BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER Ref. No. ORDER/JS/RJ/2025-26/31522]

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

Mangal Keshav Financial Services LLP

PAN: ABIFM3412H

In the matter of inspection of Mangal Keshav Financial Services LLP

BACKGROUND

1. Mangal Keshav Financial Services LLP (hereinafter referred to as '**Noticee**') is registered with Securities and Exchange Board of India (hereinafter referred to as '**SEBI'**) as a stockbroker having registration number INZ000166334.

2. An inspection of the Noticee was carried out for the period from April 01, 2022 to May 31, 2023 (hereinafter referred to as **'inspection period'**) on the theme - *Common mobile number and email ID linked to multiple UCC*. The findings of the inspection were communicated to the Noticee vide letter dated October 20, 2023 and Noticee submitted its reply vide letter dated November 06, 2023.

3. After the receipt of the Noticee's reply, findings of the inspection *vis-a-vis* the response of the Noticee were analysed and a Post Inspection Analysis Report (hereinafter referred to as '**PIA'**) was prepared by SEBI. As per the PIA, it was alleged that the Noticee had violated the following provisions:
   - 3.1. Regulation 9 (f) of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as '**Broker Regulations**');
   - 3.2. Clauses A (2) and B (2) in Schedule II of Broker Regulations;
   - 3.3. Clause 2.5.2 of SEBI Circular bearing Reference No. MRD/DoP/SE/CIR-20/2005 dated September 08, 2005 (hereinafter referred to as '**SEBI Circular dated September 08, 2005**');

3.4. Clauses 2B(iii) and (iv) of SEBI Circular bearing Reference No. CIR/MIRSD/15/2011 dated August 02, 2011 (hereinafter referred to as '**SEBI Circular dated August 02, 2011'**); and

3.5. Clauses 33.2.3, 33.2.4 and 50.3.6(b)(i) of SEBI Master Circular bearing Reference No. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 (hereinafter referred to as '**SEBI Master Circular dated May 22, 2024'**).

<u>APPOINTMENT OF ADJUDICATING OFFICER</u>

4. Pursuant to the superannuation of the earlier Adjudicating Officer (hereinafter referred to as '**AO**') who had been appointed so vide communique dated June 25, 2024, the undersigned was appointed as AO in this matter vide communique dated April 9, 2025, to inquire into and adjudge under sections 15F(a) and 15HB of the Securities and Exchange Board of India Act, 1992(hereinafter referred to as '**SEBI Act**') for the aforesaid violations alleged to have been committed by the Noticee.

<u>SHOW CAUSE NOTICE, REPLY AND HEARING</u>

5. Show Cause Notice (hereinafter referred to as '**SCN**') bearing No. SEBI/EAD/EAD-2/ NH/RJ/2024/21818 dated July 03, 2024, was issued to the Noticee under rule 4 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Rules'**) to show cause as to why an inquiry should not be held and penalty, if any, should not be imposed against the Noticee under sections 15F(a) and 15HB of SEBI Act for the aforesaid alleged violations.

6. The said SCN dated July 03, 2024, *inter alia*, alleged the following *qu*a Noticee:

6.1. <u>Use of common mobile number/ email ID without obtaining declaration form</u>

*6.1.1. During the inspection, it was observed that Noticee while making modification in KYC details, had used common mobile number/ email ID for 12 Unique Client Codes (hereinafter referred to as '**UCCs'**) without obtaining declaration forms from the clients for establishing relationships.*

6.1.2. In response, the Noticee replied that it had obtained a declaration from the client for establishing a relationship before registration and it was unable to trace the same.

6.1.3. In terms of Clause 2B (iv) of SEBI Circular dated August 02, 2011 read with Clause 33.2.4 of SEBI Master Circular dated May 22, 2024, stock brokers are required to ensure that separate mobile number / email ID are 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 / email ID for more than one client, provided such clients belong to one family.*

6.1.4. *In this context, it was mentioned in paragraph No. 2 of the PIA that as no document was provided by the Noticee, it was concluded that the Noticee failed to obtain the written request from clients for using a common mobile number/ email ID. In view of above, the response of the Noticee was not accepted for the said 12 UCCs in the PIA.*

6.1.5. *Accordingly, Noticee was alleged to have violated Clause 2B (iv) of SEBI Circular dated August 02, 2011 read with Clause 33.2.4 of SEBI Master Circular dated May 22, 2024.*

6.2. <u>Consent letter</u>

6.2.1. *During the inspection, 172 UCCs were selected to verify whether a consent letter was obtained by Noticee from the clients for establishing a relationship for the use of a common mobile number/ email ID. In this regard, it was observed that the Noticee did not provide the relevant data with respect to 163 UCCs out of the said 172 UCCs.*

6.2.2. *In response, Noticee stated that it had obtained a consent letter from clients before registration and was in the process of tracing the same.*

6.2.3. *In this regard, it was stated in the PIA that in terms of SEBI Circular dated August 02, 2011, stock brokers are required to ensure that separate mobile number / email address are 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 / email address for more than one client provided such clients belong to one family.*

6.2.4. *In the PIA, it was alleged that the Noticee had merely mentioned relationships such as self / spouse/ child / parent. However, it failed to provide any consent letter / written request for these 163 UCCs to substantiate its claim.*

6.2.5. *Accordingly, it was stated in paragraph No. 3 of the PIA that since no document was provided, it was concluded that the Noticee failed to obtain a written request from clients for common mobile number/common email ID. In view of the above, the response of the Noticee with respect to 163 UCCs was not accepted.*

6.2.6. *Therefore, the Noticee was alleged to have violated Clause 2B (iv) of SEBI Circular dated August 02, 2011 read with Clause 33.2.4 of SEBI Master Circular dated May 22, 2024.*

6.3. <u>Authorized Person</u>

*6.3.1. During the inspection, it was observed that the common email ID of Authorized Person (hereinafter referred to as '**AP**') was uploaded for more than one client in 26 instances. Further, the common mobile number of AP was uploaded for more than one client in 22 instances.*

6.3.2. In response, the Noticee submitted that 26 cases with common email ID and 22 cases with common mobile number belonging to an AP were accepted on account of client's being family members of the Noticee. Further, Noticee stated that one UCC where the email ID of AP was used for the client has been closed.

6.3.3. In this regard, it is stated in the paragraph No.5 of the PIA that the Noticee failed to furnish supporting documents regarding consent letters for using common email ID and mobile number. Further, it is mentioned that para 2 B (iii) and Clause No. 33 of SEBI Circular dated August 02, 2011 and SEBI Master Circular for stockbroker states that "stock brokers shall ensure that the mobile numbers / E-mail address of their employees / sub brokers / remisiers / authorised persons are not uploaded on behalf of clients."

6.3.4. In view of the above, it was stated in paragraph No. 5 of the PIA that the Noticee should not have accepted the email ID/mobile number of AP for any of its clients. Accordingly, the response of the Noticee was not accepted in the PIA.

6.3.5. Therefore, the Noticee was alleged to have violated Clause 2B (iii) of SEBI Circular dated August 02, 2011 read with Clause 33.2.3 of SEBI Master Circular dated May 22, 2024 and Clause B (2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations.

