BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

ADJUDICATION ORDER NO. Order/AS/GD/2022-23/23272-23274

UNDER SECTION 15-I OF THE 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 the matter of Reddito Capital Investment Advisors Pvt. Ltd

In respect of:

Noticee	Name of the Noticee	PAN
1.	Reddito Capital Investment Advisors Pvt Ltd	AAJCR2361R
2.	Mr. Pankaj Solanki	CIMPS0899F
3.	Mr. Abhishek Sharma	CWLPS1526G

BACKGROUND

1. Reddito Capital Investment Advisors Pvt. Ltd. is registered as an Investment Adviser ("IA") under the IA Regulations with effect from April 09, 2019, having SEBI registration number INA000013040. The registered office of Reddito is at 'No-F.F.-103, Prerna Arcade, Parimal Soc, Opp. Doctor House, Ellis Bridge, Paldi, Ahmedabad-380009'. The website address of Reddito is www.redditocapital.com.

2. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') conducted an inspection of **Reddito Capital Investment Advisors Pvt. Ltd.** (hereinafter referred to as the "Reddito/Noticee 1/IA/Company") for the period April 01, 2019 to November 27, 2020 (hereinafter referred as "Inspection Period / IP").

3. Based on the findings of inspection, SEBI initiated adjudication proceedings against Reddito Capital Investment Advisors Pvt. Ltd. (Noticee 1), and its directors namely, Mr. Pankaj Solanki (Noticee 2) and Mr. Abhishek Sharma (Noticee 3) (hereinafter referred to as 'Noticees') for violating the following Regulations and Circulars -
   a) Regulation 15(8) of Securities and Exchange Board of India (Investment Advisers) Regulations, 2013 (hereinafter referred to as the "IA Regulations") read with Clause 3 of Circular No. MIRSD/Cir-23/2011 dated December 02, 2011.

b) Regulations 15(1), 15(9) read with Clauses 1, 2 of the Code of Conduct as specified in Schedule III & Regulation 17 of IA Regulations.
c) Regulation 3(b),(c) and 4(2)(s) of Securities and Exchange Board of India (prohibition of fraudulent and unfair trade practices relating to securities market) regulations, 2003 (hereinafter referred to as PFUTP Regulations) read with section 12(A)(a),(b),(c) of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as 'SEBI Act').
d) Clause 1, 2 and 6 of Code of Conduct for IA provided in Third Schedule read with regulation 15 (9) of IA Regulations.

APPOINTMENT OF ADJUDICATING OFFICER

4. SEBI, vide order dated March 23, 2022 appointed Shri Prasanta Mahapatra, as Adjudicating Officer under Section 15-I (1) of the SEBI Act read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as 'Adjudication Rules') to inquire into and adjudge under the provisions of the Section 15EB, 15HB and 15HA of the SEBI Act, for the violations alleged to have been committed by the Noticees. Pursuant to transfer of Shri Prasanta Mahapatra, vide order dated June 06, 2022, the case was transferred to the undersigned.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. A common show cause notice (hereinafter referred to as "**SCN**") bearing reference no. SEBI/HO/EAD-8/HO/EAD-8/AS/GD/2022/46617/1 dated September 05, 2022 was served on the Noticees under rule 4 of the SEBI Adjudication Rules to show cause as to why an inquiry should not be held against it in terms of rule 4 of the SEBI Adjudication Rules and penalty should not be imposed under sections 15EB, 15HA and 15HB of the SEBI Act for the violation alleged to have been committed by the Noticees.

6. The allegations levelled against the Noticees in the SCN are as follows:
   a. During inspection, Reddito had submitted that it has taken registration from CVL KRA for the KYC requirement and not applied to any other KRA agency for registration. Reddito had submitted a copy of e-mail received from CVL KRA dated May 22, 2019 mentioning acceptance of its registration application.
   b. From the Inspection report, it was observed that Reddito has not obtained KYC of 47 clients from KR to whom it had offered services before May 22, 2019 (Date of Registration as submitted by Reddito).

c. *In view of the above, it is alleged that Noticees have violated the provisions of Regulation 15(8) of SEBI IA Regulations read with Clause 3 of Circular No. MIRSD/Cir-23/2011 dated December 02, 2011.*

Risk Profiling

d. *During inspection, it was observed from the RPF of the clients that one question has been repeated twice. The same is reproduced below:-*

