BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/AN/PR/2024-25/31097]

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

In respect of:

Motilal Oswal Financial Services Limited
PAN: AAECM2876P
SEBI Registration No. INZ000158836

In the matter of Motilal Oswal Financial Services Limited

A. BRIEF BACKGROUND

1. SEBI conducted thematic inspection of Motilal Oswal Financial Services Ltd. (‘Noticee’ / ‘entity’ / ‘SB’ / ‘TM’ / ’MOFSL’) under the theme common/multiple mobile number and e-mail linked to Unique Client Code in the matter of Motilal Oswal Financial Services Limited for the period of April 01, 2022 to August 31, 2023. (‘Inspection Period’ / ‘IP’, in short).

2. Pursuant to the inspection, findings of the inspection were communicated to the entity vide letter dated May 03, 2024. The entity had not provided its reply to the findings of the inspection. Reminder emails dated May 06, 2024 and May 13, 2024 were also sent to the entity. The entity had sought extension till May 23, 2024, however, no reply was received from the entity as on May 28, 2024. SEBI sought further clarification from the exchange with respect to the reply of the entity, and the final submissions was received from the exchange in this regard vide email dated May 28, 2024.

3. Pursuant to the above, Post Inspection Analysis was carried out by SEBI. SEBI inter alia observed and alleged that the Noticee was in violation of following provisions of securities laws:

3.1. Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024; Clause A (2) of Schedule II of Code of Conduct read with Regulation 9 of SEBI (Stock Brokers) Regulations, 1992 [‘Stock Brokers Regulations’].

3.2. Annexure 7 of Paragraph 20.1.1 and Paragraph 21.3 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024; Paragraph 7 and 51 of SEBI master circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023; Annexure 2 of SEBI Circular CIR/MIRSD/16/2011 dated August 22, 2011.

3.3. Paragraph 33 2.4 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024.

3.4. Paragraph 32.5.1.(e) of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024.

4. In view thereof, SEBI initiated Adjudication Proceedings in respect of the Noticee under Section 15 I of the Securities and Exchange Board of India Act, 1992 (‘SEBI Act, 1992’, in short), for the aforesaid alleged violations. Thereafter, vide letter dated June 12, 2024, SB submitted its reply to the findings of inspection.

B. APPOINTMENT OF ADJUDICATING OFFICER

5. Whereas, the Competent Authority was prima facie of the view that there were sufficient grounds to adjudicate upon the alleged violation by the Noticee, as stated above and therefore, in exercise of the powers conferred under Section 19 of the SEBI Act, 1992 read with Section 15I (1) of the SEBI

Act, 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, the Competent Authority appointed the undersigned as Adjudicating Officer vide order dated August 29, 2024, to inquire into and adjudge under Section 15HB of the SEBI Act, 1992 for the aforesaid alleged violation by the Noticee. The said proceedings of appointment were communicated to the undersigned vide Communique dated August 30, 2024.

C. SHOW CAUSE NOTICE, REPLY AND HEARING

6. A Show Cause Notice bearing reference No. SEBI/HO/EAD/EAD5/P/OW/2024/32003/1 dated October 10, 2024 (**'**SCN**'**) was served upon the Noticee in terms of Rule 4(1) of SEBI Adjudication Rules vide Speed Post Acknowledgment Due (SPAD) and digitally signed email dated October 10, 2024 inter alia to show cause as to why inquiry should not be held and penalty, if any, be not imposed under Section 15HB of the SEBI Act, 1992 for the alleged violations by the Noticee, as stated.

7. The allegations in respect of the Noticee inter alia brought out in the SCN are as under:

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4. Findings and Observations by SEBI and Alleged Violation thereto in respect of the Noticee:

4.1. Mismatch in email ids uploaded to the Exchange:

In this regard, SEBI inter alia observed and alleged the following:

4.1.1. In 67 instances, it was observed that there was mismatch in email ids uploaded in BSE Exchange UCC database when compared with SB back-office data.

4.1.2. On verification of Back office data with the NSE exchange data it was observed that there was mismatch in 3550 email id instances. On query the SB has stated that "We have received email modification from client after submitting the client master", however the TM has not submitted any documentary evidence to substantiate its stand despite several telephonic reminders by exchange. Further for 99 cases the SB has not provided any response.

4.1.3. Findings of the inspection were communicated to the entity vide letter dated May 03, 2024. No reply was provided by SB. Vide e-mail dated 08.05.2024, extension till 23.05.2024 was requested by SB. Reminder e-mail dated 06.05.2024 and 13.05.2024 were sent to SB for providing reply to findings of inspection, however no reply had been received as on date – 28.05.2024.

4.1.4. In this regard, SEBI observed that Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 provides the responsibility on SBs for uploading client details. In the instant case, SB had not provided any response for 99 cases out of 3550 instances. Additionally, no documents were provided by SB in support of its statement that it had received email modification from the client. Reminders were sent by exchanges and reply of SB was also sought to the inspection findings, however no reply was received from SB. It was further noted that observation of mismatch in email id persist in the current inspection period despite similar observation observed in previous inspection done by NSE in the year 2021-22.

4.1.5. In view thereof, it is alleged that Noticee had violated provisions of Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024; Clause A (2) of Schedule II of Code of Conduct read with regulation 9 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

4.2. Mismatch in mobile numbers uploaded to the Exchange.

In this regard, SEBI inter alia observed and alleged the following:

4.2.1. In 306 instances, it was observed that there was mismatch in mobile number uploaded in BSE Exchange UCC database when compared with SBs back-office data.

4.2.2. On verification of Back office data with the NSE exchange data it was observed that there was mismatch in 3753 Mobile no instances. On query the SB has stated that "We have received email modification from client after submitting the client master", however the SB has not submitted any proof to substantiate its stand despite several telephonic reminders. Further, exchange did not receive any response for 171 instances from the SB. In 56 instances SB response was found incorrect.

4.2.3. Findings of the inspection were communicated to the entity vide letter dated May 03, 2024. No reply was provided by SB. Vide e-mail dated 08.05.2024, extension till 23.05.2024 was requested by SB. Reminder e-mail dated 06.05.2024 and 13.05.2024 were sent to SB for providing reply to findings of inspection, however no reply had been received as on date – 28.05.2024.

4.2.4. In this regard, SEBI observed that Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 provides the responsibility on SBs for uploading client details. In the instant case, SB had not provided any response for 171 cases out of 3753 instances. Additionally, no documents were provided by SB in support of its statement that it had received email modification from the client. Reminders were sent by exchanges and reply of SB was also sought to the inspection findings, however no reply was received from SB. It was further noted that observation of mismatch in email id persist in the current inspection period despite similar observation observed in previous inspection done by NSE in the year 2021-22.

4.2.5. Further, as informed by NSE, SB has not rectified the mobile number in 55 instances, however the same was reported as rectified by SB to NSE.

4.2.6. In view thereof, it is alleged that Noticee had violated provisions of Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024; Clause A (2) of Schedule II of Code of Conduct read with regulation 9 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

4.3. SB has not properly executed client registration documents containing all the prescribed mandatory documents and all fields properly filled up.

In this regard, SEBI inter alia observed and alleged the following:

4.3.1. In 5 instances, it was observed that the status of digital signature was not verified.

4.3.2. In 5 instances it was observed that the Member has not captured the Geo coordinates of location while onboarding the client during online account process.

4.3.3. In 3 instances it was observed that the Nomination form was not authorized by the client.

4.3.4. In 7 instances it was observed that POA / DDPI Page was not found in the KYC Form.

4.3.5. In 01 instances it was observed that the KYC documents i.e. Pan and Aadhar card were not available in the KYC Form.

4.3.6. In case of Client id:- VPND1458, KYC is not validated on KRA system.

4.3.7. Findings of the inspection were communicated to the entity vide letter dated May 03, 2024. No reply was provided by SB. Vide e-mail dated 08.05.2024, extension till 23.05.2024 was requested by SB. Reminder e-mail dated 06.05.2024 and 13.05.2024 were sent to SB for providing reply to findings of inspection, however no reply had been received as on date – 28.05.2024.

4.3.8. In this regard, SEBI observed that Annexure 7 of Paragraph 20.1.1 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 provides index of documents for client account opening process wherein requirement of DDPI is stated. Paragraph 7 of SEBI master circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 provides for requirement of PAN in order to strengthen the KYC norms and ensuring sound audit trail of all the transactions. Annexure 2 of SEBI Circular CIR/MIRSD/16/2011 dated August 22. 2011 further provides for PAN and Aadhar in KYC application form. Paragraph 21.3 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 states that nomination and Declaration form shall be signed under wet signature of the account holder(s). Paragraph 51 of SEBI master circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 under the head- Features for online KYC App of the Intermediary provides for geo-location tagging.

4.3.9. In view thereof, it is alleged that Noticee had violated provisions of Annexure 7 of Paragraph 20.1.1 and Paragraph 21.3 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024; Paragraph 7 and 51 of SEBI master circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023; Annexure 2 of SEBI Circular CIR/MIRSD/16/2011 dated August 22. 2011.

