.22 of FAR contains screenshots of emails sent by Vikrant Dale (from Hyderabad office/branch of KSBL) and Kul Bhaskar Singh (from Chandigarh office/branch of KSBL) dated July 04, 2019 and July 01, 2019 *inter alia* with a copy marked to Noticee 2, regarding interest to be credited and payment to be done under “legal consultancy fee”. Thus, the above shows that Noticee 2 was involved in borrowing of clients’ securities outside of stock exchanges’ lending and borrowing mechanism and further pledging of such clients’ securities, as opposed to his claim of merely being a person who was involved in product development.

51. Noticee 2 has submitted in his reply that he was marked in few emails as stated in FAR as he was co-ordinating with bankers for the regular settlement of trades. This is because KSBL has HDFC Bank Ltd., ICICI Bank Ltd., Axis Bank Ltd. *etc* as its clearing banks for exchange settlements. Noticee 2 was not involved in any decision making process with regard to pledging of securities for any overdraft facility. Further, he has submitted that certain emails were marked to him to provide daily valuation of securities to accounts team. The interest payment agreements were made by finance and business team and Noticee 2 was not aware of such agreements. I find that the emails discussed in paragraph above show that Noticee 2 had knowledge of pledging of clients’ securities. Assuming without conceding that Noticee 2 was not involved in decision making, as Compliance Officer of KSBL, it was his duty to examine the legality of such process and stop any act contrary to the provisions of law. As he was reporting directly to the CEO Rajiv Ranjan Singh, it was his duty to sound an alarm to the CEO regarding the illegal activities taking place in KSBL. However, as no such evidence of him raising any objection has been submitted, I have no hesitation in holding that Noticee 2 has failed in monitoring, and subsequent escalation to management, to mitigate a violation that was being committed. I find that if submission of Noticee 2 that he was ignorant regarding transferring funds to group companies, non-reporting DP account no. *etc* is accepted, it will render the concept of appointment of Compliance Officer meaningless. I find that Noticee 2 over the years had the opportunity to report the activities of KSBL to stock exchanges as well as to SEBI, however, no such efforts were taken by him. This leads to singular conclusion that, in his capacity as RMS Head and Compliance Officer, and through his involvement in pledging of clients’

securities, Noticee 2 has aided and abetted KSBL in its non-compliances of relevant provisions of law.

LIABILITY OF NOTICEE 3

52. The undersigned was informed by spouse of Noticee 3 that Noticee 3 has passed away on April 21, 2021 (*i.e,* even before the SCN was issued). The aforesaid is supplemented by a copy of the death certificate issued by Greater Hyderabad Municipal Corporation dated October 01, 2021 which confirms that Noticee 3 has passed away on April 21, 2021. In view of the foregoing, I am of the view that proceedings against Noticee 3 are liable to be abated without going into the merits of the case *qua* him and the SCN issued against him stands disposed of accordingly.

LIABILITY OF NOTICEE 4

53. Noticee 4 has contended that he has been erroneously stated in the SCN as an "Operational Head" when he was only a General Manager-Back Office Operations, who was reporting to operational head, Mr Rajiv Ranjan (CEO). In 2017, consequent to resignation of Mr Sudhendhoo Gandhi (Head of Operations), while the management was looking for appointing someone in his place, Noticee 4, as part of the operations team, was reporting to CEO. He was promoted as General Manager of KSBL in 2018 and he is a middle level operations employee without any decision making powers. Core responsibilities of Noticee 4 included monitoring trade process for all segments of KSBL. Admittedly, Noticee 4 was appointed in place of erstwhile Operations Head, and was reporting to CEO, however, he has submitted that he was only General Manager-Back Office Operations and not Operations Head. I note that in FAR, at different places, Noticee 4 is either referred as General Manager-Back Office Operations or as Back Office Operations Head. I find that it is not important to get into the question of exact designation as much as it is about ascertaining whether Noticee 4 was a key person behind the operations team of KSBL.