"How secure is your current and future income from sources?"

e. *Inspection findings indicate that by asking a question twice, the score obtained in RPF can be higher, leading to change in the risk category of the client. For instance, from the RPF of 1 client, namely Mr. Gaurav, it is observed that the aforesaid question that has been asked twice, has two different scoring (scores of 2 and 5). The total score of the client is 82 that makes him lie in the 'High risk' category. However, had this question not been asked twice, the scoring would have reduced to 77, making him lie under 'Medium Risk' category.*

f. *Subsequently, Reddito has revised a question in RPF during the inspection period. Inspection fidnings indicate that the question asked seems vague. It does not have any relevance for ascertaining the risk profile of a client. It appears that the question has been inserted to increase the RPF scoring as the question has no relevance.*

g. *Further, from the Client Master submitted by Reddito during inspection (which is having the details of services sold to clients and the clients' risk category), it was observed that Reddito has sold services which are meant for High Risk Clients to the clients falling in Low Risk category. The details of such clients are given below-*

No.	***Client Name***	***Client Risk Category***	***Service Provided***	***Service Category***
1	*Anil Sharma*	*Low Risk*	*ATP Stock Option*	*High Risk*
		Low Risk	*ATP Stock Cash*	*High Risk*
2	*Anilkumar Dhariwal*	*Low Risk*	*ATP Stock Option*	*High Risk*
3	*Buddhi Singh Rathore*	*Low Risk*	*ATP Stock Cash*	*High Risk*
4	*Madhur Singhal*	*Low Risk*	*ATP Stock Option*	*High Risk*
		Low Risk	*ATP Stock Cash*	*High Risk*
5	*Mayank Arora*	*Low Risk*	*ATP Stock Future*	*High Risk*
6	*Neha Agrawal*	*Low Risk*	*ATP Stock Cash*	*High Risk*
7	*Nikesh Goyal*	*Low Risk*	*ATP Stock Cash*	*High Risk*
8	*Pooja Chirag Dhrangadhariya*	*Low Risk*	*ATP Stock Future*	*High Risk*
9	*Umesh Patel*	*Low Risk*	*ATP Stock Cash*	*High Risk*
10	*Vimal Balvant*	*Low Risk*	*ATP Stock Future*	*High Risk*
11	*Vinit Kumar Saini*	*Low Risk*	*ATP Stock Option*	*High Risk*
		Low Risk	*ATP Stock Future*	*High Risk*
		Low Risk	*ATP Stock Cash*	*High Risk*
12	*Vinodkumar Hargoviddas Patel*	*Low Risk*	*ATP Stock Cash*	*High Risk*
13	*Wasim Bano Sayed*	*Low Risk*	*ATP PREMIUM*	*High Risk*

h. *From the above, it is observed that Reddito has sold 'ATP Stock option' and 'ATP Stock Cash' service to the clients, which are falling in Low Risk category. This offering of services is not appropriate to the Risk profile of clients. Thus, it is observed that Reddito has sold products meant for High Risk category clients to clients having low risk.*

i. *In view of the above, it is alleged that Noticees have violated regulation 15(1), 15 (9) read with clauses 1, 2 of the Code of Conduct as specified in Schedule III and Regulation 17 of IA Regulations.*

j. *Inspection findings indicate that the classification of clients who have low risk appetite as per the methodology devised by the IA in to a high risk client appears to be a deliberate ploy on the part of IA to earn more fees from the clients by selling more products. The above act on the part of Reddito comes under the definition of 'fraud' as defined in regulation 2(1)(c) of PFUTP Regulations, 2003.*

k. *In view of the above, it is alleged that Noticees have violated the provisions of regulation 3(b), (c) and 4(2)(s) of PFUTP Regulations read with section 12(A)(a),(b),(c) of SEBI Act.*

Unfair Amount of Fees Charged from Clients

l. *During inspection it was observed that fees received from the clients was more than the annual gross income of the clients, as disclosed in the respective risk profile forms of the clients for following 17 clients out of sample of 40 clients which were chosen on random basis. Further, the current investment as declared by the client was less than the total fees charged by Reddito from the following clients.*