6.4. <u>Electronic Contract Note not sent to ultimate clients</u>

*6.4.1. In the PIA, it was observed that the common email ID of AP was uploaded for more than one client in 27 cases without any supporting documents. In this regard, it was stated that Electronic Contract Notes (hereinafter referred to as '**ECNs'**) were deemed to have not been sent to the ultimate clients for the said 27 cases.*

6.4.2. In response, the Noticee submitted that ECNs were sent /provided to the said 27 clients.

6.4.3. In terms of Clause 2B (iii) of SEBI Circular August 02, 2011 read with Clause 33.2.3 of SEBI Master Circular dated May 22, 2024, stock brokers are required to ensure that the mobile numbers/E-mail addresses of their employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.

6.4.4. It is noted in paragraph No. 5 of the PIA that the email ID of AP was linked to the clients. Further, the Noticee did not provide any documents to support its submissions. Accordingly, it was alleged that ECNs were not sent to the ultimate clients in 27 cases.

6.4.5. Therefore, the Noticee was alleged to have violated Clause 2B (iii) of SEBI Circular August 02, 2011 read with Clause 33.2.3 of SEBI Master Circular dated May 22, 2024 and Clause B (2) of Schedule II for Code of Conduct read with Regulation 9(f) of Broker Regulations.

6.5. Bank account number not captured in the UCC database

6.5.1. During the inspection, it was observed that in 612 out of 947 UCCs, the Noticee had kept the bank account number of its clients as blank in the UCC database.

6.5.2. In response, the Noticee submitted that it had updated the bank account details of the said 612 UCCs.

6.5.3. It is stated in the PIA that NSE, vide email dated December 28, 2023, had informed that the bank account details were not updated in 153 out of the said 612 UCCs.

6.5.4. Accordingly, it was alleged in paragraph No. 6 of the PIA that the Noticee failed to update the bank account details in the UCC database for 612 UCCs during the inspection period. Further, it was alleged that the Noticee had only partially updated the UCC records with stock exchanges post inspection findings.

6.5.5. Hence, the Noticee was alleged to have violated Clause A (2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations.

6.6. Demat Account Number kept blank

6.6.1. In the PIA, it was stated that the Noticee had kept the demat account number as blank or invalid in the UCC database in 474 instances out of 835 UCCs.

6.6.2. In response, the Noticee stated that the demat account numbers in the said 474 UCCs have been updated in the UCC database.

6.6.3. In this regard, it was alleged in the PIA that though the Noticee had claimed that the demat account numbers in the said 474 UCCs have been updated, NSE vide email dated December 28, 2023 stated that the demat account numbers were still blank in 121 out of the 474 UCCs.

6.6.4. Accordingly, it was alleged in paragraph No. 7 of the PIA that there was non-updation of demat account number for 474 out of the 835 sample UCCs during the inspection period. Further, it is alleged that the instant violation continues in 121 UCCs.

6.6.5. Therefore, the Noticee was alleged to have violated Clause A (2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations.

6.7. <u>Observation with regarding to due diligence</u>

6.7.1. During the inspection, it was observed that the Noticee did not carry out due diligence while capturing relationship data for 518 UCCs (486 emails and 32 common mobile numbers) from the KYCs. For the said UCC clients, it was observed that relationships were mentioned as dependent children while the age was found in the range from 35 to 100 years.

6.7.2. In response, Noticee clarified that it carries out due diligence while on-boarding clients. However, in the said 518 UCCs, the relationship was wrongly captured as 'dependent child' instead of actual relationship of father and child.

6.7.3. In paragraph No. 8 of the PIA, the reply of the Noticee was not accepted. It was alleged that Noticee did not carry out due diligence while capturing relationship data from KYCs in said 518 instances (486 emails and 32 common mobile numbers).

6.7.4. Accordingly, the Noticee was alleged to have violated Clause A (2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations.

6.8. <u>ECN Log Verification</u>

*6.8.1. In the inspection, it was observed that in 44 instances, physical Contract Notes were not sent to clients when the delivery of Electronic Contract Notes (hereinafter referred to as '**ECNs**') had failed.*

6.8.2. In response, the Noticee submitted that out of 58,000 transactions, ECN confirmation was not available for only 44 instances. Further, the Noticee furnished revised ECN logs with success status for seven instances.

6.8.3. In terms of Clause 2.5.2 of SEBI Circular dated September 08, 2005 read with Clause 50.3.6 (b) (i) of SEBI Master Circular dated May 22, 2024, stock brokers are required to send a physical contract note to the client within the stipulated time in cases where the ECNs have not been delivered to the client.

6.8.4. In paragraph No. 10 of PIA, the reply of the Noticee for the said seven instances where it had furnished revised ECN logs was accepted. For the remaining 37 instances, it was alleged in the PIA that the Noticee had neither furnished ECN log corroborating sending of ECN nor supporting documents to show that it had sent physical Contract Notes to clients. It was stated that a Contract Note for each and every transaction needs to be sent to clients. In this regard, the response of the Noticee for the remaining 37 instances was not accepted in the PIA.

6.8.5. *Accordingly, the Noticee was alleged to have violated Clause 2.5.2 of SEBI Circular dated September 08, 2005 read with Clause 50.3.6 (b) (i) of SEBI Master Circular dated May 22, 2024.*

7. The SCN was duly served upon the Noticee in consonance with the Rules. The Noticee submitted its replies on July 26, 2024 and August 31, 2024. Meanwhile, the Noticee, vide email dated September 02, 2024, informed about the filing of a settlement application in the present matter.

8. A hearing in the captioned matter was held on October 09, 2024 before the erstwhile AO. The authorized representatives (hereinafter referred to as '**AR**') of the Noticee attended the hearing on behalf of the Noticee. Further, the Noticee was granted additional time until October 18, 2024 to make fresh submissions. Noticee, vide letters dated October 17, 2024 and October 18, 2024 submitted its revised reply.

9. It is noted from the material on record that the settlement application of the Noticee was rejected on January 28, 2025. Thereafter, pursuant to the appointment of the undersigned as AO, another opportunity of hearing was granted to the Noticee. The hearing was held on May 15, 2025. During the hearing, the Noticee reiterated the submissions made vide replies dated October 17, 2024 and October 18, 2024.

Reply of Noticee

10. As noted above, Noticee submitted its first reply on July 26, 2024. Noticee submitted additional reply on August 31, 2024. Revised replies were submitted by Noticee vide letters dated October 17, 2024 and October 18, 2024. In the reply dated October 17, 2024, the Noticee, *inter alia,* submitted as under:

> *"... We kindly request you to consider this submission as our final response and disregard our previous letters dated July 26 and August 31, 2024. ..."*

11. The relevant extract of the Noticee's reply dated October 17, 2024, is reproduced below:

*"**Use of common mobile number/email ID without obtaining consent letter form:***

(i) Consent letters Policy: As per our policy, we obtain consent letters from clients to establish the relationship before registration. (ii) Previous Reply and Document Retrieval: In our reply dated 06-11-2023, responding to observations raised in your letter dated 20-10-2023, we mentioned our difficulty in tracing certain consent letters. We have since located all 12 consent letters.

(iii) Compliance with Regulations: The consent letters include specific details regarding the use of common mobile and email IDs, as required by regulations.
(iv) Fresh Consent letters: For cases where we were unable to trace the original consent letters, we have obtained fresh consent letters from the respective clients.
(v) No Violation: Therefore, there has been no violation of Clause 2B (iv) of the SEBI Circular dated August 2, 2011, read with Clause 33.2.4 of the SEBI Master Circular dated May 22, 2024.