54. FAR records that KSBL's treasury team would instruct the operations team on the fund requirements on basis of the daily liquidity/cash flow position and the operations team used to randomly identify the securities to be pledged (based on approved list provided by banks/NBFCs) and determine the value of securities to be pledged after

considering the haircut multiplier agreed with respective banks/NBFCs. Thus, the operations team was playing a prime role in pledging of clients' securities.

55. Noticee 4 has pleaded in his reply that he was not aware of and he cannot be held responsible for (i) KSBL raising funds by pledging clients' securities; and (ii) KSBL transferring funds to other group companies, as finance team of KSBL headed by CFO was managing funds of KSBL. He has explained that stocks pledging was done by treasury team based on instructions by the business and finance team. The operations team would identify the securities on the approved list of bankers and prepare pledge instruction slips. I find it hard to believe that Noticee 4 as General Manager- Back Office Operations or Back Office Operations Head did not have knowledge regarding the unauthorized pledging of clients' securities as he has himself admitted that the operations team would identify the securities to be pledged and prepare instruction slips. Noticee 4 has also not adduced any proof to demonstrate that through some mechanism he was not aware of the securities being pledged.

56. Further, I note from FAR that in the asset collection drive through which clients' securities were pledged, Noticee 4 was also involved. Annexure 8.22 of FAR contains screenshots of emails sent by Vikrant Dale (from Hyderabad office/branch of KSBL) and Kul Bhaskar Singh (from Chandigarh office/branch of KSBL) dated July 04, 2019 and July 01, 2019 *inter alia* with a copy marked to Noticee 4, regarding interest to be credited and payment to be done under "legal consultancy fee" to a client named "Sudhir Sindhwani". In relation to the above, Noticee 4 has submitted that the interest payment agreements were made by finance and business team and Noticee 4 was not aware of such agreements and had no knowledge of the same. Full knowledge of the fact that clients' securities were being pledged for interest by KSBL (on account of being marked in emails), which was being recorded under other different heads such as "legal consultancy fee", should have been sufficient to ring alarm bells for Noticee 4, however, he has attempted to shift the responsibility entirely to the finance and accounts team. Another instance which shows involvement of Noticee 4 in pledging clients' securities is revealed in FAR under *"Communication related to facilities and arrangement with banks / NBFCs"* wherein it states that an email was sent on November 19, 2019 by Manideep Kota of ICICI

Bank Ltd. to Durga Pradad M K with copies marked to Noticee 1, Noticee 4 and Noticee 5, requesting to provide management certificate. The attached management certificate is dated July 01, 2019 and October 01, 2019 which states that KSBL confirms that the shares pledged to ICICI Bank Ltd. *vide* its credit arrangement letter no. CAL350136800528 are the shares of its clients in lieu of receivables outstanding against them and that there is no breach of any regulatory framework with respect to the said pledged shares. Thus, I do not find merit in the aforesaid submission of Noticee 4.

57. Noticee 4 has claimed that he did not have any power to pledge clients' securities without approval of management. In this regard, I find it appropriate to clarify that there is no allegation that such illegal pledging was being done without the approval of management of KSBL. Rather, the allegation is that the Noticee 4 was aiding and abetting the management in illegal pledging of clients' securities to raise funds, which were later diverted to the group companies of KSBL. In this context, I find that Noticee 4 has not put before me any evidence which would state that he had protested against the misappropriation of clients' securities, diversion of proceeds to group companies *etc,* therefore, even if Noticee 4 did not have the power to approve, he had an obligation to report such patent illegal activities to SEBI, which he failed in carrying out.

58. He has also submitted that regarding (i) misreporting/non-reporting of data under enhanced supervision to NSE; and (ii) non reporting of DP account number 11458979, named KARVY STOCK BROKING Ltd (BSE) to exchanges, the data was provided by operations team to internal audit team which was updated by group compliance team, and Noticee 4 did not receive any update for him to validate and verify regarding misreporting/non-reporting. Non segregation of funds and securities of clients was done by the back office system and managed by operations team. Non-settlement of funds and securities was done by operations and accounts team, Noticee 2 did not have any role in this.