Sl no	***Name of client***	***Fees received from client (Rs.)***	***Current investment amount as per RPF***	***Annual gross income as per RP form***
1	*Anil Sharma*	*1,192,140*	*2-5 lakh*	*2-5 lakh*
2	*Satveer Singh*	*726,951*	*2-5 lakh*	*5-10 lakh*
3	*Gaurav*	*659,000*	*5-10 lakh*	*5-10 lakh*
4	*Mula Sudhakar*	*658,300*	*2-5 lakh*	*5-10 lakh*
5	*Amrendra Kumar*	*650,509*	*2-5 lakh*	*5-10 lakh*
6	*Dhaval Shamalbhai Patel*	*625,700*	*2-5 lakh*	*5-10 lakh*
7	*Sharma Nandkishor G*	*622,089*	*2-5 lakh*	*5-10 lakh*
8	*Ashok Kumar Tumulu*	*619,301*	*NA*	*2-5 lakh*

Sl no	Name of client	Fees received from client (Rs.)	Current investment amount as per RPF	Annual gross income as per RP form
9	Kishor Kashinath Chidri	588,870	NA	5-10 lakh
10	Rohit Gupta	588,444	2-5 lakh	5-10 lakh
11	Vijay Soni	584,400	2-5 lakh	2-5 lakh
12	Mohammed Hamraz	581,000	2-5 lakh	5-10 lakh
13	Seema Kumar	579,719	NA	less than 5 lakhs
14	Mayankbhai Chimanlal Shah	557,933	2-5 lakh	5-10 lakh
15	Kishor Nathu Gharat	525,000	2-5 lakh	5-10 lakh
16	Ashwanikumar Prithvikumar Jain	521,100	NA	5-10 lakh
17	Maravekere Muralidhara	501,500	NA	2-5 lakh

m. *Therefore, it is alleged that Noticees have not acted with due skill, care, diligence and honesty while charging advisory fees from the clients. Further, considering the fees charged to the client vis-à-vis his annual income and the current investment amount, it is evident that Noticee has not charged fair and reasonable fees.*

n. *In view of the above, it is alleged that Noticees have violated clause 1, 2 and 6 of Code of Conduct for IA provided in Third Schedule read with regulation 15 (9) of IA Regulations.*

o. *Inspection findings indicate that IA has charged advisory fees which are more than the investment amount and annual gross income of the client. If such high amount of fees is charged then, it is impossible for a client to earn any income out of the trades executed on the basis of advice received from the IA. The above act has been done to earn maximum amount of fees for the IA by defrauding the clients. The above act on the part of Noticees comes under the definition of 'fraud' as defined in regulation 2(1)(c) of PFUTP Regulations, 2003. In view of the above, Noticees have allegedly violated regulation 3(b), (c) and 4(2)(s) of PFUTP Regulations read with section 12(A)(a), (b),(c) of SEBI Act.*

7. I note that SCN was duly served on the Noticees vide Speed post acknowledgement due (SPAD) and email dated September 08, 2022. Noticees vide email dated

September 20, 2022, sought additional time for filing reply to the SCN. Subsequently vide email dated September 21, 2022, Noticees were granted time till September 30, 2022 for making detailed submission. Noticees vide letter dated September 29, 2022, submitted its reply to the SCN. Thereafter, vide email dated October 14, 2022, Noticees were granted opportunities of hearing on November 03, 2022. However, Noticees have sought adjournment of hearing. In the interest of natural justice, vide email dated November 03, 2022, Noticees were provided with another hearing opportunity on November 16, 2022. On the scheduled date of hearing, Authorized representatives of the Noticees appeared on behalf of Noticees and reiterated the contents of reply submitted vide letter dated September 29, 2022 and requested for time to make additional submissions which was acceded to. Noticees vide letter dated November 29, 2022 made their additional submissions.

8. The Key submissions made vide letter dated September 29, 2022 and November 29, 2022 are as under:

a. *At the outset, we deny all the allegations levelled against the company and directors in the SCNs. We further submit that all the SCNs issued by the AO and DA are for same set of violations during the same period emanating from the same inspection findings. Therefore, multiple proceedings have been initiated against the company and its directors which is very harsh and is completely unjustified. It may kindly be noted that our company had started business on April 09, 2019 after obtaining certificate of registration from SEBI and the inspection was conducted for the period immediately after the start of our business operations. Therefore, we submit this is our first inspection and the noted alleged violations in the same are technical in nature.*
b. *We may also point out that the company is a SEBI registered intermediary and all the services have been provided to the clients only by the company and not by the directors. All the invoices, email communications, investment advice, etc have been issued bearing the seal/stamp/name of the company. The directors have not been involved in any of the transactions with the client in personal capacity. Therefore, initiation of proceedings against the directors is ultra vires the SEBI Act, 1992.*
c. *Further, the doctrine of lifting of corporate veil under Companies Act, 2013 provides for cases where the corporate veil can be lifted like Misstatement in Prospectus, failure to return the application Money, company used for illegal purposes, economic offences, etc. In this regard, we place reliance on the decision of Hon'ble Supreme Court (Larger Bench) in the matter of LIC Vs Escorts Limited (1986 AIR 1370) , wherein while*