Consent Letter

(i) Consent letters Policy: As mentioned herein above, it is our policy to obtain consent letter from the clients before registration.
(ii) Previous Reply and Document Retrieval: In our reply dated 06-11-2023, in response to observations raised vide your letter dated 20-10-2023, we had mentioned that we are unable to trace the consent letters. However, the said consent letters as per detail below have been traced and attached.
(iii) Compliance with Regulations: These consent letters contain specific relationship for use of common mobile number and email id as mandated by Regulations. Out of 49 instances of mobile number, we have attached consent letters for 47clients and for the balance 2 clients, we have not been able to trace as they are very old and the clients are inactive and further during the inspection period there were no transactions carried out by these two clients for which we are attaching herewith the copy of ledger. These client statuses have been correctly updated in UCC. Similarly, out of 114 instances of E-Mail, we have attached consent letters for 103 clients. Out of balance 11 clients, we are unable to trace the consent letters for 9 clients and the same clients are inactive and the balance 2 clients are closed. These client statuses have been correctly updated in UCC.
(iv) No Violation: As such there is no violation of clause 2B(iv) of SEBI Circular dated 02/08/2011 read with Clause 33.2.4 of the SEBI Master Circular May 22/05/2024

Authorized Persons

(i) As per our policy, common email IDs and mobile numbers of Authorized Persons are not used for more than one UCC (Unique Client Code). However, in cases where an Authorized Person opens an account with the firm as a client, a relationship exists between the Authorized Person (in their client capacity) and their family members (who also have existing accounts with the broking firm), a common email ID (i.e., the email ID of the Authorized Person) is used for both their account and those of their family members, relevant consent letters and our remarks establishing the respective relationships are attached.

(ii) Regarding the observations on common email IDs for 26 instances, in case of 21, consents letters of clients regarding common email id to be used are attached herewith. Further one client is deceased for whom we are attaching the death certificate. For balance 4 instances we are unable to trace the consent letters out of which 3 are inactive and 1 is closed. It is to be noted that no trading has taken place in these closed and inactive accounts during 2022-2023.

(iii) Further, regarding the observations on common mobile numbers for 22 instances, we are attaching herewith 19 consent letters from clients regarding use of common mobile number. We are unable to trace consent letters in case of 3 instances out of which 2 are inactive and 1 is closed for which ledger copies are attached herewith. The ledger copies for this period are attached.

(iv) Clients mapped to Authorized Persons are family members as defined under regulations and are mapped to the Authorized Person in their client capacity, not in their capacity as Authorized Person.

(v) No Violation: Therefore, there is no violation of Clause 2B (iii) of the SEBI Circular dated 02/08/2011, Clause 33.2.3 of the SEBI Master Circular dated 22/05/2024, or Clause B(2) of Schedule II for the Code of Conduct read with Regulation 9(f) of the Broker Regulation.

Electronic Contract Note not sent to such ultimate clients

(i) With reference to the UCC's mentioned in (Annexure 8), Electronic Contract Notes (ECN) were sent to clients on email id as appearing in the records of UCC and these were in receipt of the clients.

(ii) After receipt of the ECNs, clients had undertaken respective pay-in or pay-out as required. There is no complaint or default from the client's side at all.

(iii) In cases of Mobile numbers and email Id of the clients, i.e., family members mapped to APs (in their capacity as clients of the stock broking firm) ECNs are delivered to the Email Ids/ mobile numbers appearing on the record, i.e., the Email Ids / mobile numbers of Authorized Persons (in their capacity as clients of the stock broking firm). Relevant consent letters and our remarks are attached.

(vi) Regarding the observations on common email IDs for 26 instances, in case of 21, consent letters from clients regarding use of common email Id are attached herewith.

Further one client is deceased for whom we are attaching the death certificate. For balance 4 instances, we are unable to trace the consent letters out of which 3 are inactive and 1 is closed. In case of 1 instance as mentioned in "Exhibit 3H' enclosed herewith, the client code belongs to AP himself in his client capacity and the consent letter has been attached herewith.

(iv) By no stretch of imagination, it can be construed that the clients were not in receipt of the ECNs.

(v) No Violation: Thus, there is no violation of clause 2B (iii) of SEBI Circular dated 02-08-2011 read with Clause 33.2.3 of SEBI Master Circular dated 22-05-2024 and Clause B (2) of schedule ii for code of Conduct read with Regulations 9(f) of Broker Regulations.

Bank account number not captured in the UCC database:

(i) Proper bank details are obtained before registering any client, however the instances mentioned in the Annexure 9 have been opened during COVID-19 lockdown wherein the staffs were working from home.

(ii) After receipt of observation vide your letter dated 20-10- 2023, we had started the process of updating fresh bank details. Accordingly, clients were being called up for details and simultaneously those were being updated. Based on the details received from the clients till filing of our response, we had updated bank details and for the balance we were in the process of collating bank details from the clients.

(iii) The detailed analysis of 153 instances mentioned m Annexure 10 are stated herein below:

- *In 143 instances, we have duly updated the UCC details.*
- *In 1 instance, UCC have been closed both with exchanges as well as back-office hence no updation is required.*
- *In 5 instances, AP referral code for which wrong UCC was created are now closed.*
- *In 1 instance, in spite of lot of follow up for the details from the client, we have not been successful in tracing the location of the client, hence have been marked inactive both in exchange and back office.*
- *In 1 instance, wrong UCC was created under the same PAN hence the same has been closed.*
- *In 2 instances, we are getting an error while updating on the exchange's portal.*

(iv) The copies of the ledger for all the inactive and closed instances are attached herewith. Further, the extract of the duly updated UCC file is attached.

(v) No Violation: Therefore, there is no violation under Clause A (2) of Schedule II for Code of Conduct read with Regulation 9(f) of Broker Regulations.

Demat Account Number kept blank

(i) As per our policy proper demat details are obtained before registering any client account, however the instances mentioned in the Annexure 11 have been opened during COVID-19 lockdown wherein the staffs were working from home.

(ii) After receipt of observation, vide your letter dated 20-10- 2023, we had started the process of updating of fresh demat details. Accordingly, clients were being called up for demat details and simultaneously those were being updated. Based on the details received from the clients till filing of our response, we had updated demat details in most of the cases and for the remaining, we are m the process of collating demat details from the clients.

(iii) The detailed analysis of 121 instances are stated herein below:

- *In case of 111 instances, UCC details have been duly updated as on date.*
- *In 1 instances, VCC details have been closed both with exchanges as well as back-office hence no updation is required.*
- *In case of 5 instances AP referral code for which wrong vee was created, are now closed.*
- *In case of 2 instances, we have inactivated the Clients.*
- *In 1 instance, wrong VCC was created under the same PAN hence the same has been closed.*
- *In case of 2 instances, we are getting an error while updating on the exchange's portal.*

(iv) The extracts of the duly updated VCC file and copies of the ledger for the aforesaid 21 inactive and closed instances are attached herewith.

(v) No Violation: Hence, there is no violation under Clause A (2) of Schedule II for Code of Conduct read with Regulation 9(f) of Broker Regulations.

Observation with regarding to due diligence

(i) We properly carry out due diligence while on boarding clients. Actual relationship is captured for common Email ID and mobile number.

(ii) During the on boarding of new clients, we collect the necessary documents to create a Unique Client Code (UCC). If a new client has a family member with an existing account at the firm, a consent letter detailing the relationship between the new client and the existing family member is required. However, when extracting data for the observations mentioned in the letter dated 20-10-2023, we discovered that some client records contained incorrect dates of birth, resulting in age calculations exceeding 100 years. Additionally, in addressing the observations, some instances incorrectly listed "dependent child" due to typographical errors. We want to clarify that the correct date of birth, as per the KYC records, has been updated in the UCC database.