4.4. Email id and Mobile number of member's authorized person was uploaded as email id and mobile number of the client. In this regard, SEBI inter alia observed and alleged the following:

4.4.1. Email id and Mobile number of member's authorized person (AP) was uploaded as email id and mobile number of the client. Number and Email ID in the Client UCC stated that those are the families account however no supporting had been provided and no relationship had been mentioned.

4.4.2. In 5 instances, it was observed that client's email id was same as that of AP's even though there was no relation between client and AP.

4.4.3. Findings of the inspection were communicated to the entity vide letter dated May 03, 2024. No reply was provided by SB. Vide e-mail dated 08.05.2024, extension till 23.05.2024 was requested by SB. Reminder e-mail dated 06.05.2024 and 13.05.2024 were sent to SB for providing reply to findings of inspection, however no reply had been received as on date – 28.05.2024.

4.4.4. In this regard, SEBI observed that, SB in 44 instances had stated that the client was inactive. However, exchange in its remarks had stated that client status was active. Hence, SB has made incorrect submission to the exchange in 44 cases. Additionally, in 5 cases, there was no relationship between client and AP however the e-mail id was same.

4.4.5. SEBI further observed that in 3 out of 836 instances, SB had replied to exchange that unique e-mail id was mapped and in 7 other instances, SB had replied that unique mobile was mapped. In 74 other, SB had provided relationship as spouse, daughter, father, mother and son. In 752 instances, SB had provided its remarks as "Family account" without describing the valid relationship. Paragraph 33 2.4 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 states that under exceptional circumstances, SB may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents. The SB had not specified the relationship in 752 instances. Further, daughter was not covered under family however the same was provided as relationship in 4 cases by SB. Additionally, in terms of aforesaid paragraph, documentary evidence had not been provided by SB.

4.4.6. In view thereof, it is alleged that Noticee had violated provisions of Paragraph 33 2.4 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024.

4.5. AP Terminal details Mapped with another SB

In this regard, SEBI inter alia observed and alleged the following:

4.5.1. In 55 instances, the AP Terminal details was mapped to multiple SB.

4.5.2. Findings of the inspection were communicated to the entity vide letter dated May 03, 2024. No reply was provided by SB. Vide e-mail dated 08.05.2024, extension till 23.05.2024 was requested by SB. Reminder e-mail dated 06.05.2024 and 13.05.2024 were sent to SB for providing reply to findings of inspection, however no reply had been received as on date – 28.05.2024.

4.5.3. In this regard, SEBI observed that, Paragraph 32.5.1. (e) of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 states that person shall not be appointed as authorized person by more than one stock broker on the same Stock Exchange. However in 55 instances, it was noted that AP was mapped to MOFSL and other SB. MOFSL in its reply to exchange in 12 out of 55 instances stated that no terminal had been allotted to said Authorised Person by MOFSL and in 1 case MOFSL stated that as confirmed by Authorised Person, terminal had not been activated by AP with other SB. In remaining 42 instances, MOFSL replied that AP was earlier trading member with Exchange and have surrendered / cancelled their membership & have registered as AP with MOFSL. Their Business was shifted to MOFSL through Business transfer process as approved by BSE. Accordingly they have intimated that terminals are not active.

4.5.4. BSE in its reply vide e-mail dated 28.05.2024 stated that the clarification provided by the SB in 13 (12 and 1) cases was not accepted because the SEBI Circular No. MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009 read along with clause 5 (e) states that AP should not be registered with any other Trading Member, and it does not talk about allotment of terminals or activation of terminals. In regard to the reply of MOFSL in 42 cases regarding business transfer process being approved by BSE, BSE stated that MOFSL did not provide any supporting. BSE also attached excel sheet containing names of AP of MOFSL which were also AP of other SBs.

4.5.5. In view thereof, it is alleged that Noticee had violated provisions of Paragraph 32.5.1. (e) of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024.

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8. Vide email dated October 11, 2024, Noticee acknowledged the receipt of SCN. Vide email dated October 24, 2024, Noticee sought further time to file reply to the SCN.

9. In the interest of principles of natural justice, vide Hearing Notice dated October 28, 2024, inter alia an opportunity of hearing was afforded to the Noticee on November 14, 2024 and the Noticee was advised to submit its reply to the SCN latest by November 12, 2024. Vide email dated October 29, 2024, hearing in the matter was rescheduled to November 19, 2024. Vide email dated November 13, 2024, Noticee submitted its reply to the SCN. On the scheduled date of hearing i.e. on November 19, 2024, the Noticee availed the opportunity of hearing through its Authorised Representatives (AR) viz., Mr. Samyak Pati, Advocate (Authorization vide letter dated November 13, 2024). During the hearing, the AR relied upon and reiterated the submissions made vide Noticee's reply dated November 13, 2024. Further, the ARs sought time to make further submissions till November 22, 2024, accordingly the same was allowed. Vide email dated November 26, 2024, Noticee through its AR, sought extension to file the further written submissions. Vide email dated December 05, 2024, Noticee filed its further written submissions.

10. The key submissions made by the Noticee vide emails dated November 13 and December 05, 2024 as reply and further submissions to the SCN (collectively referred as replies to the SCN) are as under:

Submissions dated November 13, 2024:

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I. MISMATCH IN EMAIL IDS UPLOADED TO THE EXCHANGE

5. During the Inspection, SEBI has observed email mismatches compared to exchanges as under:

i. In 67 instances, there was a mismatch between BSE's UCC database when compared to MOFSL's back-office data;

ii. In 3649 instances, there was a mismatch between NSE's UCC database when compared to MOFSL's back-office data;

6. At the outset, it is submitted that MOFSL had submitted its Client Master Data as on October 31, 2023, as a part of inspection submission to SEBI. In the interim, MOFSL had received email modification requests from its clients which were updated in both internal back-office database as well as the exchange UCC database. Consequently, when the exchanges audited the inspection submission of MOFSL, they had verified old Client Master Data with latest UCC data generated from the respective exchange's systems and therefore mismatches were observed and reported as inspection observations.

7. In 67 instances pertaining to BSE, it is submitted that MOFSL had received email modification request from client which was updated in the exchange as well as MOFSL back-office. As these modification requests were received after submitting the Client Master Data during inspection, the mismatches observed has arisen. Instance wise response of MOFSL against each instance is enclosed as Annexure 1 and copies of email modification requests are enclosed as Annexure 2.

8. In respect of the 3649 instances pertaining to NSE, it is necessary to clarify that there are 145 instances of duplication of instances. As such, there are unique 3504 instances of email mismatches. In this regard, as stated above, MOFSL had received modification requests after submitting the Client Master Data during inspection which were subsequently updated in all records. Instance wise response of MOFSL against each instance is enclosed as Annexure 3. Due to the voluminous instances noted, copies of 364 email modification requests, on a sample basis, are enclosed as Annexure 4.

9. It is pertinent to state and highlight that upon receipt of email mismatch query from NSE, MOFSL had given its remarks against 3557 cases on April 22, 2024. Pursuant thereto, on April 29, 2024, NSE has requested for supporting documents / modification forms in furtherance of our response. Due to the voluminous instances noted, MOFSL had requested NSE to share details of supporting sought on a sample basis. However, as no response was received, MOFSL had provided supporting documents for 28 email modifications on May 2, 2024. These facts have not been considered in the SCN. Copies of MOFSL's letter dated April 22, 2024, and May 2, 2024, are enclosed herewith as Annexure 5 and Annexure 6 respectively.

10. It is therefore humbly submitted that there is no violation of the SEBI Master Circular dated May 22, 2024, read with Clause A(2) of Schedule II of the Code of Conduct read with Regulation 9 of the Stock Broker Regulations.

II. MISMATCH IN MOBILE NUMBERS UPLOADED TO THE EXCHANGE

11. During the Inspection, SEBI has observed mobile number mismatches compared to exchanges as under:

i. In 306 instances, there was a mismatch between BSE's UCC database when compared to MOFSL's back-office data;

ii. In 3980 instances, there was a mismatch between NSE's UCC database when compared to MOFSL's back-office data;

12. As stated above, MOFSL had received mobile number modification requests from its clients after it had already submitted its Client Master Data as on October 31, 2023, as a part of inspection submission to SEBI. Accordingly, the mismatches were observed as a result of verification of updated exchange records with the old Client Master Data.

13. In 306 instances pertaining to BSE, it is submitted that in 299 such instances, MOFSL had received mobile number modification request from client which was updated in the exchange as well as MOFSL back-office. In respect of the remaining 7 instances, the mobile number available in the Client Master Data included the +91 country code and hence a mismatch is observed. It is submitted that when the mobile numbers in both records are compared without the country code, there is no mismatch observed. Instance wise response of MOFSL against each instance is enclosed as Annexure 7 and copies of sample 239 mobile number modification requests are enclosed as Annexure 8.

14. In respect of the 3980 instances pertaining to NSE, it is necessary to clarify that there are 145 instances of duplication of instances. As such, there are unique 3835 instances of email mismatches. In this regard, the following submissions are made:

i. In 3768 instances, mismatches have resulted due to mobile number modification requests received from clients.

ii. In 55 instances, the mismatches in mobile numbers have been rectified. Screenshots of sample 20 UCC records to demonstrate the above rectification is enclosed as Annexure 9.

iii. In 11 instances, there are no mismatches between exchange and MOFSL records. Screenshots comparing the UCC records demonstrating the above are enclosed as Annexure 10.