59. However, from the sequence given by Noticee 4 above, I find that the flow of information begins from the operations team. In this situation, I am unable to understand how Noticee 4 as General Manager- Back Office Operations or Head of

Back Office Operations did not know about incorrect data being submitted or data not being submitted, given the fact that the said data was being generated from his office only. Thus, this contention deserves to be dismissed.

LIABILITY OF NOTICEE 5

60. Preliminary contention of Noticee 5 is that after completion of hearing on June 30, 2022, by issuing SSCN, SEBI has levied fresh allegations, and on this ground alone, SSCN should be set aside. In this regard, it was informed to Noticee 5 in the SSCN that during the course of proceedings, certain additional documents were brought to the notice of the undersigned, and hence, in the interest of principles of natural justice, such documents were provided to Noticee 1 and Noticee 5. In the SSCN, no charges have been added or modified, hence, this contention is untenable. In any case, ignoring the evidence discovered during the course of a proceedings would completely defeat the regulatory purpose and goals of SEBI.

61. Noticee 5 has submitted that he was not a promoter or a director or a KMP of KSBL. He has submitted that he has been the Managing Director of KDMSL since October 02, 2011. FAR and SCN both record that he was the CEO/MD of KDMSL. Except KDMSL, Noticee 5 was not involved in the management and affairs of any of the Karvy group companies. During May 2019, when NSE and SEBI had conducted inspections into the books of KSBL, the Group Chairman, Mr C Parthasarthy, requested Noticee 5 to coordinate with various internal teams and provide necessary support and information required by the regulators for conducting the inspection. His role was limited to that of coordinator, so as to expedite the submission of the information to regulators. When Noticee 5 had entered the scene, the alleged violations had already been committed by KSBL. The limited involvement of Noticee 5 in KSBL post May 2019 cannot make him vicariously liable for violations of KSBL.

62. I am not able to appreciate why management of KSBL would call a person who does not have knowledge or experience in operations of KSBL to submit response to regulators. It is natural that involvement of a person having no knowledge of operations of as stock broking would delay any process of inspection and not smoothen it as no responsible person would submit data to regulatory organisations before himself confirming the same. As Noticee 5 was not aware of internal

processes of KSBL, as per his own claim, his involvement was bound to delay any data submission to SEBI and NSE. In these circumstances, the submission of Noticee 5 does not make sense unless he was deeply involved in and well aware of functioning and affairs of KSBL.

63. Regarding the involvement of Noticee 5 in Karvy group companies, I note from MCA records that he has been/continues to be a director of nearly 15 Karvy companies, the details of his appointment in such companies is reproduced below:

Image 2

DIN/DPIN : 00800219 Date: 21/07/2022 03:03:14 PM

Name : MAHESH VIJAYAGOPAL

CIN/LLPIN	Name of the Company/ LLP	Current designation of the Director/ Designated Partner	Date of appointment at current designation	Original date of appointment	Date of cessation	Company/ LLP Status	Defaulting status
U45203TG2007PTC055604	METEOR INFRASTRUCTURE & PROJECTS PRIVATE LIMITED	Director	20/09/2007	20/09/2007	25/09/2008	Active	-
U45400TG2008PLC059067	KARVY REALTY & SERVICES LIMITED	Director	08/05/2008	08/05/2008	02/03/2015	Active	-
U65900TG2009PTC062829	EFIN SERVICES (INDIA) PRIVATE LIMITED	Director	20/02/2009	20/02/2009	-	Strike Off	-
U65910TG2008PTC120871	KARVY FOREX & CURRENCIES PRIVATE LIMITED	Director	17/08/2011	10/03/2011	09/04/2018	Active	-
U65990MH1981PLC025980	KARVY CAPITAL LIMITED	Director	20/12/2011	29/06/2011	09/04/2018	Active	-
U65993TG2000PLC035437	KARVY GLOBAL SERVICES LIMITED	Director	21/01/2014	21/01/2014	09/04/2018	Active	-
U65993TG2011PLC077813	KARVY HOLDINGS LIMITED	Director	01/03/2013	01/03/2013	09/02/2015	Active	-
U65999GJ2017PLC095665	KARVY BROKING (IFSC) LIMITED	Director	07/02/2017	07/02/2017	-	Active	-
U66010TG2003PLC041681	KARVY REALTY (INDIA) LIMITED	Director	31/08/2006	31/08/2006	31/03/2015	Active	-
U67100TG2007PTC056688	KCPL CONSULTANCY SERVICES PRIVATELIMITED	Director	14/12/2007	14/12/2007	24/07/2017	Active	-
U67190MH2001PLC227379	KARVY FINANCIAL SERVICES LIMITED	Director	10/08/2009	17/07/2009	-	Active	-
U72300TG2008PLC058738	KARVY DATA MANAGEMENT SERVICES LIMITED	Managing Director	01/10/2011	21/04/2008	-	Active	-
U72900TG2011PLC077244	KARVY INSURANCE REPOSITORY LIMITED	Director	01/02/2012	30/11/2011	-	Active	-
U72900TG2017PLC119880	KARVY NEXT LIMITED	Director	04/10/2017	04/10/2017	-	Active	-
U73200TG2015PLC097698	KARVY INSIGHTS LIMITED	Director	19/02/2015	19/02/2015	-	Active	-
U74140TG1982PTC003636	BUOYANT CONSULTANTS PVT LTD	Director	01/04/2002	01/04/2002	28/04/2017	Active	-
U74300TG2007PTC056837	OLYMPUS ENTERTAINMENTS PRIVATE LIMITED	Director	26/12/2007	26/12/2007	13/09/2010	Active	-
U74900TG2015PLC097413	GREENKO SOLAR POWER (MEDAK) LIMITED	Director	28/01/2015	28/01/2015	01/11/2017	Active	-
U74900TG2015PLC097851	KARVY ANALYTICS LIMITED	Director	02/03/2015	02/03/2015	25/01/2019	Active	-
U74999TG2004PLC043292	SRISAIRAM PROJECTS LIMITED	Nominee Director	30/11/2007	30/11/2007	18/01/2013	Active	-
U84200DL1992PLC219215	KARVY DIGIKONNECT LIMITED	Director	29/09/2017	05/09/2017	-	Active	-
U93000DL2012PLC242938	KARVY INNOTECH LIMITED	Director	08/08/2018	15/06/2018	-	Active	-

Thus, claim of Noticee 5 that he was not involved in affairs of any Karvy group company apart from KDMSL is not historically correct. It can be seen from above that Noticee 5 held positions of director in both Karvy Realty India Limited (for 9 years) and Karvy Capital Limited (for 7 years), both companies to which majority of funds raised by KSBL by wrongly pledging clients' securities were diverted.

64. I find that the involvement of Noticee 5 is further supported by minutes of board meeting of KSBL (for board meeting held on November 06, 2018) wherein V Mahesh (Noticee 5) was present as an external invitee. In view of the above paragraph, I find that even if Noticee 5 was not an employee of KSBL, he was widely involved in Karvy group of companies as a director.