(iii) Furthermore, out of 486 instances of email IDs, we are attaching 462 consent letters establishing relationships.

(iv) For the remaining instances, we are currently in the process of retrieving 16 consent letters, which we have not yet been able to locate. Additionally, 7 client accounts have been closed, and 1 client is deceased.

(v) Further, out of 32 instances of common Mobile number, we are attaching herewith consent letters for all the instances.

(vi) No Violation: Hence, there is no violation under Clause A (2) of Schedule II for Code of Conduct read with Regulation 9(f) of Broker Regulations.

ECN Log Verification

(i) As per policy we provide physical contract notes to the client within the stipulated time in cases where ECNs have not been delivered to the client.

(ii) In respect to 37 instances as mentioned in, we have sent physical Contract Notes to the clients.

(iii) The copies of the same are traced and attached here with for your kind consideration as per Exhibit 8.

(iv) Out of 37 instances, 1 instance is of an institutional client wherein the trades are settled through PIS system and STPs are provided to the custodians.

(v) No Violation: As such there is no violation and have complied with clause 2.5.2 of SEBI Circular dated 08/09/2005 read with Clause 50.3.6(b)(i) of SEBI Master Circular dated 22/05/2024.

- *It is to be noted that that in last two decades, no adverse Order has been passed by SEBI wherein any monetary penalty has been imposed for alleged violation of Regulation 9 (f) of SEBI (Stock Brokers) Regulations, 1992; Clauses A (2) and B (2) in Schedule II of Broker Regulations; Clause 2.5.2 of SEBI circular reference no MRD/DoP/SE/CIR-20/2005 dated September 08, 2005; Clauses 2B (ii) and (iv) of SEBI circular reference no. CIR/MIRSD/15/2011 dated August 02, 2011 (hereinafter referred to as 'SEBI Circular dated August 02, 2011) and Clauses 33.2.3, 33.2.4 and 50.3.6 (b) () of SEBI Master circular no. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024.*
- *It is important to consider that the Circular dated May 22, 2024, was issued after the relevant period of April 1, 2022, to May 31, 2023. Therefore, it was not in effect during the time in question, and it is not possible to have violated a circular that did not exist during that period.*
- *It is submitted that we have extended our full cooperation to the inspection team at our office. It is an established fact that we serve over 50,000 clients and have been in the broking business*

since 1939. Given our long-standing history, many of our clients have been with us for years, and their KYC were completed manually.

- *Despite our best efforts to maintain comprehensive records, the sheer volume of documents and our limited technological resources sometimes led to challenges in retrieving specific documents as required by the inspection team. However, we have now procured most of the necessary documents (Consent Letters etc.) and updated the UCC data accordingly. Further, out of total observations raised, we have been able to comply with 93% of the instances and the balance 7% are either inactive/closed/deceased and few are untraceable clients. Additionally, we have taken steps to inactivate clients who have not completed the KYC formalities. We have also implemented several preventive measures to ensure that the alleged default does not recur. Please note that trading will not be permitted for inactive clients until KYC (Know Your Customer) formalities are completed.*
- *It is further submitted that the alleged violations outlined in the Show Cause Notice (SCN) are technical in nature and, importantly, do not undermine or affect the integrity of the securities market in any way.*
- *We further humbly state that, the observations mentioned in the show cause notice are venial and technical in nature and no harm or injury has been caused to the pecuniary interest of the clients.*
- *We have duly complied with the observations raised during the inspection.*
- *Further we were warned to be careful in future and improve compliance standards vide SEBI letter dated 03-04-2024, bearing reference number SEBI/HO/MIRSD/SEC6/0W/P/13294/1.*
- *Vide our letter dated 08-05-2024, we had submitted corrective steps initiated against the observations and it was placed before the partners meeting.*
- *We have already initiated steps as mentioned herein below in order to eliminate such issues going forward*

    a) We have changed our back-office vendor, wherein we have additional features for eliminating any duplication of email and mobile.

    b) We have also initiated verifying all KYC records and aligning it with back office and UCC data

    c) We have revamped our maker /checker mechanism

    d) We have started educating & updating KYC staffs regarding recent updation in KYC regulations

    e) We have also started interacting with APs and impressing upon them to use separate email and mobile numbers for their clients *f) We have also started opening accounts through On Line Portal which will help in eliminating clerical errors.*

g) We have also ensured that all clients whose where m there are deficiencies in KYC are made to do Re-KYC…"

CONSIDERATION OF ISSUES

12. After careful perusal of the material on record, I note that the issues that arise for consideration in the present case are as follow:

I. Whether Noticee failed to obtain declaration forms, while making modifications in KYC details, from clients for establishing a relationship for the use of a common mobile number/email ID for 12 Unique Client Codes (hereinafter referred to as '**UCCs'**) and thereby, violated clause 2B(iv) of SEBI Circular dated August 02, 2011 read with clause 33.2.4 of SEBI Master Circular dated May 22, 2024?

II. Whether Noticee failed to provide a consent letter for 163 UCCs for establishing a relationship for the use of a common mobile number/email ID and thereby, violated clause 2B (iv) of SEBI Circular dated August 02, 2011 read with clause 33.2.4 of SEBI Master Circular dated May 22, 2024?

III. Whether Noticee had uploaded the common email ID/mobile number of Authorized Person (hereinafter referred to as '**AP**') for more than one client and thereby, violated clause 2B(iii) of SEBI Circular August 02, 2011 read with clause 33.2.3 of SEBI Master Circular dated May 22, 2024 and clause B(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations?

IV. Whether Noticee failed to send Electronic Contract Note (hereinafter referred to as '**ECN'**) to the ultimate clients in 27 instances and thereby, violated clause 2B (iii) of SEBI Circular August 02, 2011 read with clause 33.2.3 of SEBI Master Circular dated May 22, 2024 and clause B(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations?

V. Whether Noticee failed to update the bank account number in the UCC database and thereby, violated clause A(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations?

VI. Whether Noticee failed to update the demat account number in the UCC database and thereby, violated clause A(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations?

VII. Whether Noticee failed to carry out due diligence while capturing relationship data from the Know Your Customer forms (hereinafter referred to as '**KYCs'**) and thereby, violated clause A(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations?

VIII. Whether Noticee failed to deliver physical contract notes in 37 instances where the delivery of ECN had failed and thereby, violated clause 2.5.2 of SEBI Circular dated September 08, 2005 read with clause 50.3.6 (b) (i) of SEBI Master Circular dated May 22, 2024?

IX. Does the violation, if any, on the part of Noticee attract monetary penalty under sections 15F(a) and 15HB of the SEBI Act?

X. If so, what would be the monetary penalty that can be imposed upon Noticee considering the factors stipulated in section 15J of the SEBI Act?

13. The relevant extracts of the provisions of law, allegedly violated by Noticee, are as under:

Broker Regulations

"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;

……."

Schedule II of Broker Regulations

"Clause A (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.

Clause B (2) Issue of Contract Note: A stock-broker shall issue without delay to his client or client of the sub-broker, as the case may be a contract note for all transactions in the form specified by the stock exchange."