discussing the doctrine of corporate veil, the Court had observed: "… the corporate veil may be lifted where a statute itself contemplates lifting the veil, or fraud or improper conduct is intended to be prevented, or a taxing statute or a beneficent statute is sought to be evaded or where associated companies are inextricably connected as to be, in reality, part of one concern".

d. *From a bare reading of the alleged violations in the SCNs, it is seen that none of the violations call for lifting the corporate veil. Issuing SCNs to the directors for such technical violations is a blatant disregard to the sacrosanct powers of SEBI.*

e. *With reference to the findings noted in the aforementioned SCNs, we now offer a point wise reply while denying all the allegations with substantive points and proofs:-*

f. *Allegation 1: Not obtained KYC of 47 clients from KRA to whom services were offered before May 22, 2019*

g. *We hereby submit that it contains list of duplicate clients as some 9 clients are repeated twice. For example- Rahul Kumar has been repeated twice. As a matter of fact, this error was pointed out by us as part of our reply to SEBI's inspection findings, however, the same has apparently not been rectified. The actual number of clients after removing the duplicates come to 38.*

h. *Further, out of the 38 clients we had verified status of KYC of 32 clients from CVL KRA website before providing services to the respective clients. While for remaining 6 clients we have not verified KYCs from KRA website. List of the clients and screenshots of KRA website along with date and time of KYC Verification attached in as Annexure-1(A) and Annexure-1(B) respectively.*

i. *With respect to the allegations of not obtaining KYC, we submit that the same is baseless and without any supporting documents. We humbly submit that the company is in perfect compliance with regulation 15(8) of SEBI IA Regulations as we have duly followed all the circulars issued by SEBI on KYC-compliances related to Investment Adviser. Further, we hereby submit that the allegations levelled are in contradiction to the provisions of Clause 3 of Circular No. MIRSD/Cir-23/2011 dated December 02, 2011 ("circular"). As mentioned in this clause, <u>"An intermediary shall perform the initial KYC………………..once the client has done KYC with a SEBI registered intermediary, he need not undergo the same process again with another intermediary".</u>*

j. *The factual position, which was also submitted as part of our reply to the inspection findings is that all the clients in the list had already done their KYC with another SEBI registered intermediary before availing services from us and therefore we had not done their fresh KYC. Their information was verified by our company from the KRAs service which is available for free.*

k. We had as a measure of abundant caution taken the PAN of these clients to ensure that the client himself has contacted us over telephone (Annexure- A)and there is no impersonation. Therefore, violation of Clause 3 does not arise as no initial KYC was required to be done at our end for such clients as all of them were already registered in the KRA. We herewith attach proofs of the screenshot from CVL which shows that these clients were already registered and hence no further action was needed on our part. If we had done initial KYC of these already existing clients, it would have tantamount to violation of the aforesaid clause and the circular. We therefore submit that the allegation levelled against us is baseless and without any sound rationale.

l. Allegation 2: Asked a question twice in the RPF

m. It has come to our notice that one question as mentioned below is asked twice in our RPF

"How secure is your current and future income from sources?"-

n. We hereby submit that repetition of this question is purely due to oversight and has no malafide intent. The questionnaire was scientifically designed by our team keeping in view all the requirements given in Regulation 16 of SEBI IA Regulations, 2013. We have re-checked the RPF used for all the clients served during the inspection period and we submit that the repetition of this question is seen only in a few clients. It must be appreciated that such an error is only with 3% of our clients. Further, for the clients in which this RPF got used (having the repeated question), most of them had a Risk profiling score of 85 score. So, had this question not been repeated twice, the score would have still been more than 80 making the clients fall in High Risk category. The same can be verified by SEBI also from the RPF of the clients which our company had submitted during Inspection.