Instance wise response of MOFSL against each instance is enclosed as Annexure 11. Due to the voluminous instances noted, copies of 376 mobile number modification requests, on a sample basis, are enclosed as Annexure 12.

15. It is pertinent to state and highlight that upon receipt of mobile number mismatch query from NSE, MOFSL had given its remarks against 4647 cases on April 22, 2024. Pursuant thereto, on April 29, 2024, NSE has requested for supporting documents / modification forms in furtherance of our response. Due to the voluminous instances noted, MOFSL had requested NSE to share details of supporting sought on a sample basis. However, as no response was received, MOFSL had provided supporting documents for 40 mobile number modifications on May 2, 2024. These facts have not been considered in the SCN. Copies of MOFSL's letter dated April 22, 2024, and May 2, 2024 are enclosed herewith as Annexure 13 and Annexure 14 respectively.

16. It is therefore humbly submitted that there is no violation of the SEBI Master Circular dated May 22, 2024, read with Clause A(2) of Schedule II of the Code of Conduct read with Regulation 9 of the Stock Broker Regulations.

III. IMPROPER EXECUTION OF CLIENT REGISTRATION DOCUMENTS

17. It is submitted that SEBI has made the following observations under this head of allegation:

i. In 5 instances, digital signature was not verified

ii. In 5 instances, geo coordinates of online client onboarding was not captured

iii. In 3 instances, nomination form was not authorized by the client
iv. In 7 instances, POA / DDPI page was not found in the KYC form
v. In 1 instance, PAN and Aadhar card were not found in the KYC form
vi. In 1 instance, KYC was not validated on KRA system for client code VPND1458

18. *In 5 instances where it is alleged that the status of digital signature was not verified, it is submitted that these are EKYC accounts and are activated post valid e-sign as per the provisions of the IT Act and other applicable regulatory provisions. Copies of the EKYC of these 5 instances demonstrating the validity of the digital signature is enclosed as Annexure 15.*
19. *In 5 instances where it is alleged that the geo coordinates of location while onboarding the client during online account process has not been captured, it is submitted that as per applicable regulatory provisions, MOFSL is duly capturing live photo as well as geo location of the customer at the time of onboarding of customers. It is submitted that while the data of the geo location of the customer is not mentioned on KYC document, it is saved in the logs which are generated and maintained by MOFSL while doing online account opening. It is submitted that that geo location of 4 out of 5 clients is of Sikkim state & of remaining 1 client is of Uttar Pradesh state, which matches with the address mentioned on KRA page of the customer. Details of geo location of the 5 instances and verification with KRA page are enclosed as Annexure 16 and Annexure 17 respectively.*
20. *In 3 instances where it is alleged that nomination form was not authorized by the client, it is submitted that in 1 one of the instance, the client has not opted for nomination and accordingly client has ticked on KYC form against "I/we do not wish to nominate any one for this Trading and Demat account" and the same has been duly signed by the client. In the remaining 2 instances, the clients have not opted for nomination and accordingly client has signed Annexure B i.e. opt out declaration form, which was already available in KYC form submitted to inspection team. Hence compliance is ensured in all 3 instances where customer has not opted for nomination and has signed relevant pages of KYC as applicable from time to time. Copies of the respective nomination form and opt out declaration forms are annexed as Annexure 18 and Annexure 19 respectively.*
21. *In 7 instances where it is alleged that the POA / DDPI Page was not found in the KYC Form, it is submitted that SEBI has, in several circulars, emphasized that POA / DDPI is a voluntary document and a client's account can be activated without executing a POA / DDPI at the time of onboarding. Without prejudice to the above, it is submitted that in 5 out of 7 cases mentioned in inspection report, client has given the DDPI to MOFSL whereas in the remaining 2 instances, the client has not given a DDPI in favour of MOFSL. Copies of the DDPIs provided to MOFSL in 5 instances and client master report in case of the remaining 2 instances are enclosed as Annexure 20 and Annexure 21 respectively.*
22. *In 1 instance where it is alleged that the PAN and Aadhar Card of the client were not available in the KYC Form, it is submitted that MOFSL had duly obtained the same at the time of onboarding customer. Copy of the KYC Form with these documents are enclosed as Annexure 22.*
23. *Insofar as client code VPND1458 where it is alleged that KYC was not validated on KRA system, it is submitted that the status of client on KRA portal is "KYC Registered". It is submitted that the client account was opened in 2013 through physical mode and the client had provided his Passport as a proof of identity at the time of account activation. On this basis, client data was uploaded on KRA portal and the KRA verification was completed. However, on the basis of the extant KRA guidelines, this client was deemed Non-OVD case ("Officially Valid Document"). Presently, in compliance with the extant KRA guidelines, the email / mobile validation along with PAN and Aadhar Card of this client with KRA is completed in May 2024.*
24. *It is submitted that as per the KRA's circular dated March 28, 2024 ("KRA Circular"), the status of older clients whose KRA had been completed prior to the existing regime, there will be no change in the pre-existing status, however, trading will continue to be permitted. The relevant portion of the KRA Circular is extracted below:*
"SRIs are informed that considering the representations received from industry bodies and in the larger interest of investors, SEBI has decided for such older KYC cases (i.e. Non Aadhaar based KYC records lodged up to August 2023), where the KYC record meets the PAN – Aadhaar seeding validation (where applicable and already implemented w.e.f. July 01, 2023) and Email / Mobile are validated by KRA and the KYC record is in verified (KYC Registered) status with KRA, such investors will be allowed to continue transacting in securities market with their existing intermediary"
A copy of the KRA Circular is enclosed herewith as Annexure 23.
25. *It is therefore humbly submitted that there is no violation of the SEBI Master Circulars dated May 22, 2024, and October 12, 2024, along with SEBI Circular dated August 22, 2011.*

IV. EMAIL ID AND MOBILE NUMBER OF AUTHORIZED PERSON USED FOR CLIENT DETAILS

26. *It is submitted that SEBI has made the following observations:*

i. In 44 instances, MOFSL has marked the client as inactive / suspended but shown as active with the exchanges.
ii. In 836 instances, AP has uploaded their mobile number and Email ID in the Client UCC.
iii. In 5 instances, it has been observed that client's email id is same as that of AP's even though there is no relation between client and AP.

27. *In respect of the 44 instances, it is submitted that MOFSL had duly marked the client as inactive / suspended in its internal database, however, inadvertently the same were missed out to be mark as inactive on the BSE's database which has since been rectified. A screenshot of the BSE portal is enclosed herewith as Annexure 24.*
28. *In respect of the 836 instances, it is submitted that in case of 752 instances, it is submitted that these are indeed accounts which belong to the respective APs and are in line with the definition of 'family'. Sample declaration in case of 15 instances are enclosed herewith as Annexure 25.*
29. *In respect of the remaining 84 instances, it is submitted that the mobile number and email ID have been correctly mapped against the family relationship. These are APs registered under non individual category, contact details updated in AP records are also registered in any of the Director / Partners individual client account or in their family account which is also valid as per regulatory provisions. Sample declaration in case of 13 instances are enclosed herewith as Annexure 26.*
30. *In case of the 5 instances, where it has been alleged that the client's email ID is same as that of AP's even though there is no relation between client and AP, it is submitted that in 4 instances, the email ID of the AP was inadvertently mapped in the client accounts and the same has now been rectified. In the remaining 1 instance, it is submitted that the email ID TAKSH.*******@GMAIL.COM is registered against AP of MOFSL and the said AP has now been closed on exchange records.*
31. *It is therefore humbly submitted that the infrequent instances where an infraction is observed may be viewed in a lenient manner and no adverse action is warranted in this regard.*

V. AP TERMINAL DETAILS MAPPED WITH ANOTHER STOCK BROKER

32. *SEBI has observed that in 55 instances, the AP Terminal details has mapped to another Stock Broker.*
33. *At the outset, it is submitted that the present exchange systems do not reflect any change or share any alert wherein details of such individuals who are preexisting APs of one of the stock broker activates a terminal with another member and Stock Brokers do not have the ability to verify these instances at their end. Consequently, MOFSL has made several representations to exchanges to develop a system for tracking the same.*