SEBI Circular dated September 08, 2005

"2.5.2 Send in Physical mode

Wherever the ECNs have not been delivered to the client or has been rejected (bouncing of mails) by the e-mail ID of the client, the member shall send a physical contract note to the client within the stipulated time under the extant regulations of SEBI/stock exchanges and maintain the proof of delivery of such physical contract notes."

SEBI Circular dated August 02, 2011

"2B (iii) Stock brokers shall ensure that the mobile numbers/E-mail addresses of their employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.

2B (iv) 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."

SEBI Master Circular dated May 22, 2024

"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."

……

"50.3.6 When to issue or send in Physical mode

b. Send in Physical mode:

i. Wherever the ECNs have not been delivered to the client or has been rejected (bouncing of mails) by the e-mail ID of the client, the member shall send a physical contract note to the client within the stipulated time under the extant regulations of SEBI/stock exchanges and maintain the proof of delivery of such physical contract notes."

<u>Findings on Preliminary Objection</u>

Whether the SEBI Master Circular dated May 22, 2024 is applicable in the present proceedings?

14. Noticee contended that SEBI Master Circular dated May 22, 2024 was issued after the period of inspection and hence, cannot be invoked for the violations alleged in the SCN.

15. In the present case, the period of inspection is from April 01, 2022 to May 31, 2023. I note that the SEBI Master Circular dated May 22, 2024 has been invoked in conjunction with the rescinded Circulars for the violations observed during the inspection. In this regard, it is important to take note of the relevant sub clause of clause IV of the SEBI Master Circular dated May 22, 2024 which states as under:

"IV. Notwithstanding such rescission,

a) <u>anything done</u> or any action taken or purported to have been done or taken under the rescinded circulars, prior to such rescission, <u>shall be deemed to have been done or taken under the corresponding provisions of this Master Circular</u>;

…

c)<u>the previous operation of the rescinded circulars</u> or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the rescinded circulars, any penalty, incurred in respect of any violation committed against the rescinded circulars, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, <u>shall remain unaffected as if the rescinded circulars have never been rescinded;</u> …"(emphasis supplied)

16. On perusal of the Master Circular dated May 22, 2024, its clause 50.3.6 (b) corresponds to clause 2.5.2 of SEBI Circular dated September 08, 2005. Similarly, clauses 33.2.3 and 33.2.4 of the Master Circular dated May 22, 2024 correspond to clauses 2B(iii) and 2B(iv) of SEBI Circular dated August 02, 2011. As such, in view of clause IV above of the Master Circular dated May 22, 2024 which provides express saving with respect to corresponding provisions of the rescinded circulars, there lies no infirmity in the invocation of the SEBI Master Circular dated May 22, 2024 in the present proceedings.

17. Accordingly, this contention of the Noticee cannot be accepted.

<u>Findings on the Issues</u>

I. Whether Noticee failed to obtain declaration forms, while making modifications in KYC details, from clients for establishing a relationship for the use of a common mobile number/email ID for 12 UCCs and thereby, violated clause 2B(iv) of SEBI Circular dated August 02, 2011 read with clause 33.2.4 of SEBI Master Circular dated May 22, 2024?

18. During the inspection, it was observed that Noticee, while making modifications in KYC details, had used a common mobile number/email ID for 12 UCCs without obtaining declaration forms from the clients for establishing relationships.

19. In terms of clause 2B(iv) of SEBI Circular dated August 02, 2011 read with clause 33.2.4 of SEBI Master Circular dated May 22, 2024, stock brokers are required to ensure that separate mobile number and email address are uploaded for each client. However, under exceptional circumstances, a stock broker may, at the specific written request of a client, upload the same mobile number / email address for more than one client, provided such clients belong to one family.

20. In its reply, the Noticee submitted that it had obtained a declaration from the respective client for establishing a relationship before registration and has provided copies of the declaration form for the said 12 UCCs. However, it is a fact that the Noticee failed to provide these declaration letters for the said 12 UCCs during the inspection. In this context, the documents submitted by the Noticee subsequent to inspection in support of the aforesaid claim were analyzed and the findings in this regard are given in the table below:

Table 1

Sr. No.	Client Code	Remarks/Observation
1.	FFR047	No date affixed on the declaration form
2.	RNS28	The declaration form is in order
3.	DSS2	No date affixed on the declaration form
4.	BLN117	No date affixed on the declaration form
5.	P344	No date affixed on the declaration form
6.	CLK20	No date affixed on the declaration form
7.	H381	No date affixed on the declaration form
8.	SHA6	The date of the declaration form (April 16, 2024) is subsequent to the date of modification in KYC details (December 06, 2022).
9.	RJS7029	No date affixed on the declaration form
10.	DSS6	No date affixed on the declaration form
11.	R595	The date of the declaration form (August 08, 2024) is subsequent to the date of modification in KYC details (August 30, 2023).
12.	RNS28	The declaration form is in order

21. From the aforesaid Table, it is noted that there is no date affixed in eight declaration forms. Therefore, it cannot be discerned whether the declaration forms in the said eight instances were obtained at the time of making modifications in the KYC details or not. Accordingly, no reliance can be placed on the said eight declaration forms. Further, the declaration forms are dated after the date of the respective date of modification in KYC for two UCCs (Client Codes R595 and SHA6).

22. It is also noted that the declaration forms appear to be in order for two instances (Sr. Nos. 2 and 12). It is noted that the Sr. Nos. 2 and 12 are referring to the same client, Client Code RNS28, for the modification undertaken on May 26, 2022.

23. In these circumstances, I find that Noticee did not have the requisite declaration forms for ten UCCs during the inspection period to establish a relationship to justify the use of a common mobile number/email ID.

24. Accordingly, I find that the Noticee is not in compliance with the mandate of clause 2B(iv) of SEBI Circular dated August 02, 2011 read with clause 33.2.4 of SEBI Master Circular dated May 22, 2024.

II. Whether Noticee failed to provide consent letters for 163 UCCs for establishing a relationship for the use of a common mobile number/email ID and thereby, violated clause 2B(iv) of SEBI Circular dated August 02, 2011 read with clause 33.2.4 of SEBI Master Circular dated May 22, 2024?

25. During the inspection, 172 UCCs were selected to verify whether a consent letter was obtained by Noticee from the clients for establishing a relationship for the use of a common mobile number/email ID. In this regard, it was alleged that the Noticee failed to provide the relevant documents with respect to 163 UCCs, which included 114 instances regarding the use of common email IDs and 49 instances regarding the use of common mobile numbers.

26. According to SEBI Circular dated August 02, 2011 read with clause 33.2.4 of the SEBI Master Circular dated May 22, 2024, stockbrokers must to ensure that separate mobile numbers/email addresses are uploaded for each client. However, under exceptional circumstances, the stockbroker may, at the specific written request of a client, upload the same mobile number or email address for more than one client, provided such clients belong to one family.