o. Only 3 clients Risk profiling score would be affected if this repeated question is removed, including one Mr. Gaurav as shown in SEBI's Inspection findings. Therefore, more than 5000 clients which our company has served till date only 3 clients risk profile score has been impacted with this mistake. It may be noted that our company has not gained materially out of asking this question twice from our 3 clients.

p. With regards to faulty Risk Profiling of 3 clients whose Risk Profile has changed from High Risk Appetite to Moderate Risk Appetite, due to repetitive question. The List of 3 clients is as under. Copy of Risk Profile attached in as Annexure-2:

Name	**Risk Score**	**Risk Profile**	**Risk Score**	**Risk Profile**
	(Due to Repetition of Question)		**(Without Repetition of Question)**	

Gaurav	*82*	*High Risk Appetite*	*77*	*Medium Risk Appetite*
Dipanjan Banerjee	*80*	*High Risk Appetite*	*75*	*Medium Risk Appetite*
B Praveen Kumar	*82*	*High Risk Appetite*	*77*	*Medium Risk Appetite*

q. *We request SEBI to take a lenient view on this allegation as no material impact has been caused to our clients. We have immediately rectified our RPF after SEBI's observation.*

r. *Allegation 3: Sold products meant for High Risk category clients to some clients having Low risk profile.*

s. *It is admitted that the clients were under Low risk category, however, they were willing to take better and premium services from our company. They had confirmed to our executives over phone and on emails that they want to try our premium services. Email from some clients is placed for reference in(Annexure-B)*

t. *The service to all these clients had finished before June 2020 and they are not taking our services now. All of them were satisfied from our service as no complaint was ever received from them. Also, it is important to note that our company has served around 4150 clients since April 01, 2020 till date and not a single complaint has been received from such clients. In fact, many of our clients have given their testimonials for the quality services we served during this period.*

u. *We humbly submit that we have not committed fraud with such clients as the dealing with these clients do not fall under the definition of "fraud" which is given in PFUTP regulations. No false statement, misrepresentation of truth, reckless dealing was done by our company with such clients. Nothing is brought on record either through client complaint or any specific findings to show that we committed a fraud with these clients. These clients had taken services from us and were very satisfied with our dealings. The same can be confirmed by SEBI from these clients.*

v. *We request SEBI to drop this observation as we are not following this practice of giving high risk service to low risk service clients. There is no locus standi for such an observation as there are no such clients currently availing service from our company. The findings relate to the clients whose services have ended before June 2020. Further, as this is our first Inspection, we request SEBI to take a lenient on our minor lapses.*

w. *Allegation 4: Charging Unfair amount of Fees from clients*

x. *We would like to mention that offering of service in our company is a two-way process. When the client fills the RPF and his/her risk appetite is ascertained, the client is explained about all the services that he is eligible for. Even if a client is placed in high* *risk services, a confirmation mail is taken from client before proceeding further. Therefore, there is a mutual consent between both the parties before. We have attached sample emails from our clients in Annexure- C which they had sent to our company before start of their High-Risk services. It can clearly be seen from the mails that it was an explicit confirmation from the client to use our High risk service after fully understanding the risk and returns associated with them. Therefore, they were willing to accept the risk associated with the service and pay the fees associated with such services. Further, most of our clients have been repeat clients in nature. The fees shown in the SEBI list has not been charged in one shot, but, it has been given by client after repeatedly being satisfied from our service and opting for other high rewarding services.*

y. *Further, the allegation of "fraud" is preposterous in nature as there was no concealment of facts, deceptive behaviour, misinformation to client, false promise, deceitful behaviour, etc towards any of our clients. Every charges, communication with client and their confirmation on the same is documented and were also provided as part of our reply to Inspection findings. Nothing has been brought on record either through any client's complaint or any specific findings to show that we committed a fraud with these clients. These clients had taken services from us and were very satisfied with our dealings. The same can be confirmed by SEBI from these clients.*

z. *We may also highlight that our company had offered services to 1698 new clients during the period April 2020-March 2021 and only 5 clients had lodged complaint on SCORES. Thus, less than 0.5% of the clients had expressed some dissatisfaction. Similarly, during the period April 2021-March 2022, the company had offered services to 1253 new clients and only 4 clients had lodged complaint on SCORES (less than 0.5%). This is a testament to the quality of services we offer and the satisfaction provided to our clients. (attach proof of SCORES complaints in Annexure- D).*