34. *Without prejudice to the above, it is submitted that 42 out of 55 instances pertain to APs who were earlier registered with Narnolia Financial Advisors Ltd. in 31 instances and Sugal & Damani Share brokers Ltd. in 11 instances, who were Exchange registered member brokers. The membership of these two entities were cancelled in 2021 and 2023 respectively and their business was transferred to MOFSL. Accordingly, it is submitted that such other terminals of other stock brokers & their APs could not be active due to cancellation of the memberships and no violation is made out in these 42 instances. SEBI approval for cancellation of membership of these two entities are enclosed herewith as Annexure 27 and Annexure 28 respectively.*
35. *In 11 instances, it is submitted that no terminals were allotted to these APs at MOFSL. In any event, it is submitted that MOFSL has terminated these 11 APs and accordingly details of these APs will be cancelled in exchange records upon completion of notice period. These 11 APs are below:*
   …
   Accordingly, no violation is made out in these instance.
36. *In 1 instance being AP -…, SEBI has observed that this AP was also active with BMA Wealth Creators Ltd. In this regard, it is submitted that the said member is defaulter and expelled member as per BSE with effect from February 13, 2020 and the AP came to be associated with MOFSL in January 2021. Hence due to the expulsion of the other member, no other terminal can be active. Accordingly, no violation is made out in this instance. A copy of the BSE Notice is enclosed herewith as Annexure 29.*
37. *In the remaining 1 instance being AP – ., we have received confirmation from AP that his NISM certificate is not active with any other Trading Member. Therefore, no violation is made out in this instance. A copy of the AP confirmation is enclosed herewith as Annexure 30.*
38. *It is therefore humbly submitted that there is no violation of the SEBI Master Circulars dated May 22, 2024. Instance-wise response in respect of each of the 55 instances is enclosed herewith as Annexure 31.*
39. *It is submitted that MOFSL has duly taken note of the observations in the Show Cause Notice and undertakes to correct and improve its operations as well as take such steps to remedy any future reoccurrence. We seek to rely upon the observation of the Hon'ble Securities Appellate Tribunal in Religare Securities Limited vs Securities and Exchange Board of India (Order dated June 16, 2011 in Appeal No. 23 of 2011) where the Hon'ble Tribunal has set out the objective of inspection as under:*

   "It must be remembered that <u>the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements</u> in regard to the maintenance of records. We also cannot lose sight of the fact that <u>every minor discrepancy/irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant</u>. This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent."

   [*<u>Emphasis added</u>*]

…'

Further written submissions dated December 05, 2024:

'…

GIST OF SUBMISSIONS ON BEHALF OF MOFSL

4. *The submissions of MOFSL in respect of the allegations are set out are as under:*

Sr. No.	***UCC & Client Name***	***Observation / Allegation***	***MOFSL's Reply***
1.	*Mismatch in Email IDs uploaded to the Exchange*	*SEBI has observed email mismatches compared to exchanges as under:* *i. In 67 instances, there was a mismatch between BSE's UCC database when compared to MOFSL's back-office data;* *ii. In 3649 instances, there was a mismatch between NSE's UCC database when compared to MOFSL's back-office data;*	*1. MOFSL, pursuant to submission of it Client Master Data to the SEBI Inspection team, had received email modification requests. These requests for modification had been carried out by MOFSL and the records were updated in both internal back-office database as well as the exchange UCC database.* *2. Mismatches have arisen as the inspection process has compared the old Client Master Data submission obtained by the Inspection team with the updated exchange UCC database. Accordingly, there is no violation.* *3. MOFSL has provided all 67 instances of modification requests in case of BSE and 364 instances of modification requests on a sample basis due to the voluminous number of instances noted.*
2.	*Mismatch in Mobile numbers uploaded to the Exchange*	*SEBI has observed mobile number mismatches compared to exchanges as under:* *i. In 306 instances, there was a mismatch between BSE's UCC database when compared to*	***<u>EOD Ledger Balance</u>*** *1. MOFSL, pursuant to submission of its Client Master Data to the SEBI Inspection team, had received mobile number modification requests. These requests for modification had been carried out by MOFSL and the records were updated in both*

		MOFSL's back-office data; *ii. In 3980 instances, there was a mismatch between NSE's UCC database when compared to MOFSL's back-office data;*	*internal back-office database as well as the exchange UCC database.* *2. Mismatches have arisen as the inspection process has compared the old Client Master Data submission obtained by the Inspection team with the updated exchange UCC database. Accordingly, there is no violation.* *3. In case of BSE, 299 out of 306 instances pertain to mismatches as a result of modification and the remaining 7 instances pertain to mismatches as a result of including the country code '+91' in the Client Master Data.* *4. In case of NSE, 3768 instances pertain to modifications, 55 instances pertain to pre-existing mismatches which have been rectified and no mismatch exists in 11 instances.* *5. MOFSL has provided all 306 instances of modification requests in case of BSE and 376 instances of modification requests on a sample basis due to the voluminous number of instances noted.*
3.	*Improper execution of client registration documents*	*SEBI has made the following observations under this head of allegation:* *i. In 5 instances, digital signature was not verified* *ii. In 5 instances, geo coordinates of online client onboarding was not captured* *iii. In 3 instances, nomination form was not authorized by the client* *iv. In 7 instances, POA / DDPI page was not found in the KYC form* *v. In 1 instance, PAN and Aadhar card were not found in the KYC form* *vi. In 1 instance, KYC was not validated on KRA system for client code VPND1458*	*1. In 5 instances pertaining to the status of digital signature, these are EKYC accounts and are activated post valid e-sign as per the provisions of the IT Act and other applicable regulatory provisions.* *2. In 5 instances pertaining to the geo coordinates, MOFSL is duly capturing live photo as well as geo location of the customer at the time of onboarding of customers. While the data of the geo location of the customer is not mentioned on KYC document, it is saved in the logs which are generated and maintained by MOFSL while doing online account opening.* *3. In 3 instances where it is alleged that nomination form was not authorized by the client, compliance is ensured in all 3 instances where customer has not opted for nomination and has signed relevant pages of KYC as applicable from time to time.* *4. In 7 instances where it is alleged that the POA / DDPI Page was not found in the KYC Form, it is submitted that POA / DDPI is a voluntary document and a client's account can be activated without executing a POA / DDPI at the time of onboarding. In any event, in 5 out of 7 cases mentioned in inspection report, client has given the DDPI to MOFSL whereas in the remaining 2 instances, the client has not given a DDPI in favour of MOFSL.* *5. In 1 instance where it is alleged that the PAN and Aadhar Card of the client were not available in the KYC Form, it is submitted that MOFSL had duly obtained the same at the time of onboarding customer.* *6. Insofar as client code VPND1458 where it is alleged that KYC was not validated on KRA system, the client account was opened in 2013 through physical mode and the client had provided his Passport as a proof of identity at the time of account activation. However, on the basis of the extant KRA guidelines, this client was deemed Non-OVD case ("Officially Valid Document"). Presently, in compliance with the extant KRA guidelines, the email / mobile validation along with PAN and Aadhar Card of this client with KRA is completed in May 2024. However, there will be no change in the status of the client on the KRA Portal due to KRA's circular dated March 28, 2024.*
4.	*Email ID and Mobile number of Authorized Person used for client details*	*It is submitted that SEBI has made the following observations:* *i. In 44 instances, MOFSL has marked the client as inactive / suspended but shown as active with the exchanges.*	*1. In respect of the 44 instances, it is submitted that MOFSL had duly marked the client as inactive / suspended in its internal database, however, inadvertently the same were missed out to be mark as inactive on the BSE's database which has since been rectified.* *2. Out of the 836 instances, in case of 752 instances, it is submitted that these are indeed accounts which*

		ii. In 836 instances, AP has uploaded their mobile number and Email ID in the Client UCC. iii. In 5 instances, it has been observed that client's email id is same as that of AP's even though there is no relation between client and AP.	belong to the respective APs and are in line with the definition of 'family'. 3. In the remaining 84 instances which are non-individual APs, it is submitted that the mobile number and email ID have been correctly mapped against the family relationship of the partner / director of such AP. 4. In case of the 5 instances, where it has been alleged that the client's email ID is same as that of AP's even though there is no relation between client and AP, it is submitted that in 4 instances, the email ID of the AP was inadvertently mapped in the client accounts and the same has now been rectified. In the remaining 1 instance, it is submitted that the email ID TAKSH.*******@GMAIL.COM belongs to an AP of MOFSL and the said AP has now been closed on exchange records.
5.	*AP Terminal details mapped with another Stock Broker*	*SEBI has observed that in 55 instances, the AP Terminal details has mapped to another Stock Broker.*	1. In 42 out of 55 instances pertain to APs who were earlier registered with Narnolia Financial Advisors Ltd. in 31 instances and Sugal & Damani Share brokers Ltd. in 11 instances. The membership of these two entities were cancelled in 2021 and 2023 respectively and their business was transferred to MOFSL. Accordingly, it is submitted that such other terminals of other stock brokers could not be active due to cancellation of the memberships and no violation is made out in these 42 instances. 2. In 11 instances, no terminals were allotted to the concerned APs. In any event, it is submitted that MOFSL has terminated these 11 APs and accordingly details of these APs will be cancelled in exchange records upon completion of notice period. 3. In 1 instance where SEBI has observed that the AP was also active with BMA Wealth Creators Ltd., it is submitted that BMA Wealth Creators Ltd. was declared a defaulter and expelled from BSE and the concerned AP joined MOFSL after the fact.