27. In this regard, Noticee admitted that it was not able to trace the declaration forms *qua* the use of a common email ID during the inspection. Noticee, in its reply, stated that subsequently, it was able to trace declaration forms regarding 103 instances pertaining to the use of common email IDs. However, Noticee acknowledged that it is unable to trace the declaration forms for eleven clients with respect to the use of a common email ID. In this context, the documents submitted by the Noticee in support of the aforesaid claim were analyzed and the findings in this regard are given in the table below:

Table 2: Use of common Email ID

Sr. No.	**Observation**	**Number of instances**	**Conclusions**
1.	No document, including a declaration letter, was provided.	*11*	*No reliance can be placed as the declaration letter was not made available.*
2.	No date is available in the declaration letter and the 'not applicable' options have not been struck off.	*75*	*No reliance can be placed as the declaration letters were undated.*
3.	Declaration letter is dated post inspection period and the 'not applicable' options have not been struck off.	*22*	*No reliance can be placed on these declaration letters as these were obtained after the inspection period.*
4.	No declaration letter was available in the documents that were provided.	*1*	*No reliance can be placed as the declaration letter was not available.*
6.	Dated of the declaration letter is within the inspection period and the 'not applicable' options have not been struck off.	5	Accepted as these were obtained during the inspection period.
	Total	**114**	

28. From Table 2 above, it is noted that no document was provided by Noticee in 11 instances, the documents provided by Noticee did not contain any date in 75 instances, the declaration letters were of post inspection period in 22 instances and the documents provided did not contain the declaration letter in one instance. Therefore, it is evident that the Noticee has provided valid justification for only 5 out of total 114 instances. For the remaining 109 instances, there was no documentation or the documentation provided was insufficient to show that the Noticee complied with the regulatory requirements regarding the use of a common email ID. The most alarming fact here is that even after 22 months from the date of inspection (i.e., September 15, 2023 and October 03, 2023), the Noticee has failed to produce declaration letters in 12 instances as noted in Sr. Nos. 1 and 4 of Table 2.

29. With respect to the use of common mobile number, Noticee admitted that it was not able to provide the declaration forms *qua* the use of a common mobile number during the inspection. Noticee, in its reply, stated that subsequently, it was able to trace declaration forms regarding 47 instances pertaining to the use of a common mobile numbers. However, Noticee acknowledged that it is unable to trace the declaration forms for two clients with respect to the use of a common mobile number. In this context, the documents submitted by the Noticee in support of the aforesaid claim were analyzed and the findings in this regard are given in the table below:

Table 3: Use of Common Mobile Number

Sr. No	**Observation**	**Number of instances**	**Finding**
1.	No document, including a declaration letter, was provided.	*2*	*Noticee has not provided any declaration letter for these cases.*
2.	No date is available in the declaration letter and the 'not applicable' options have not been struck off.	*29*	*No reliance can be placed as the declaration letters were undated.*
3.	Declaration letter is dated post inspection period and the 'not applicable' options have not been struck off.	*18*	*No reliance can be placed on these declaration letters as these were obtained after the inspection period.*
	Total	**49**	

30. From Table 3 above, it is noted that declaration letters were not made available by the Noticee in two instances, the declaration letters provided by the Noticee was undated in 29 instances and the declaration letters were obtained post inspection period in 18 instances. Therefore, it is evident that the Noticee has not provided any valid justification for the use of a common mobile number for any of the said 49 instances. It is noted that there was no documentation or the

documentation provided was insufficient to show that the Noticee was in compliance with the regulatory requirements regarding the use of a common mobile number during the inspection period. It is important to highlight that even after 22 months from the date of inspection (i.e., September 15, 2023 and October 03, 2023), the Noticee has not been able to obtain declaration letters in two instances, as noted in Sr. Nos.1 of Table 3.

31. In the absence of a valid justification from the Noticee for these 158 instances, it is reasonable to conclude that there was no written request by the clients in terms of SEBI Circular dated August 02, 2011 read with clause 33.2.4 of SEBI Master Circular dated May 22, 2024 to upload a common mobile number/email ID. Therefore, the Noticee violated clause 2B(iv) of SEBI Circular dated August 02, 2011 read with clause 33.2.4 of SEBI Master Circular dated May 22, 2024.

III. Whether Noticee uploaded the common email id/mobile number of AP for more than one client and thereby, violated clause 2B(iii) of SEBI Circular August 02, 2011 read with clause 33.2.3 of SEBI Master Circular dated May 22, 2024 and clause B(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations?

32. During the inspection, it was observed that the common email ID of AP was uploaded for more than one client in 27 instances without any consent letter. Similarly, the common mobile number of AP was uploaded for more than one client in 22 instances *sans* the necessary documents.

33. It is a fact that Noticee had failed to submit any documents, including a declaration letter pertaining to the use of a common mobile number/email ID of AP for more than one client during the inspection.

34. In its reply, Noticee argued that the common email ID/mobile number were mapped to the clients who were the family members of the AP. In support of its submission, Noticee provided 23 consent letters dealing with the use of a common email ID of the AP and 19 consent letters relating to the use of a common mobile number of the AP, which the Noticee allegedly found after the inspection. Further, the Noticee admitted that it was not able to trace the declaration forms for three clients concerning the use of a common mobile number and for five clients with respect to the use of a common email ID.

35. In this context, the documents submitted by the Noticee regarding the use of the common email ID were analyzed and the findings in this regard are given in the table below:

Table 4: Use of common Email ID (AP)

Sr. No.	Observation	Number of instances	Finding
1.	No date is available in the declaration letter and the 'not applicable' options have not been struck off.	*11*	*No reliance can be placed as the declaration letters were undated.*
2.	Declaration letter is dated post inspection period and the 'not applicable' options have not been struck off.	*9*	*No reliance can be placed on these declaration letters as these were obtained after the inspection period.*
3.	Date of declaration letter is within the inspection period and the 'not applicable' options have not been struck off.	1	Accepted as these were obtained during the inspection period.
4.	Death of client	*1*	*Even if the Noticee's submission is accepted, the absence of a declaration letter remains as a lapse.*
5.	No declaration letter was available in the documents that were provided.	*1*	*No reliance can be placed as the declaration letter was not available.*
6.	No document, including a declaration letter was provided.	4	*Noticee has not provided any declaration letter for these cases.*
	Total	**27**	

36. From Table 4 above, it is noted that declaration letter was not made available by the Noticee in six instances (Sr. Nos. 4, 5 and 6), the declaration letter were undated in 11 instances and the declaration letters were obtained post inspection period in nine instances. Therefore, it is evident that the Noticee has provided valid justification for only 1 out of the said 27 instances. For the remaining 26 instances, there were no documentation or the documentation provided was insufficient to show that the Noticee was in compliance with the regulatory requirements regarding the use of a common email ID. It is pertinent to note that even a lapse of 22 months from the date of inspection (i.e., September 15, 2023 and October 03, 2023), the Noticee has failed to produce declaration letters in 5 instances as noted in Sr. Nos. 5 and 6 of Table 4.

37. Now, I proceed to analyze the documents submitted by the Noticee regarding the use of common mobile number and the findings in this regard are given in the table below:

Table 5: Use of Common Mobile Number(AP)

Sr. No.	Observation	Number of instances	Finding
1.	No document, including a declaration letter was provided.	*5*	*Noticee has not provided any declaration letter for these cases.*
2.	No date is available in the declaration letter and the not applicable options have not been struck off.	*10*	*No reliance can be placed as the declaration letters were undated.*
3.	Declaration letter is dated post inspection period and the not applicable options have not been struck off.	*5*	*No reliance can be placed on these declaration letters as these were obtained after the inspection period.*
4.	No declaration letter was available in the documents which were provided	*2*	*No reliance can be placed as the declaration letters were not available.*
	Total	22	

38. From Table 5 above, it is noted that declaration letter was not made available by the Noticee in seven instances (Sr. Nos. 1 and 4), the declaration letter was undated in 10 instances and the declaration letters were obtained post inspection period in 5 instances. Therefore, for the said 22 instances, there were no documentation or the documentation provided was insufficient to show that the Noticee was in compliance with the regulatory requirements regarding the use of a common mobile number. Despite the passage of 22 months from the date of inspection (i.e., September 15, 2023 and October 03, 2023), the Noticee has failed to produce declaration letters in 7 instances as noted in Sr.Nos.1 and 4 of Table 5.