65. Noticee 5 has submitted that he was not involved in pledging of shares by KSBL. However, I note that Noticee 5 has signed agreements as authorized signatory of KSBL. For example, credit renewal arrangement letter dated September 25, 2019 issued by ICICI Bank Ltd. to KSBL which records that against sanctioned amount of Rs 5000 million by ICICI Bank Ltd., KSBL, as security, is required to maintain client unpaid securities account, client margin trading securities account and client collateral account with ICICI Bank Ltd. of value not less than 2.0x cover. In response to the above, Noticee 5 has argued that he had signed such agreements as per authorisation received in board meeting of KSBL held on June 28, 2017, as VP (F&A), General Manager-F&A and VP were not available. *Firstly*, Noticee 5 has not adduced anything in his support that none of the authorized signatory were available at the time of execution of such agreements. *Secondly*, even if the position above were to be accepted, it shows that Noticee 5 is equally important as senior officials of KSBL, given that his signature is substitutable with those of senior management of KSBL. The board resolution also reads as follows:

"FURTHER RESOLVED THAT MR. C. Parthasarathy, Chairman and Managing Director of the Company, is also hereby authorized to delegate the powers with regard to providing information, making applications, execution of all deeds/documents/agreements, to accept on behalf of the company such modifications as may be acceptable and submission of such forms/returns/reports to statutory/regulatory authorities severally on behalf of the company, to senior officials viz, Mr. G. Krishna Hari, Vice President-F&A, and Mr. V. Mahesh-Senior Official-Karvy group, Mr. P. B. Ramapriyan, Vice-President and Mr. Sachin Agarwal, General Manager – F&A."

From the above, it is evident that Noticee 5 is categorized as "Senior Official" of KSBL along with other senior officials of KSBL such as Noticee 1 who was VP (F&A), Noticee 3 who was General Manager-F&A, and P.B Ramapriyan-VP. Thus, I find that Noticee 5 is attempting to minimize his role in KSBL. By relying solely on his official job title, he is attempting to divert attention from the actual extent of his involvement in Karvy group of companies. Noticee 5 has also argued that the agreements signed by him in October 2019 are immaterial, as the violations committed by KSBL alleged in SCN pertain to 2016. I do not find merit in this submission as the review period in FAR is from April 01, 2016 to September 30, 2019, and it has recorded explicitly, that certain activities such as transactions with related parties were happening till FY 2019-20.

66. Noticee 5 has also argued that he was solely concerned with the borrowings/credit facilities *etc* of KDMSL and he had nothing to do with the borrowing/credit facilities *etc* of KSBL. Noticee 5 was a Managing Director of KDMSL (a subsidiary company of KSBL), details of borrowings availed through credit facilities (by various companies, including KDMSL, of Karvy group) were shared with him. Noticee 5 has argued that his involvement in KSBL board meetings was solely due to his position in KDMSL, and when discussions relating to KDMSL were not on the agenda, he did not participate. Admittedly, Noticee 5 was aware regarding the details of borrowings availed by KSBL, however, since he was the managing director of KDMSL, he did not play any role in borrowing or diversion of loans by KSBL.

67. However, contrary to the above submissions of Noticee 5, I find that role of Noticee 5 in borrowings and diversion to Karvy group companies is evident on a conjoint reading of material available on record. For example, minutes of board meeting (held on December 04, 2018) of KSBL in which V Mahesh (Noticee 5) was an external invitee records that "*V Mahesh further mentioned that basis the above, KDMSL and its subsidiary companies would be approaching banks/financial institutions for raising of funds and strategise for repayments of ICDs availed from Karvy group of companies.".* One of the subsidiary companies of KDMSL and KSBL for which debt reduction was being targeted is Karvy Renewable Energy Projects Ltd. (hereinafter referred to as "**KREPL**"). FAR records that there was net outflow of Rs 19 lakhs to KREPL by KSBL from the period FY 2016 to 2020. Thus, I find that Noticee 5 had

direct knowledge regarding the outflow to Karvy group of companies by KSBL (as one was subsidiary of KDMSL itself) and he was also tasked to reduce the loan taken by such companies from KSBL. In view of the above, Noticee 5 cannot take a stand that he did not know about transfers to Karvy group of companies by KSBL.