ADDITIONAL SUBMISSIONS

5. *It is respectfully submitted that the present proceedings against the Noticee have been initiated prematurely and the SCN has been issued without a proper appreciation of the facts and circumstances, particularly the response / submission of the Noticee. The SCN notes that, notwithstanding extensions granted to it, no response was received by SEBI on the findings of the inspection from the Noticee as on May 28, 2024. In this regard, the following additional submissions maybe noted.*
6. *It is submitted that the Noticee had submitted the Client Master Data to SEBI's inspection team as on October 2023. Pursuant to the inspection process, the Noticee had initially received queries from NSE in March 2024 in respect of various issues including the mismatches in the back-office Client Master Data and UCC uploaded to the Exchange and the Noticee was duly engaging with NSE in this regard. As more particularly set out in the Reply, the Noticee had provided its response to the mismatches in the back-office Client Master Data and UCC to NSE in April 2024 by providing the relevant documents on a sample basis i.e., 28 instances of email modification and 40 instances of mobile number modifications. This is in line with the general practice as well as the manner in which details / clarifications are sought by NSE and the same is reflected in the email trail [Ref: Annexure 5 to the Reply].*
7. *Pursuant to the receipt of the findings of the Inspection Report, the endevour on the part of the Noticee was to satisfy the requirements and provide all necessary clarifications in regard the observations of SEBI. To this end, the Noticee arranged to provide its clarification along with supporting documents in full. As the total instances, particularly in case of NSE, were in thousands, the supporting documents were provided on a sample basis of approximately 10% of the instances. The Noticee's response to the findings of the Inspection Report along with supporting documents were submitted to SEBI on June 12, 2024, however, this has not only been not considered at the time of issuance of the SCN but an erroneous observation has been made therein that the Noticee has not responded to the inspection findings. A copy of the acknowledgement from SEBI on the Noticee's submissions dated June 12, 2024, is enclosed herewith as Annexure A.*
8. *Further, during the personal hearing, the Ld. AO had raised a query in respect of the rationale / methodology of selecting the sample data provided in the Reply. As stated above, the Noticee intended to provide approximately 10% of the instances observed in respect of the email ID / mobile number mismatches as sample data. It is submitted that upon review of the modification requests received post submission of the Client Master Data, the Noticee had received the maximum number of requests in December 2023 and January 2024 and therefore the maximum sample submission has been in respect of these requests in addition to certain samples from the remaining months post October 2023. It is submitted that there is no specific reasoning for selection of sample requests received and the same were provided at random, however, an effort was made to provide requests which are received by both APs and the Noticee's branches.*
9. *It is submitted that in addition to addressing the observations of mismatches in email ID / mobile number, the Noticee had also provided supporting documents on a sample basis in supporting of its submission in respect of the 836 instances where SEBI has observed that the Noticee's AP has uploaded their mobile number and Email ID in the Client UCC. It is the Noticee's submission that there are no discrepancies in the mapping of the email ID / mobile number and in the interest of completeness, declaration of all 836 instances is enclosed herewith as Annexure B.*
10. *It is respectfully submitted that the observations and allegations in present SCN are largely instances where no violation is established and, in some instances, the purported violation so noted is a technical infraction which have been remedied*

and corrected. Pertinently, all observations noted in the present SCN emanate from day-to-day operational activities of a stock broker in the ordinary course of business and are not egregious acts or delinquent conduct.

11. *It is submitted that MOFSL has duly taken note of the observations in the Show Cause Notice and undertakes to correct and improve the operations to remedy any future reoccurrence. We seek to rely upon the observation of the Hon'ble Securities Appellate Tribunal in Religare Securities Limited vs Securities and Exchange Board of India (Order dated June 16, 2011 in Appeal No. 23 of 2011) where the Hon'ble Tribunal has set out the objective of inspection as under:*

    "It must be remembered that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements in regard to the maintenance of records. We also cannot lose sight of the fact that every minor discrepancy/irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant. This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent."
    [Emphasis added]

    A copy of the above order is enclosed herewith as Annexure C.

12. *Reliance is also placed on DSE Financial Services Ltd. vs Securities and Exchange Board of India (Order dated September 11, 2012 in Appeal No. 153 of 2012) where the Hon'ble Tribunal has held as under:*

    Under similar circumstances in one of the cases decided by us earlier (Religare Securities Limited vs. SEBI Appeal no. 23 of 2011 decided on 16.6.2011), we have observed that it must be remembered that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements in regard to the maintenance of records. We have also observed that every minor discrepancy/irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant. As per the observations made by the adjudicating officer himself, the violations committed by the appellant are mostly technical in nature; some of them are solitary instances and for others the appellant has mostly taken/initiated corrective measures. In view of this, we are of the view that the adjudicating officer was not justified in taking punitive action.
    [Emphasis added]

…'

D. CONSIDERATION OF ISSUES AND FINDINGS

11. The issues that arise for consideration in the instant matter are:

Issue No. I: **Whether the Noticee had violated the provisions of Stock Brokers Regulations and SEBI circulars, as alleged?**

Issue No. II: **If yes, whether the violations on the part of the Noticee would attract monetary penalty under Sections 15HB of the SEBI Act, 1992?**

Issue No. III: **If yes, what should be the monetary penalty that can be imposed upon the Noticee?**

12. Before going into the merits of the case, it would be pertinent to firstly deal with the preliminary/ technical contentions raised by the Noticee as part of its replies to the SCN.

12.1. The Noticee in its further submissions dated December 05, 2024 had inter alia contended that *'…The Noticee's response to the findings of the Inspection Report along with supporting documents were submitted to SEBI on June 12, 2024, however, this has not only been not considered at the time of issuance of the SCN but an erroneous observation has been made therein that the Noticee has not responded to the inspection findings…'*

In this regard, I note that from material available on record that the observation in the SCN mentions that no reply to the findings of the inspection were received by SEBI as on May 28, 2024 considering that Noticee had sought extension from SEBI till May 23, 2024. Therefore, the observation in the SCN cannot be construed as erroneous. I also note from material available on record that the reply to the findings of Inspection dated June 12, 2024 was received by SEBI post approval of Adjudication Proceedings in the instant matter. On perusal of the reply to the findings of the inspection dated June 12, 2024, it is noted that, broadly speaking, the contentions raised therein with respect to the allegation in the instant proceedings are covered in the replies to the SCN dated November 13, 2024 and December 05, 2024 and are accordingly dealt with in the ensuing paragraphs. In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

13. I now proceed to deal with the matter on merits as regards alleged violations in respect of the Noticee, as per the SCN.

Issue No. I: Whether the Noticee had violated the provisions of Stock Brokers Regulations and SEBI circulars, as alleged?

Mismatch in email ids uploaded to the Exchange:

13.1. In this regard, it was inter alia observed and alleged that:

13.1.1. In 67 instances, it was observed that there was mismatch in email ids uploaded in BSE Exchange UCC database when compared with SB back-office data.

13.1.2. On verification of Back office data with the NSE exchange data it was observed that there was mismatch in 3550 email id instances. On query the SB has stated that "We have received email modification from client after submitting the client master", however the SB had not submitted any documentary evidence to substantiate its stand despite several telephonic reminders by exchange. Further for 99 cases the SB had not provided any response.

13.1.3. In this regard, SEBI observed that Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 casts the responsibility on SBs for uploading client details. In the instant case, SB had not provided any response for 99 cases out of 3550 instances. Additionally, no documents were provided by SB in support of its statement that it had received email modification from the client. It was further noted by SEBI that observation of mismatch in email id persisted in the current inspection period despite similar observation observed in previous inspection done by NSE in the year 2021-22.

13.1.4. In view thereof, it was alleged that Noticee had violated provisions of Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024; Clause A (2) of Schedule II of Code of Conduct read with regulation 9 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

13.1.5. Here it would be relevant to refer to the text of the aforesaid provisions alleged to have been violated, which inter alia reads as under:

Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024:

'…
33. SMS and E-mail alerts to investors by Stock Exchanges [43]
…
33.2 Uploading of mobile number and E-mail address by stock brokers
33.2.1 Stock Exchanges shall provide a platform to stock brokers to upload the details of their clients, preferably, in sync with the UCC updation module.
33.2.2 Stock Brokers shall upload the details of clients, such as, name, mobile number, address for correspondence and E-mail address.
33.2.3 Stock Brokers shall ensure that the mobile numbers/E-mail addresses of their employees /remisiers/authorized persons are not uploaded on behalf of clients.
33.2.4 Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the stock broker may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.
…'

Clause A (2) of Schedule II of Code of Conduct read with regulation 9 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992:

'…

Conditions of registration.
9.Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,-
…
(f) he shall at all times abide by the Code of Conduct as specified in Schedule II; and
…
SCHEDULE II
Securities and Exchange Board of India (Stock Brokers [104][***]) Regulations, 1992
CODE OF CONDUCT FOR STOCK BROKERS
[Regulation 9]
A. General.
…
(2) Exercise of due skill and care : A stock-broker shall act with due skill, care and diligence in the conduct of all his business.
…'

13.1.6. In this regard, the Noticee, as part of its replies to the SCN inter alia contended that *'…MOFSL had submitted its Client Master Data as on October 31, 2023, as a part of inspection submission to SEBI ….In 67 instances pertaining to BSE, it is submitted that MOFSL had received email modification* *request from client which was updated in the exchange as well as MOFSL back-office. As these modification requests were received after submitting the Client Master Data during inspection, the mismatches observed has arisen.. …'*

In this regard, on perusal of the documents submitted by the Noticee in respect of the 67 instances on BSE, I note from the dates mentioned therein that modification forms majorly pertain to period November 2023 to January 2023 i.e. post October 31, 2024 as of which the details of Client Master Data was submitted to SEBI by the Noticee, as contended. In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

13.1.7. In this regard, the Noticee, as part of its replies to the SCN inter alia also contended that *'…. As such, there are unique 3504 instances of email mismatches. In this regard, as stated above, MOFSL had received modification requests after submitting the Client Master Data during inspection which were subsequently updated in all records…copies of 364 email modification requests, on a sample basis…'*

In this regard, on a random perusal of the 364 samples submitted by the Noticee, I note that in many such samples, the modification request form is dated prior to October 31, 2023, and accordingly the same should have been updated by the Noticee in its back office along with updating it on the stock exchange. To cite as few example, the modification date with respect to client code 1110163 is mentioned as March 20, 2023; the modification form date with respect to client code 7000165 is mentioned as April 05, 2023; the modification form date with respect to client code A0V2B is mentioned as February 27, 2023 and the modification forms are not dated with respect to trading account numbers 1110440, 6000011.