aa. *We draw reference to the SAT Order dated January 04, 2022 in the appeal of Ms. SuhanikaChourey vs SEBI in which the Hon'ble SAT had quashed the penalty for violation under Regulation 3 of the PFUTP Regulations read with Section 12A of the SEBI Act against Ms. SuhanikaChourey for carrying out unregistered advisory activity, as the same was not considered to be a fraudulent or unfair trade practice. Thus, if the act of unregistered activity is not considered as "fraud", than the activity of legally charging fees after obtaining the consent of clients by a SEBI registered investment adviser is not a fraud by any means.*

bb. *We also wish to point out that SEBI guidelines relating to maximum fees that can be charged by Investment Adviser were made applicable after the period of Inspection. Therefore, the allegations of unfair fees are unfounded and baseless as no ceiling of fees was prescribed.*

cc. *Therefore, charges of fraud against our company is a figment of imagination and mere charging of high fees do not tantamount to fraud. We therefore request that the allegation be quashed for being unfounded, baseless and unsubstantiated.*

dd. *With regards to allegations pertaining to unfair fees charged from clients for advisory services provided we would like to submit that the services offered to the clients are based on their Risk Appetite. The description and the prices of services are displayed on our website. Before subscribing to our services, the clients visit our website and choose appropriate services which are suitable to their risk appetite as assessed by us.*

ee. *Prior to SEBI (Investment Adviser) Amendment Regulations, 2020, there was neither any upper limit on the fee to be charged from the clients nor any restriction to offer one or more services. The amount as collected from 17 clients as per Para 17 of the SCN, it is essential to note that these amounts so charged as fees are collected over a period of time and for multiple services offered. Most clients are repeat clients and have renewed subscriptions of one or more services. For the convenience of the clients, we have allowed the clients to pay in parts as they avail the services. The fee in not collected under duress. The fee collected is at arm's length and with proper disclosure. The clients have paid with their own free will for the services they have availed. Had there been any issue with the services offered by us, the client would have not continued our services and stopped further payments. It is pertinent to note that none of the clients have complaint about unfair and unreasonable charges and fees. The clients have themselves made payment of fees as proposed for the services availed therefore, there is a mutual consent involved between both the parties. With regards to status of Complaints we would like to submit that, since inception of advisory business we have learned and improved on several aspects. Every new business has a leering curve involved and with the passage of time we have streamlined our processes to the advantage of our clients. It is pertinent to note that since the beginning of our business we have serviced over 4150 clients and out them we have received complaints only from 25 clients which is 0.6%. Further, out of the total complaints received 15 were received in the first year of operations also the period under inspection. For the next three years a total of only 10 complaints have been received and in the current financial year we have received only 1 complaint so far. Therefore, it can be observed that we have significantly improved on our process and client management. A matrix of year wise compliant resolution is attached herewith for your kind perusal in Annexure-3.*

ff. *We have put sincere efforts and made significant improvement in our processes and consequently achieved an overall better customer satisfaction which can be vouched from the significant drop in client grievances. We would like to reiterate that neither the company nor the directors are repeat offenders of law and none have been charged for* *violations of provisions of SEBI Act and Regulations there under or any other law at the time in force.*

gg. *Considering our aforementioned submissions and explanations along with our previous reply and representation, the Learned DA and AO is requested to take considerate and lenient and absolve us from all the alleged violations in the aforementioned notices.*

hh. The biggest barometer of any service company's performance is it's client satisfaction level. As seen in our case, the client satisfaction level has been very High as seen from minimal SCORES complaints. We have followed all the laid down regulations in letter and spirit.

ii. We may point out that neither the company nor the directors are repeat offenders and no action has been taken by SEBI or any other regulatory authority against the company and its directors in the past. Therefore, a lenient view may be taken.

CONSIDERATION OF ISSUES AND FINDINGS

9. I have taken into consideration the material available on record. The issues that arise for consideration in the present case are as follows:

   I. Whether the Noticees have violated provisions of Regulation 15(8) of IA Regulations read with Clause 3 of Circular No. MIRSD/Cir-23/2011 dated December 02, 2011, Regulations 15(1), 15(9) read with Clauses 1, 2 of the Code of Conduct as specified in Schedule III & Regulation 17 of IA Regulations, Clause 1, 2 and 6 of Code of Conduct for IA provided in Third Schedule read with regulation 15 (9) of IA Regulations and Regulation 3(b),(c) and 4(2)(s) of PFUTP Regulations read with section 12(A)(a),(b),(c) of SEBI Act.