68. Noticee 5 has contended that the email sent by him to Noticee 1 on September 24, 2019, which indicates the amount paid to KRIL by KSBL as discussed in pages 13 and 72 of FAR, was actually sent by Noticee 3 to him for the purposes of sharing with NSE inspection team. Since Noticee 3 did not mark to Noticee 1, Noticee 5 forwarded the said email to Noticee 1. I find that being marked in such critical emails itself supports my view that Noticee 5 had knowledge regarding overall operations of Karvy group.

69. As brought out before, page 32 of FAR, under the heading "*6.2.5 Group level liquidity/cash flow deficit"* read with annexure 8.14 contains an email dated January 31, 2018 sent by Srinivas Rao to Noticee 1 (Krishna Hari G) attached with cash flow statement for the day ended on January 31, 2018. The aforesaid email has been provided in the FAR as a sample email to show that finance and accounts team of KSBL used to compute cash flow statements on a daily basis for the Karvy group which indicated the surplus/deficit of that day and email it to Noticee 1 (Krishna Hari G) and the treasury team. The cash flow statement contains a section titled "Position of drawing power" which *inter alia* contains different headings such as "LAS". FAR states that some of the emails were also marked to Noticee 5 (V Mahesh). This again shows that Noticee 5 had knowledge regarding the application of funds raised by pledging clients' shares by KSBL.

70. Noticee 5 has contended that persons are liable under section 27(1) of the SEBI Act only if they are "in charge of" and are "responsible to" the company which has committed violations. I find that it has been discussed in detail above how Noticee 5 was "in charge of" and "responsible to" KSBL by virtue of being in senior management of multiple Karvy group of companies, by attending board meetings of KSBL, by signing as an "authorized signatory" of KSBL wherein credit amount sanctioned is Rs 5000 million, by being a key person at the time regulators

approached KSBL *etc.* Thus, the factual requirement of being "in charge of" KSBL has been established.

71. Noticee 5 has further contended that he is not "responsible to" KSBL as he does not fall under the definition of "officer in default" as laid down in section 2(60) of the Companies Act, 2013. I do not find merit in this submission. Section 2(60) of the Companies Act, 2013 includes the following person:

(v) any person in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act, other than a person who gives advice to the Board in a professional capacity;

Clearly, Noticee 5 was a person with whose advice or instructions the board of KSBL was accustomed to act as evident from minutes of board meeting held on December 04, 2018 wherein Noticee 5 was responsible for strategizing for repayments of ICDs availed from Karvy group of companies. Therefore, the legal requirement of Noticee 5 being a person "responsible to" the running of business of KSBL is also established.

72. Even decision of *KK Ahuja (supra)*, on which Noticee 5 has placed reliance, states that a person who is not an employee of a company can be held liable under section 5(e) of Companies Act, 1956 which is *pari materia* to sub-section (v) of section 2(60) of Companies Act, 2013. The relevant extract is reproduced below:

"But under Sub-section (1) of Section 141, it is theoretically possible to make even a person who is not a director or officer, liable, as for example, a person falling under category (e) and (f) of Section 5 of Companies Act, 1956."

Having established that section 27(1) of Companies Act, 2013 is attracted towards Noticee 5, question of whether section 27(2) is also attracted need not be delved into.

73. Noticee 5 has relied upon the decisions of *Varanasaya Sanskrit Vishwa Vidyalaya (supra), Degala Surya Narayana (supra), M.S.Bindra (supra), Nandakishore Prasad*

(supra), H.C.Geol (supra), and *L.D.Jaisinghani (supra)* to submit that surmises are not enough to sustain a finding of guilt. Further, Noticee 5 has relied upon decision of *National Small Industries Corporation Ltd. (supra)* to contend that vicarious liability on the part of a person must be proved and not inferred. I find that several documents have been examined above to arrive at a conclusion regarding the role of Noticee 5, thus, the submission of Noticee 5 that his role in KSBL is based on surmises or is inferred does not merit consideration.