In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

13.1.8. In view thereof, I find that the allegation that there was mismatch in email ids uploaded to the exchange, as brought out above, stands established. Therefore, I hold that the Noticee had violated provisions of Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024; Clause A (2) of Schedule II of Code of Conduct read with regulation 9 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

Mismatch in mobile numbers uploaded to the Exchange.

13.2. In this regard, SEBI inter alia observed and alleged the following:

13.2.1. In 306 instances, it was observed that there was mismatch in mobile number uploaded in BSE Exchange UCC database when compared with SBs back-office data.

13.2.2. On verification of Back office data with the NSE exchange data it was observed that there was mismatch in 3753 Mobile no instances. On query the SB has stated that “We have received email modification from client after submitting the client master”, however the SB has not submitted any proof to substantiate its stand despite several telephonic reminders. Further, exchange did not receive any response for 171 instances from the SB. In 56 instances SB response was found incorrect.

13.2.3. In this regard, SEBI observed that Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 casts the responsibility on SBs for uploading client details. In the instant case, SB had not provided any response for 171 cases out of 3753 instances. Additionally, no documents were provided by SB in support of its statement that it had received email modification from the client. Reminders were sent by exchanges and reply of SB was also sought to the inspection findings, however no reply was received from SB. It was further noted that observation of mismatch in email id persist in the current inspection period despite similar observation observed in previous inspection done by NSE in the year 2021-22.

13.2.4. Further, as informed by NSE, SB has not rectified the mobile number in 55 instances, however the same was reported as rectified by SB to NSE.

13.2.5. In view thereof, it was alleged that Noticee had violated provisions of Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024; Clause A (2) of Schedule II of Code of Conduct read with regulation 9 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

13.2.6. In this regard, as regards instances observed on BSE, the Noticee, as part of its replies to the SCN inter alia contended that *'…MOFSL had received mobile number modification requests from its clients after it had already submitted its Client Master Data as on October 31, 2023, as a part of inspection submission to SEBI. Accordingly, the mismatches were observed as a result of verification of updated exchange records with the old Client Master Data…it is submitted that in 299 such instances, MOFSL had received mobile number modification request from client which was updated in the exchange as well as MOFSL back-office...copies of sample 239 mobile number modification requests are enclosed..'…In respect of the remaining 7 instances, the mobile number available in the Client Master Data included the +91 country code and hence a mismatch is observed…In 55 instances, the mismatches in mobile numbers have been rectified...' '*

In this regard, on a random perusal of the 239 samples submitted by the Noticee, I note that in many such samples, the modification request form is dated prior to October 31, 2023, and accordingly the same should have been updated by the Noticee in its back office along with updating it on the stock exchange. To cite as few example, the modification form with respect to trading account number AB***52 is dated as June 09, 2023; for client code AF***14 the modification date is indicated as August 24, 2023; for client code A***45 the modification date is indicated as April 10, 2023; for client AI***111 the modification date is July 19, 2023

In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

13.2.7. In this regard, as regards instances observed on NSEthe Noticee, as part of its submissions dated November 13, 2024 and December 05, 2024 inter alia also contended that *'…In 3768 instances, mismatches have resulted due to mobile number modification requests received from clients…Due to the voluminous instances noted, copies of 376 mobile number modification requests, on a sample basis, are enclosed…'.*

In this regard, I note that although the Noticee has mentioned in its reply that 376 mobile modification request on a sample basis are enclosed, however, only 59 samples are provided. Further in this regard, on perusal of the 59 samples submitted by the Noticee, I note that the modification form with respect to client having trading account number AC*****208 is dated as January 09, 2023 i.e. prior to October 31, 2023 being the date as of which Client Master Data was submitted by the Noticee, and accordingly the same should have been updated by the Noticee in its back office along with updating it on the stock exchange. It is also noted that for client with trading account number AD****19, no request date or modification date is indicated therein.

In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

13.2.8. In this regard, the Noticee, as part of its submissions dated November 13, 2024 and December 05, 2024 inter alia also contended that *'…In 11 instances, there are no mismatches between exchange and MOFSL records….'*

In this regard, I note from the material available on record that in the Client Master Data that Noticee had submitted to SEBI there was mismatch in the mobile number between the back office data and the UCC record with NSE in respect of these clients. However, now Noticee has submitted screenshot indicating the same mobile number for these 11 clients as that of UCC records on NSE. However, the same does not bear any date as to when the back office data was updated. I note that the Noticee has not demonstrated with relevant details and documents that there was no mismatch in the mobile number when the Noticee submitted the Client Master Data to SEBI. In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

13.2.9. In view thereof, I find that the allegation that there was mismatch in mobile numbers uploaded to the exchange, as brought out above, stands established. Therefore, I hold that the Noticee had violated provisions of Paragraph 33 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024; Clause A (2) of Schedule II of Code of Conduct read with regulation 9 of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992.

SB has not properly executed client registration documents containing all the prescribed mandatory documents and all fields properly filled up.

13.3. In this regard, SEBI inter alia observed and alleged the following:

13.3.1. In 5 instances, it was observed that the status of digital signature was not verified.

13.3.2. In 5 instances, it was observed that the Member has not captured the Geo coordinates of location while onboarding the client during online account process.

13.3.3. In 3 instances, it was observed that the Nomination form was not authorized by the client.

13.3.4. In 7 instances, it was observed that POA / DDPI Page was not found in the KYC Form.

13.3.5. In one instance, it was observed that the KYC documents i.e. Pan and Aadhar card were not available in the KYC Form.

13.3.6. In case of Client id:- VPND1458, KYC is not validated on KRA system.

13.3.7. In this regard, SEBI observed that Annexure 7 of Paragraph 20.1.1 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 provides index of documents for client account opening process wherein requirement of DDPI is stated. Paragraph 7 of SEBI master circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 provides for requirement of PAN in order to strengthen the KYC norms and ensuring sound audit trail of all the transactions. Annexure 2 of SEBI Circular CIR/MIRSD/16/2011 dated August 22. 2011 further provides for PAN and Aadhar in KYC application form. Paragraph 21.3 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 states that nomination and Declaration form shall be signed under wet signature of the account holder(s). Paragraph 51 of SEBI master circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 under the head- Features for online KYC App of the Intermediary provides for geo-location tagging.

13.3.8. In view thereof, it was alleged that Noticee had violated provisions of Annexure 7 of Paragraph 20.1.1 and Paragraph 21.3 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024; Paragraph 7 and 51 of SEBI master circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023; Annexure 2 of SEBI Circular CIR/MIRSD/16/2011 dated August 22. 2011.

13.3.9. Here it would be relevant to refer to the text of the aforesaid provisions alleged to have been violated, which inter alia reads as under:

Annexure 7 of Paragraph 20.1.1 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024;

'…
20. Simplification and Rationalization of Trading Account Opening Process [26]
…
20.1.SEBI has devised the uniform documentation to be followed by all the stock brokers / trading members; a copy thereof to be provided by them to the clients. The details of such documents are listed below:
20.1.1 Index of documents giving details of various documents for client account opening process: Annexure-7
…

Annexure-7

ACCOUNT OPENING KIT

INDEX OF DOCUMENTS

S. No.	Name of the Document	Brief Significance of the Document	Page No
MANDATORY DOCUMENTS AS PRESCRIBED BY SEBI & EXCHANGES			
1	Account Opening Form	A. KYC form - Document captures the basic information	
		B. Document captures the additional information about the constituent relevant to trading account	
2	Rights and Obligations	Document stating the Rights & Obligations of stock broker/trading memberand client for trading on exchanges (including additional rights & obligations in case of internet/wireless technology based	
3	Risk Disclosure Document (RDD)	Document detailing risks associated with dealing in the	
4	Guidance note	Document detailing do's and don'ts for trading on exchange,	
5	Policies and Procedures	Document describing significant policies and procedures of	
6	Tariff sheet	Document detailing the rate/amount of brokerage and other charges levied on the client for trading on the stock	
VOLUNTARY DOCUMENTS AS PROVIDED BY THE STOCK BROKER			
7	Demat Debit and Pledge Instruction' (DDPI)	Document seeking authorization by client to the stock broker, to access the demat account of the client for specified purposes only.	
8			

…'

Paragraph 21.3 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024;

'…

21.Nomination for Eligible Trading Accounts[28]

…

21.3The nomination and Declaration form shall be signed under wet signature of the account holder(s)and witness shall not be required. However, if the account holder(s) affixes thumb impression (instead of wet signature), then witness signature shall be required in the forms.