39. The aforesaid Tables clearly indicate that the Noticee lacked valid documents permitting the use of the AP's common email ID in 26 instances and AP's common mobile number in 22 instances. In this regard, I note that the Noticee should not have accepted the common email id/mobile number of AP for any of its clients in the absence of necessary supporting documents.

40. Therefore, it is established that the Noticee had violated clause 2B(iii) of SEBI Circular dated August 02, 2011 read with clause 33.2.3 of SEBI Master Circular dated May 22, 2024 and clause B(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations.

IV. Whether Noticee failed to send ECN to the ultimate clients in 27 instances and thereby, violated clause 2B(iii) of SEBI Circular August 02, 2011 read with clause 33.2.3 of SEBI Master Circular dated May 22, 2024 and clause B(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations?

41. During the inspection, it was observed that the common email ID of AP was uploaded for more than one client in 27 instances without any supporting documents. Consequently, it was alleged in the SCN that ECNs were deemed not to have been sent to the ultimate clients for the said 27 cases.

42. In terms of clause 2B(iii) of SEBI Circular August 02, 2011 read with clause 33.2.3 of SEBI Master Circular dated May 22, 2024, Noticee was obligated to ensure that the mobile numbers/email addresses of its employees/sub-brokers/remisiers/authorized persons are not uploaded on behalf of clients.

43. Noticee stated that the common email IDs belonged to the family members of AP and hence were used in the respective UCC. Further, the Noticee provided documents to support its claim. On perusal of the documents provided by the Noticee along with other materials available on record, as analysed in Table 4 above, the status of the instances became evident wherein it was found that the Noticee did not possess valid declarations in 26 instances. Consequently, the ECNs sent to these 26 email IDs cannot be deemed to have been delivered to the ultimate clients. Therefore, it is established that ECNs were not sent to the ultimate clients for these 26 UCCs.

44. Accordingly, the Noticee is found to have violated clause 2B(iii) of SEBI Circular August 02, 2011 read with clause 33.2.3 of the SEBI Master Circular dated May 22, 2024 and clause B(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations.

V. Whether Noticee failed to update the bank account number in the UCC database and thereby, violated clause A(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations?

45. During the inspection, it was observed that the Noticee failed to record the bank account number for 612 UCCs. Further, it was alleged that although the Noticee claimed to have updated all the UCC records after the findings of the inspection were shared with it, 153 UCCs still remained without bank account details as pointed out by NSE.

46. Upon perusal of the reply of the Noticee, it is evident that the Noticee did not contest the allegation regarding its failure to capture bank account details in the UCC database. However, Noticee attributed this lapse to the COVID-19 lockdown, as its employees were working remotely from home. In this regard, I note that even after the pandemic-related restrictions had ceased, no corrective steps were undertaken by the Noticee until the issue was highlighted during the inspection through SEBI's letter dated October 20, 2023.

47. While the Noticee stated that it had taken remedial steps for the remaining 153 UCCs, it is noted that the subsequent compliance, if any, can in no manner exonerate the Noticee from the present violations.

48. Therefore, I find that the Noticee had failed to record the bank account number for 612 UCCs during the inspection period and for 153 UCCs even after the findings of the inspection were shared with it. Based on the foregoing, it is established that Noticee had violated clause A(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations.

VI. Whether Noticee failed to update the demat account number in the UCC database and thereby, violated clause A(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations?

49. It was alleged in the SCN that the demat account number was not mentioned for 474 out of the 835 sample UCCs during the inspection period. Further, it was alleged although the Noticee claimed to have updated the demat account numbers in all instances after the findings of the inspection is shared with it, the violation continued in 121 UCCs as pointed out by NSE.

50. Noticee did not dispute the aforesaid allegations regarding the failure to mention the demat account number for the said UCCs during inspection and post inspection. The absence of any rebuttal from the Noticee further substantiates these alleged lapses.

51. Noticee attributed this lapse to the COVID-19 lockdown, as its employees were working remotely from home. It is a fact that despite the lifting of the COVID-related restrictions, the shortcomings regarding the demat account details were not addressed until the inspection brought them to the fore.

52. The Noticee stated that it took corrective measures for the remaining 121 UCCs. It is important to accentuate that the subsequent compliance, if any, does not absolve the Noticee from the instant violation. Therefore, I find that the Noticee had violated clause A(2) of Schedule II for the Code of Conduct read with regulation 9(f) of Broker Regulations.

VII. Whether Noticee did not carry out due diligence while capturing relationship data from KYCs and thereby, violated clause A(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations?

53. During the inspection, it was observed that the Noticee did not exercise due diligence while capturing relationship data as per the KYCs for 518 UCCs, which included 486 instances involving common email IDs and 32 instances involving common mobile numbers. For these UCCs, it was observed that relationships were recorded as dependent children while the age was found in the range from 35 to 100 years.

54. Noticee acknowledged that these discrepancies had arisen due to “typographical errors” that had permeated while capturing relationship data. Further, the Noticee claimed that the correct date of birth, as per the KYCs, was subsequently updated in the UCC database. Moreover, the Noticee submitted consent letters for 494 UCCs and stated that it was in the process of retrieving consent letters for 16 other UCCs. Furthermore, it has been mentioned by Noticee that seven UCCs were closed and one client was deceased.

55. I note that the moot issue here is whether the Noticee had carried out due diligence while capturing relationship data for the said 518 UCCs. It is important to note that the Noticee did not dispute the fact that the relationship data for the said 518 UCCs were recorded incorrectly. Therefore, I note that the submission of consent letters and other ancillary documents by the Noticee does not show that the Noticee had exercised the required care and attention to ensure that the relationship data was accurately captured in accordance with the KYCs at the time of client onboarding. It is reiterated that any subsequent corrections made by the Noticee in the UCC database cannot absolve the Noticee of liability for the instant lapses. In addition to the same, the Noticee is yet to retrieve data with respect to 16 clients and that respect, the violation by the Noticee still continues.

56. Therefore, it cannot be said that the Noticee was diligent while capturing relationship data for the said 518 UCCs. Consequently, the Noticee is found to have violated clause A(2) of Schedule II for Code of Conduct read with regulation 9(f) of Broker Regulations.

VIII. Whether Noticee has failed to deliver physical contract notes in 37 instances where the delivery of ECN had failed and thereby, violated clause 2.5.2 of SEBI Circular dated September 08, 2005 read with clause 50.3.6 (b) (i) of SEBI Master Circular dated May 22, 2024?

57. It was alleged in the SCN that physical contract notes were not sent to clients in 37 instances where the delivery of ECN had failed. At the outset, it is noted that the Noticee has not disputed the non-delivery of ECNs in the said 37 instances. According to clause 2.5.2 of the SEBI Circular

dated September 08, 2005, Noticee was obligated to send a physical contract note within the stipulated time if the ECNs were not delivered to the clients.

58. In this regard, Noticee submitted that it had sent the physical contract notes to the clients and provided copies of physical contract notes for 35 instances (thirty five), except for client code Nos. SUA212 and INT016. Here, I note that mere submission of physical contract notes does not establish the fact that they were actually dispatched to the respective clients. It is a fact that the Noticee failed to produce any documentary evidence, such as postal receipts, courier acknowledgments or client confirmations, to show that the physical contract notes were indeed sent to the respective clients. In the absence of the same, it cannot be verified whether the physical contract notes were sent in the said 35 instances. Hence, this submission of the Noticee is not accepted.