74. In *Gulabchand (supra)* and *Razikram (supra)*, Hon'ble SC had held that there is no difference between the general rules of evidence in civil and criminal cases. In *Ambalal (supra)*, Hon'ble SC had held that principles of natural justice apply before custom authorities and the burden of proof rests on them. Having perused the aforesaid judgments, I find that the standard of proof in civil cases is preponderance of probability, as laid down by Hon'ble SC in the context of PFUTP Regulations in the judgment of *Kanaiyalal Baldevbhai Patel and Ors. (supra)* relevant portion of which is reproduced in paragraph 46 above.

<u>SIMILAR SUBMISSIONS OF NOTICEE 2, 4 AND 5</u>

75. The said Noticees have submitted that the SCN has not demonstrated how certain provisions alleged to be violated are applicable to them, such as section 23D of SCR Act, regulation 4(2)(m) of PFUTP Regulations *etc* as the said provisions are applicable only to "intermediaries" or "market participants". In this regard, I find that the violation of these provisions by KSBL has already been established in the WTM 2023 Order. In the context of the present proceedings, paragraph 1 of the SCN states that the said provisions are to be read with section 27 of the SEBI Act. Section 27 of the SEBI Act provides who shall be held liable when a contravention is committed by a company. Thus, I find that it is sufficiently clear in the SCN that the charge against the Noticees is for being "in charge of" and "responsible for" violations of the aforementioned provisions of law by KSBL.

76. The said Noticees have also argued that it has not been shown how section 27 is applicable to them. I find that all relevant documents available on record were provided to Noticee 2, 4 and 5. Further, when during the course of proceedings,

additional material came on record concerning Noticee 1 and 5, the same was duly provided them. I find that the material provided to such Noticees clearly demonstrates their role, as has been discussed in detail above. Thus, I do not find merit in this argument.

77. It is noted that the SCN had also called upon the Noticees to show cause for violation of the provisions of regulation 4(1) and 4(2)(m) of the PFUTP Regulations which were alleged to have been attracted on account of their role in KSBL. Before proceeding to consider this, it would be appropriate to reproduce the said provisions:

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a manipulative, fraudulent or an unfair trade practice in markets

Explanation–For the removal of doubts, it is clarified that any act of diversion, misutilisation or siphoning off of assets or earnings of a company whose securities are listed or any concealment of such act or any device, scheme or artifice to manipulate the books of accounts or financial statement of such a company that would directly or indirectly manipulate the price of securities of that company shall be and shall always be deemed to have been considered as manipulative, fraudulent and an unfair trade practice in the securities market

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves any of the following:—
(m) a market participant entering into transactions on behalf of client without the knowledge of or instructions from client or misutilizing or diverting the funds or securities of the client held in fiduciary capacity;

78. As already stated before, Noticees have played a major role in aiding and abetting KSBL in the violations committed by it as found in the WTM 2023 Order. In view of the same, I hold that such actions of the Noticees attract provisions of regulations 4(1) and 4(2)(m) of PFUTP Regulations.

(II) Does the violation, if any, attract monetary penalty under section 15HA, section 15HB of SEBI Act, section 23D of SCR Act and section 23H of SCR Act?

(III) If the answer to Issue No. II is in affirmative, then what should be the quantum of monetary penalty?

79. Since violations of SEBI Act and PFUTP Regulations by the Noticees are established, I am of the view that the same warrants imposition of monetary penalty upon the Noticees under section 15HA of SEBI Act, section 15HB of the SEBI Act, section 23D of SCR Act and 23H of SCR Act, text of which is provided below:

Section 15HA of SEBI Act

Penalty for fraudulent and unfair trade practices.

15HA. If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

Section 15HB of SEBI Act

Penalty for contravention where no separate penalty has been provided.

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

Section 23D of SCR Act

Penalty for failure to segregate securities or moneys of client or clients.

23D. If any person, who is registered under section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) as a stock broker or sub-broker, fails to segregate securities or moneys of the client or clients or uses the securities or moneys of a client or clients for self or for any other client, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

Section 23H of SCR Act

Penalty for contravention where no separate penalty has been provided.