…'

Paragraph 7 and 51 of SEBI master circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023:

'…

Requirement of Permanent Account Number (PAN)

7. In order to strengthen the KYC norms and identify every participant in the securities market with their respective PAN thereby ensuring sound audit trail of all the transactions, PAN shall be the unique identification number for all participants transacting in the securities market, irrespective of the amount of transaction.

…

51. The App shall also have features of random action initiation for client response to establish that the interactions are not pre-recorded along with time stamping and geo-location tagging to ensure the requirement like physical location being in India etc are also implemented.

…'

13.3.10. In this regard, as regards 5 instances of digital signature not verified, the Noticee, as part of its replies to the SCN inter alia contended that *'…these are EKYC accounts and are activated post valid e-sign as per the provisions of the IT Act and other applicable regulatory provisions. Copies of the EKYC of these 5 instances demonstrating the validity of the digital signature …'.*

In this regard, I note from the documents submitted by the Noticee that in respect of the 5 instances that the same were digitally signed. In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

13.3.11. In this regard, as regards 5 instances that Member had not captured the Geo coordinates of location while onboarding the client during online account process, the Noticee, as part of its replies to the SCN inter alia contended that *'…while the data of the geo location of the customer is not mentioned on KYC document, it is saved in the logs which are generated and maintained by MOFSL while doing online account opening. …*

In this regard, I note that in respect of the 5 instances, Noticee has submitted an excel sheet indicating the latitude and longitude and the respective states i.e. Sikkim in respect of four clients and Uttar Pradesh in respect of one client. In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

13.3.12. In this regard, as regards 3 instances where Nomination form was not authorized by the client, the Noticee, as part of its replies to the SCN inter alia contended that *'…in 1 one of the instance, the client has not opted for nomination and accordingly client has ticked on KYC form against "I/we do not wish to nominate any one for this Trading and Demat account" and the same has been duly signed by the client. In the remaining 2 instances, the clients have not opted for nomination and accordingly client has signed Annexure B i.e. opt out declaration form, which was already available in KYC form submitted to inspection team….'*

In this regard, I note that in respect of the 3 instances, Noticee has submitted documents bearing digital signature (e-sign). In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

13.3.13. In this regard, as regards 7 instances where POA / DDPI Page was not found in the KYC Form, the Noticee, as part of its replies to the SCN inter alia contended that *'…POA / DDPI is a voluntary document and a client's account can be activated without executing a POA / DDPI at the time of onboarding…Without prejudice to the above, it is submitted that in 5 out of 7 cases mentioned in inspection report, client has given the DDPI to MOFSL whereas in the remaining 2 instances, the client has not given a DDPI in favour of MOFSL…'*

In this regard, I note that in terms of Annexure 7 of Paragraph 20.1.1 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024, DDPI is mentioned under voluntary category. Further, paragraph 35.5 of the aforesaid circular states that *'….Standardizing the norms for PoA must not be construed as making the PoA a condition precedent or mandatory for availing broking or depository participant services. PoA is merely an option available to the client for instructing his broker or depository participant to facilitate the delivery of* *shares…'.* In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

13.3.14. In this regard, as regards 1 instance where KYC documents i.e. Pan and Aadhar card were not available in the KYC Form, the Noticee, as part of its submissions dated November 13, 2024 and December 05, 2024 inter alia contended that *'…MOFSL had duly obtained the same at the time of onboarding customer. Copy of the KYC Form with these documents are enclosed..'*

In this regard, I note that the KYC document provided by the Noticee in respect of the client contains PAN number and the Noticee has also provided the copies of the PAN card and Aadhar card of the client. In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

13.3.15. In this regard, as regards 1 instance where KYC was not validated on KRA system for Client id:- VPND1458, the Noticee, as part of its submissions dated November 13, 2024 and December 05, 2024 inter alia contended that '*…client data was uploaded on KRA portal and the KRA verification was completed. However, on the basis of the extant KRA guidelines, this client was deemed Non-OVD case ("Officially Valid Document"). Presently, in compliance with the extant KRA guidelines, the email / mobile validation along with PAN and Aadhar Card of this client with KRA is completed in May 2024…'*

In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

13.3.16. In view thereof, I find that the allegation that SB has not properly executed client registration documents containing all the prescribed mandatory documents and all fields properly filled up, as brought out above, does not stand established.

Email id and Mobile number of member's authorized person was uploaded as email id and mobile number of the client.

13.4. In this regard, SEBI inter alia observed and alleged the following:

13.4.1. It was observed that in 44 instances (BSE), SB has marked the client as inactive/Suspended but however on verification, it was observed that status of such UCC's on BSE Exchange database was marked as active. In 836 instances (BSE), AP has uploaded their mobile number and Email ID in the Client UCC stating that those are the families account however no supporting have been provided and no relationship has been mentioned.

13.4.2. In 5 instances (NCDEX), it has been observed that client's email id is same as that of AP's even though there is no relation between client and AP.

13.4.3. In this regard, SEBI observed that, SB in 44 instances had stated that the client was inactive. However, exchange in its remarks had stated that client status was active. Hence, SB has made incorrect submission to the exchange in 44 cases. Additionally, in 5 cases, there was no relationship between client and AP however the e-mail id was same.

13.4.4. SEBI further observed that in 3 out of 836 instances, SB had replied to exchange that unique e-mail id was mapped and in 7 other instances, SB had replied that unique mobile was mapped. In 74 other, SB had provided relationship as spouse, daughter, father, mother and son. In 752 instances, SB had provided its remarks as "Family account" without describing the valid relationship. Paragraph 33 2.4 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 states that under exceptional circumstances, SB may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents. The SB had not specified the relationship in 752 instances. Additionally, in terms of aforesaid paragraph, documentary evidence had not been provided by SB.

13.4.5. In view thereof, it was alleged that Noticee had violated provisions of Paragraph 33 2.4 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024.

13.4.6. Here it would be relevant to refer to the text of the aforesaid provisions alleged to have been violated, which inter alia reads as under:

Paragraph 33 2.4 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024

'…
33.2.4 Stock Brokers shall ensure that separate mobile number/E-mail address is uploaded for each client. However, under exceptional circumstances, the stock broker may, at the specific written request of a client, upload the same mobile number/E-mail address for more than one client provided such clients belong to one family. 'Family' for this purpose would mean self, spouse, dependent children and dependent parents.

…'

13.4.7. In this regard, as regards 44 instances, I note that the submission of the Noticee vide reply dated November 13, 2024 and December 05, 2024 are in the nature of admission in so far as the Noticee had submitted that *'…44 instances, it is submitted that MOFSL had duly marked the client as inactive / suspended in its internal database, however, inadvertently the same were missed out to be mark as inactive on the BSE's database which has since been rectified…'.*

13.4.8. In this regard, as regards 836 instances, the Noticee, as part of its replies to the SCN inter alia contended that *'…In respect of the 836 instances, it is submitted that in case of 752 instances, …these are indeed accounts which belong to the respective APs and are in line with the definition* *of ‘family’...in the interest of completeness, declaration of all 836 instances is enclosed ...’*

In this regard, I note that the Noticee has submitted declaration forms in respect of the 600 instances (532 + 68). On perusal of the same on random basis, it is noted that the client had indicated the respective email id/ mobile numbers as belonging to family members i.e. mother, father, daughter, son. In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

13.4.9. As regards the 5 instances on NCDEX, I note that the submissions of the Noticee dated November 13, 2024 and December 05, 2024 are in the nature of admission in so far as the Noticee had submitted that *‘…In case of the 5 instances, where it has been alleged that the client's email ID is same as that of AP's even though there is no relation between client and AP, it is submitted that in 4 instances, the email ID of the AP was inadvertently mapped in the client accounts and the same has now been rectified. In the remaining 1 instance, it is submitted that the email ID TAKSH.*******@GMAIL.COM is registered against AP of MOFSL and the said AP has now been closed on exchange records…’.*

13.4.10. In view thereof, I find that the allegation that Email id and Mobile number of member’s authorized person were uploaded as email id and mobile number of the client, stands established. Therefore, I hold that the Noticee had violated provisions of Paragraph 33 2.4 of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024.