59. For client code, INT016, Noticee contended that the said client was an institutional client for whom the trades were settled through the PIS system and ECN through STP system was provided to the custodians. I note that clause 2.5.2 of SEBI Circular dated September 08, 2005 read with clause 50.3.6 (b)(i) of SEBI Master Circular dated May 22, 2024 does not carve out any exemption to institutional clients regarding the delivery of physical contract notes when the ECNs are not delivered. Moreover, the Noticee has not provided any documentary proof to show that the contract notes were indeed sent through the STP system. Therefore, I find that this contention of the Noticee lacks merit and hence, cannot be accepted.

60. In this context, it is established that the Noticee had failed to send physical contract notes to clients in 37 instances where the delivery of ECNs had failed. Accordingly, the Noticee is found to have contravened clause 2.5.2 of SEBI Circular dated September 08, 2005 read with clause 50.3.6(b)(i) of SEBI Master Circular dated May 22, 2024.

IX. Does the violation, if any, on the part of Noticee attract monetary penalty under sections 15F(a) and 15HB of the SEBI Act?

X. If so, what would be the monetary penalty that can be imposed upon Noticee considering the factors stipulated in section 15J of the SEBI Act?

61. From the previous paragraphs, it has been established that Noticee had violated:
   61.1. Regulation 9(f) of Brokers Regulations;
   61.2. Clauses A(2) and B(2) in Schedule II of Broker Regulations;
   61.3. Clause 2.5.2 of SEBI Circular dated September 08, 2005;

61.4. Clauses 2B (iii) and (iv) of SEBI Circular dated August 02, 2011; and

61.5. Clauses 33.2.3, 33.2.4 and 50.3.6 (b)(i) of SEBI Master Circular dated May 22, 2024.

62. I note from the findings made in the preceding paragraphs that the violations established against the Noticee include failure to deliver ECNs and physical contract notes, lack of due diligence in updating client data, absence of demat account and bank account numbers in the UCC database, and the use of common mobile numbers and email IDs for multiple clients. In this regard, I note that strict adherence to the regulatory requirements in this regard is vital to protect the interests of the investors and uphold the integrity of the securities market. Therefore, the lapses committed by the Noticee, as established, cannot be dismissed as mere technicalities or venial. These lapses rather reveal shortcomings in systems of Noticee.

63. Noticee has placed reliance on the order of Hon'ble Securities Appellate Tribunal (hereinafter referred to as '**SAT**') in the matter of *Religare Securities Limited v. Securities and Exchange Board of India*[1] (hereinafter referred to as **'Religare').** In the said matter, SAT had observed 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 maintenance of records.

64. In this regard, it is noted that in the said matter of *Religare,* SEBI had carried out an inspection of the records of the appellant from September 24, 2007 to October 4, 2007 both in relation to its stock broking activities and depository participant activities for the financial years 2005-06 to 2007-08. The ambit of the inspection was wider in the case of the said appellant wherein irregularities on 6 counts with respect to stock broking activities and irregularities on 13 counts with respect to depository participant operations were referred for adjudication. Unlike *Religare*, in the instant case, the ambit of the inspection is limited to stock broking activities that too irregularities with common mobile numbers and email ID linked to multiple UCCs. However, as pointed out in the paragraphs above, even in this limited ambit of just one count of irregularity, the non-compliance observed during inspection analysed in the preceding paragraphs, continued to exist as per the last reply of the Noticee. As such, the case of the Noticee is clearly, distinguishable from that of *Religare*.

65. Further, it was observed by SAT in the *Religare* matter that the reply of the appellant had not been accepted by the AO only on the ground that these were not produced before the inspecting team. In SAT's opinion, all the deficiencies found by the AO could have been adequately

[1]Appeal No. 23 of 2011.

responded to by the appellant if queries had been made by the inspecting team at the time of inspection. The Noticees case is in stark contrast to the *Religare* case, where the Noticee was given ample opportunity to respond to the findings made in the inspection prior to the PIA is made. It is noted that Noticee had replied to the findings of the inspection vide letter dated November 6, 2023 and clarifications vide email dated February 22, 2024. Pursuant to the same, in 6 counts irregularities were found during the inspection, the Noticee was given a warning and the said irregularities were not referred for adjudication proceedings. It is relevant to note here that the Noticee filed four replies thereafter in this matter showing the status of compliance and efforts taken to redress recurrence, however, as explained in the Tables above, non-compliances still exist. Furthermore, Noticee has not disputed the findings of the inspection in the instant proceedings, unlike the *Religare* matter. In this context, due regard needs to be given to the observation of Hon'ble SAT while quashing the order of the SEBI in *Religare* relied upon by the Noticee 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...".* Accordingly, it is found that the instant matter is distinguishable from the *Religare* and therefore the contention of the Noticee cannot be accepted.

66. Therefore, Noticee is liable for payment of a monetary penalty in terms of sections 15F(a) and 15HB of the SEBI Act.

67. The text of the abovesaid sections 15F(a) and 15HB of SEBI Act is reproduced below:

"15F. Penalty for default in case of stock brokers.

If any person, who is registered as a stock broker under this Act,—

(a) fails to issue contract notes in the form and manner specified by the stock exchange of which such broker is a member, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees for which the contract note was required to be issued by that broker;..."

...

"15HB. Penalty for contravention where no separate penalty has been provided.

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."

68. While determining the quantum of penalty under section 15F(a) and 15HB of the SEBI Act, the following factors stipulated in section 15J of SEBI Act have to be given due regard:

"15J. Factors to be taken into account by the adjudicating officer

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

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

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

(c) the repetitive nature of the default."

69. The available records neither specify disproportionate gains/unfair advantage made by Noticee nor the loss, if any, suffered by the investors due to such violations. As regards the repetitive nature of the default, there is nothing on record to show that the nature of the default by the Noticee is repetitive.

70. I take note of the Noticee's submission that it has initiated corrective actions to address the lapses identified during the inspection. However, it is an admitted fact that the infractions so identified during the inspection are yet to be completely rectified. The aforementioned factors have been taken into consideration while adjudging the penalty.

ORDER

71. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in preceding paragraphs and in the exercise of powers conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Adjudication Rules, I, hereby, impose the following penalty on Noticee:

Table 6

Noticee Name	Penalty Provision	Penalty
Mangal Keshav Financial Services LLP	Section 15F(a) of the SEBI Act	Rs. 1,00,000/- (One Lakh only)
	Section 15HB of the SEBI Act	Rs. 1,50,000/- (One Lakh Fifty Thousand only)
Total		Rs. 2,50,000/- (Two Lakh Fifty Thousand only)

72. I am of the view that the said penalty is commensurate with the lapses/omissions on the part of Noticee.

73. Noticee shall remit/pay the said amount of penalty within 45 days of receipt of this order through the 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.

74. In terms of the provisions of rule 6 of the Adjudication Rules, a copy of this order is being sent to Noticee and to the SEBI.

JAI SEBASTIAN

Digitally signed by JAI SEBASTIAN Date: 2025.07.09 16:31:11 +05'30'

Date: July 09, 2025 **JAI SEBASTIAN**

Place: Mumbai **ADJUDICATING OFFICER**