   II. Does the aforesaid violation, if any, attract monetary penalty under sections 15EB, 15HA and 15HB of the SEBI Act?

   III. If the answer to Issue No. 2 is in affirmative, then what should be the quantum of monetary penalty?

10. Before moving forward, it is pertinent to refer the Regulations which are alleged to have been violated by the Noticees. The said provision is reproduced hereunder:

<u>Relevant provisions of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003</u>

> ***Regulation 2(1C):*** *"fraud" includes any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person*

with his connivance or by his agent while dealing in securities in order to induce another person or his agent to deal in securities, whether or not there is any wrongful gain or avoidance of any loss, and shall also include— (1) a knowing misrepresentation of the truth or concealment of material fact in order that another person may act to his detriment; (2) a suggestion as to a fact which is not true by one who does not believe it to be true; (3) an active concealment of a fact by a person having knowledge or belief of the fact; (4) a promise made without any intention of performing it; (5) a representation made in a reckless and careless manner whether it be true or false; (6) any such act or omission as any other law specifically declares to be fraudulent, (7) deceptive behaviour by a person depriving another of informed consent or full participation, (8) a false statement made without reasonable ground for believing it to be true. (9) the act of an issuer of securities giving out misinformation that affects the market price of the security, resulting in investors being effectively misled even though they did not rely on the statement itself or anything derived from it other than the market price. And "fraudulent" shall be construed accordingly; Nothing contained in this clause shall apply to any general comments made in good faith in regard to— (a) the economic policy of the government (b) the economic situation of the country (c) trends in the securities market or (d) any other matter of a like nature whether such comments are made in public or in private;

*3. **Prohibition of certain dealings in securities***

No person shall directly or indirectly— (b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under; (c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

4. Prohibition of manipulative, fraudulent and unfair trade practices

(2) Dealing in securities shall be deemed to be a [6][manipulative] fraudulent or an unfair trade practice if it involves [7][any of the following] :—

[25][(s) [26]{mis-selling of securities or services relating to securities market;

Explanation- For the purpose of this clause, "mis-selling" means sale of securities or services relating to securities market by any person, directly or indirectly, by—

(i) knowingly making a false or misleading statement, or
(ii) knowingly concealing or omitting material facts, or
(iii) knowingly concealing the associated risk, or
a. not taking reasonable care to ensure suitability of the securities or service to the buyer}];

[6] ibid

[7] Substituted vide Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) (Amendment) Regulations, 2018 w.e.f. February 01, 2019.
Before the substitution the words read as "fraud and may include all or any of the following, namely".

[25] Inserted by the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) (Amendment) Regulations, 2012 w.e.f. December 11, 2012.

[26] Substituted vide Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) (Amendment) Regulations, 2018 w.e.f. February 01, 2019.
Before the substitution the provision read as follows
"mis-selling of units of a mutual fund scheme;
Explanation.- For the purpose of this clause, "mis-selling" means sale of units of a mutual fund scheme by any person, directly or indirectly, by—
(i) making a false or misleading statement, or
(ii) concealing or omitting material facts of the scheme, or
(iii)concealing the associated risk factors of the scheme, or
(iv) not taking reasonable care to ensure suitability of the scheme to the buyer."

Relevant provisions of SEBI (Investment Advisors) Regulations, 2013:

General responsibility.
15.
(1) An investment adviser shall act in a fiduciary capacity towards its clients and shall disclose all conflicts of interests as and when they arise.
(8) An investment advisor shall follow Know Your Client procedure as specified by the Board from time to time.
(9) An investment adviser shall abide by Code of Conduct as specified in Third Schedule.

Suitability.
17. Investment adviser shall ensure that ,-

(a) All investments on which investment advice is provided is appropriate to the risk profile of the client;
(d) It has a reasonable basis for believing that a recommendation or transaction entered into:
(i) meets the client's investment objectives; (ii) is such that the client is able to bear any related investment risks consistent with its investment objectives and risk tolerance; (iii) is such that the client has the necessary experience and knowledge to understand the risks involved in the transaction.

(e) Whenever a recommendation is given to a client to purchase of a particular complex financial product, such recommendation or advice is based upon a

reasonable assessment that the structure and risk reward profile of financial product is consistent with clients experience, knowledge, investment objectives, risk appetite and capacity for absorbing loss.