23H. Whoever fails to comply with any provision of this Act, the rules or articles or bye- laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

80. While determining the quantum of penalty under the aforesaid sections, the following factors stipulated in section 15J of the SEBI Act and 23J of the SCR Act, have to be given due regard:

(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; and

(c) the repetitive nature of the default.

The material made available on record has not quantified the amount of disproportionate gain or unfair advantage made by the Noticees and the loss suffered by the investors as a result of the Noticees default. However, I note that the Noticees were acting as key employees of KSBL when the violations were committed, due to which lakhs of investors have suffered. As a matter of fact, even after more than 3 years since the Interim Order, the funds and securities of clients of KSBL have not been settled, further amplifying the gravity of the situation. With respect to the repetitive nature of the default, I note that no adverse orders have been passed against any of the Noticees.

E. ORDER

81. After taking into consideration the previous paragraphs, in exercise of powers conferred upon me under section 15-I(2) of the SEBI Act and 23-I(2) of the SCR Act read with rule 5 of the SEBI Adjudication Rules and rule 5 of the SCRA Adjudication Rules, I hereby impose following monetary penalty on Noticees under section 15HA of the SEBI Act, section 15HB of the SEBI Act, section 23D of SCR Act and section 23H of SCR Act as follows:

<table>
<tr><th>Noticee No.</th><th>Noticee</th><th>Violations established</th><th>Provisions violated read with section 27 of SEBI Act</th><th>Penalty (in Rs.)</th></tr>
<tr><td>1</td><td>Krishna Hari G</td><td rowspan="4">(i) Non segregation of clients' funds and securities;
(ii) Misappropriation of clients' securities and diverted proceeds to group companies;
(iii) Pledged credit clients' securities with bank/NBFCs;
(iv) Misreported/non-reported data under enhanced supervision to NSE;
(v) Funded clients having debit balances by providing further exposure;
(vi) Not reported DP account no. 11458979 to exchanges; and
(vii) Non-settlement of funds and securities of clients.</td><td rowspan="4">Section 23D of SCR Act read with SEBI 1993 Circular;
SEBI Enhanced Supervision Circular;
SEBI 2017 Circular;
SEBI June 2019 Circular;
SEBI August 2019 Circular;
Clauses A(1) and A(3) of the Code of Conduct prescribed for Stock Brokers under Regulation 9 of Stock Broker Regulations;
SEBI 2009 Circular; and
Regulation 4(1) and 4(2)(m) of PFUTP Regulations.</td><td>1,00,00,000</td></tr>
<tr><td>2</td><td>Srikrishna Gurazada</td><td>30,00,000</td></tr>
<tr><td>4</td><td>P Srinivasa Raju</td><td>40,00,000</td></tr>
<tr><td>5</td><td>V Mahesh</td><td>20,00,000</td></tr>
</table>

82. The said penalty imposed on the Noticees, as mentioned above, is commensurate with the violation committed by the Noticees and acts as a deterrent factor for the Noticees and others in protecting the interest of investors.

83. The Noticees shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the SEBI website **www.sebi.gov.in** on the following path by clicking on the payment link.

ENFORCEMENT → ORDERS → ORDERS OF AO → PAY NOW

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

84. The Noticees shall forward the details/confirmation of penalty so paid through e-payment to the Division Chief, Enforcement Department-I, DRA-III, SEBI, in the format given in table below:

1.	Case name	
2.	Name of payee	
3.	Date of payment	
4.	Amount paid	
5.	Transaction no	
6.	Bank details in which payment is made	
7.	Payment is made for	Penalty

85. In terms of rule 6 of the SEBI Adjudication Rules and rule 6 of the SCRA Adjudication Rules, copies of this order are sent to Noticees 1, 2, 4, 5, the wife of Noticee 3 and to SEBI.

Date: May 12, 2023
Place: Mumbai

PRASANTA MAHAPATRA
ADJUDICATING OFFICER