AP Terminal details Mapped with another SB:

13.5. In this regard, SEBI inter alia observed and alleged the following:

13.5.1. In 55 instances, the AP Terminal details were mapped to multiple SB.

13.5.2. In this regard, SEBI observed that, Paragraph 32.5.1. (e) of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 states that person shall not be appointed as authorized person by more than one stock broker on the same Stock Exchange. However in 55 instances, it was noted by SEBI that AP was mapped to MOFSL and other SB. MOFSL in its reply to exchange in 12 out of 55 instances stated that no terminal had been allotted to said Authorised Person by MOFSL and in 1 case MOFSL stated that as confirmed by Authorised Person, terminal had not been activated by AP with other SB. In remaining 42 instances, MOFSL replied that AP was earlier trading member with Exchange and have surrendered / cancelled their membership & have registered as AP with MOFSL. Their Business was shifted to MOFSL through Business transfer process as approved by BSE. Accordingly they have intimated that terminals are not active.

13.5.3. In view thereof, it was alleged that Noticee had violated provisions of Paragraph 32.5.1. (e) of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024.

13.5.4. Here it would be relevant to refer to the text of the aforesaid provisions alleged to have been violated, which inter alia reads as under:

> *'…*
> *32.5 Conditions of Appointment*
> *32.5.1 The following are the conditions of appointment of an authorized person:*
> *…*
> *e. A person shall not be appointed as authorized person by more than one stock broker on the same Stock Exchange.*
>
> *…'*

From the plain reading of the text above, I note that in terms of Paragraph 32.5.1. (e) of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024, a person shall not be appointed as authorized person by more than one stock broker on the same Stock Exchange.

13.5.5. In this regard, the Noticee, as part of its replies to the SCN had inter alia contended that *'…that 42 out of 55 instances pertain to APs who were earlier registered with Narnolia Financial Advisors Ltd. in 31 instances and Sugal & Damani Share brokers Ltd. in 11 instances, who were Exchange registered member brokers. The membership of these two entities were cancelled in 2021 and 2023 respectively and their business was transferred to MOFSL…APs could not be active due to cancellation of the memberships and no violation is made out in these 42 instances.…'*

In this regard, as regards Narnolia, I note that the surrender of registration, as Trading Member of Narnolia Financial Advisors Limited (Narnolia), was accepted by SEBI vide letter dated August 26, 2021, which was during the inspection period itself, as submitted by the Noticee. In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

Further, as regards Sugal, I note that the surrender of certificates of Registration granted to Sugal & Damani Share Brokers Limited (Sugal) as a Stock Broker was accepted by SEBI vide letter dated December 18, 2023, as submitted by the Noticee. Therefore, prior to December 18, 2023, the AP of MOFSL was mapped to Sugal as well. In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

13.5.6. The Noticee, as part of replies to the SCN had inter alia also contended that '…*In 11 instances, it is submitted that no terminals were allotted to these APs at MOFSL. In any event, it is submitted that MOFSL has terminated these 11 APs and accordingly details of these APs will be cancelled in exchange records upon completion of notice period…'.*

In this regard, I note that the contentions of the Noticee are out of context in so far as the instant allegation pertains to appointment of an authorized person and not about allotment of terminal to the authorized person. In terms of Paragraph 32.5.1. (e) of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024, a person should not have been appointed as AP by more than one stock broker on the same exchange. I note that Noticee has failed to demonstrate with relevant details and documents that these APs were not appointed by other stock brokers on the same stock exchange. In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence not acceptable.

13.5.7. The Noticee, as part of its replies to the SCN inter alia also contended that *'…In 1 instance being AP.., SEBI has observed that this AP was also active with BMA Wealth Creators Ltd. In this regard, it is submitted that the said member is defaulter and expelled member as per BSE with effect from February 13, 2020 and the AP came to be associated with MOFSL in January 2021…'.*

In view thereof, I am inclined to allow benefit of doubt to the Noticee in this regard.

13.5.8. The Noticee, as part of its replies to the SCN inter alia also contended that *'… In the remaining 1 instance being AP – .. we have received confirmation from AP that his NISM certificate is not active with any other Trading Member…'.*

In this regard, I note that the contentions of the Noticee is out of context in so far as the instant allegation is with respect to violation of Paragraph 32.5.1. (e) of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 i.e. appointment of an authorized person by more than one stock broker on the same Stock Exchange and not about NISM certifications. In view thereof, the contentions of the Noticee are devoid of merit and hence not acceptable.

13.5.9. In view thereof, I find that the allegation that there AP terminal details were mapped with another SB, as brought out in the foregoing, stands established. Therefore, I hold that the Noticee had violated provisions of Paragraph 32.5.1. (e) of Master Circular SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024.

Issue No. II: If yes, whether the violations on the part of the Noticee would attract monetary penalty under Sections 15HB of the SEBI Act, 1992?

14. Noticee had violated provisions of Stock Brokers Regulations and SEBI Circulars, as has been dealt with and established in the foregoing paragraphs.

15. I note that Noticee had submitted that *'….MOFSL has duly taken note of the observations in the Show Cause Notice and undertakes to correct and improve the operations to remedy any future reoccurrence …'* and has placed reliance on Hon'ble Securities Appellate Tribunal in Religare Securities Limited vs Securities and Exchange Board of India (Order dated June 16, 2011 in Appeal No. 23 of 2011) and DSE Financial Services Ltd. vs Securities and Exchange Board of India (Order dated September 11, 2012 in Appeal No. 153 of 2012).

In this regard, in my opinion each case is peculiar in its facts and circumstances based on which the violations are ascertained. Whether adjudication proceedings are to be initiated in a case would depend on the facts and circumstances of each case. I also note that, initiation of Adjudication proceedings under the appropriate provisions of SEBI Act, 1992 is a prerogative of SEBI depending upon the outcome of such exercise viz., Inspection and findings thereof. It would also be relevant to state that the subject matter of instant proceedings are as per the Communique of appointment of AO, duly approved by the Competent Authority.

I also note from the text of Hon'ble SAT order dated 16.06.2011 that Hon'ble SAT had inter alia held that '... *This will, of course, depend on the nature of* the *irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent...*'. Further in this regard, I also note that the alleged violations in respect of the Noticee are of extant applicable provisions of law as are otherwise applicable to the entire category of intermediary viz., Stock Brokers in the instant case, and not just about minor procedural aspects specific to the Noticee. I also note that observation of mismatch in email id persist in the current inspection period despite similar observation was observed in previous inspection done by NSE in the year 2021-22.

In view thereof, the contentions of the Noticee in this regard are devoid of merit and hence cannot be accepted.

16. In this regard, it is noted that the Hon'ble Supreme Court of India in the matter of SEBI v/s Shri Ram Mutual Fund [2006] 68 SCL 216(SC) inter alia held that:

> *"…In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established....."*

17. Therefore, for the established violations, as brought out in the foregoing paragraphs, I find that the Noticee is liable for monetary penalty under section 15HB of the SEBI Act, 1992 which reads as under:

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

Issue No. III: If yes, what should be the monetary penalty that can be imposed upon the Noticee?

18. While determining the quantum of penalty under Section 15HB of the SEBI Act, 1992, it is important to consider the factors as stipulated in Section 15J of the SEBI Act,1992, which inter alia reads as under: -

SEBI Act, 1992

'…

Factors to be taken into account while adjudging quantum of penalty.

***15J**. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely:—*

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

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

c. the repetitive nature of the default.

Explanation.—For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.

….'

Note: for detailed/ complete /exact text of the provisions, relevant Acts, Circulars etc., may please be referred.

19. In the instant case, I note that the material available on record does not quantify any disproportionate gain or unfair advantage or the amount of loss caused to an investor or group of investors as a result of the violations committed by the Noticee. Further, as regards repetitive nature of default, I note from SEBI website that Adjudication Orders dated April 29, 2022 and February 28, 2020 were passed in respect of Noticee imposing monetary penalty. Further in this regard, I also note from material available on record that in the instant matter SEBI has inter alia observed repetitive nature in respect of violation relating to mismatch of email ids. In this regard, I note that Noticee being a SEBI registered intermediary had failed to comply with the extant applicable provisions of the Stock Brokers Regulation and SEBI Circulars, importance of which cannot be undermined, as brought out and dealt with in the foregoing and which SEBI is duty bound to enforce

compliance of. Such non-compliance accordingly needs to be dealt with suitable penalty.

E. ORDER

20. After taking into consideration the facts and circumstances of the case, material available on record, submissions made by the Noticee and also the factors mentioned in the preceding paragraphs, in exercise of the powers conferred upon me under section 15-I of the SEBI Act, 1992 read with Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, I hereby impose the following penalty, as per the table below, on the Noticee, for the aforementioned violations, as discussed in this order. In my view, the said penalty will be commensurate with the violations committed by the Noticee in this case:

Noticee Name	Penalty under Section	Penalty Amount (In Rs.)
Motilal Oswal Financial Services Limited	15HB of the SEBI Act, 1992	Rs. 5,00,000/- (Rupees Five Lakhs Only)

21. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

ENFORCEMENT > Orders > Orders of AO > PAY NOW

22. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under section 28A of the SEBI Act for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

23. In terms of the provisions of Rule 6 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, a copy of this order is being sent to the Noticee and also to the Securities and Exchange Board of India.

DATE: DECEMBER 31 , 2024
PLACE: MUMBAI

AMAR NAVLANI
ADJUDICATING OFFICER