THIRD SCHEDULE

Securities and Exchange Board of India (Investment Advisers) Regulations, 2013

[*See* ***sub-regulation (9) of regulation 15]***

CODE OF CONDUCT FOR INVESTMENT ADVISER

1. Honesty and fairness

An investment adviser shall act honestly, fairly and in the best interests of its clients and in the integrity of the market.

2. Diligence

An investment adviser shall act with due skill, care and diligence in the best interests of its clients and shall ensure that its advice is offered after thorough analysis and taking into account available alternatives.

6. Fair and reasonable charges

An investment adviser advising a client may charge fees, subject to any ceiling as may be specified by the Board [84]. The investment adviser shall ensure that fees charged to the clients is fair and reasonable.

84 The words "if any" was omitted by the SEBI (Investment Advisers) (Amendment) Regulations, 2020, w.e.f. 30-09-2020.

Clause 3 of Circular No. MIRSD/Cir-23/2011 dated December 02, 2011.

3. An intermediary shall perform the initial KYC of its clients and upload the details on the system of the KRA. When the client approaches another intermediary, the intermediary can verify and download the client's details from the system of the KRA. As a result, once the client has done KYC with a SEBI registered intermediary, he need not undergo the same process again with another intermediary

Relevant provisions of SEBI Act 1992

Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

12A. No person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock

exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder

11. At the outset, I would like to address preliminary objections raised by the Noticees with respect to initiation of adjudication proceedings against the directors.

12. Noticees have contended that company is SEBI registered intermediary, all the services have been provided by the company. Further all the invoices, email communications, investment advice etc. have been issued bearing the seal/stamp/name of the company. In this regard I note that the company is incorporated as a private limited company. Noticee 2 and Noticee 3 are holding the post of the Directors in the company. The company being an artificial judicial person cannot operate on its own. Thus, it requires manpower i.e. Directors to operate its business. The Directors supervises and controls the management and operations of the company.

13. In this context, I would like to place reliance on the observations of the *Hon'ble Supreme Court of India in the matter of Shri N. Narayanan vs. SEBI decided on 26.04.2013*, wherein it was observed that - *"... Company though a legal entity cannot act by itself, it can act only through its Directors. They are expected to exercise their power on behalf of the company with utmost care, skill and diligence.".*

14. Further, Hon'ble High Court of Madras in *Madhavan Nambiar vs Registrar of Companies* has held that – "*… Section 5 of the Companies Act defines the expression "officer who is in default". The expression means either (a) the managing director or managing directors ; (b) the whole-time director or whole-time directors ; (c) the manager ; (d) the secretary ; (e) any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act; (f) any person charged by the board with the responsibility of complying with that provision ; (g) any director or directors who may be specified by the board in this behalf or where no director is so specified, all the directors.*

15. I note that Section 27 of SEBI Act also deals with offences by Companies. In the said provision, Section 27(1) says that, in case of a default by a company, every person

who at the time the offence was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.

16. It is pertinent to refer to *doctrine of lifting of corporate veil* which means disregarding the corporate personality and looking behind the real person who are in the control of the company. In other words, where a fraudulent and dishonest use is made of the legal entity, the individuals concerned will not be allowed to take shelter behind the corporate personality.

17. In view of the above, I am unable to accept the contention of the Noticees.

18. I note that Noticees have raised contention regarding multiple enforcement actions initiated against the Noticees viz. Adjudication proceedings and enquiry proceedings as show cause notices have been issued by Adjudicating Officer and Designated Authority respectively. In this regard it is stated that both the proceedings are separate and independent of each other. Adjudication proceedings provides for a mechanism for an AO to impose monetary penalties for the violations whereas under Intermediaries Regulation, directions for cancellation, suspension, prohibition on taking up new assignments, contracts etc can be issued.

19. I note that in the event that a person violates the provisions of the SEBI Act and the regulations made thereunder, SEBI has the authority to initiate multiple proceedings under Chapter VIA of the SEBI Act and/or under SEBI (Intermediaries) Regulations in the interest of investors or the securities market.

20. In this regard, I would like to refer order of Hon'ble SAT in the matter of Globalworth Securities Limited v. Securities and Exchange Board of India (Appeal No. 554 of 2022)

"8...No doubt if a settlement order has been passed no further proceedings can be initiated by the respondent on the same cause of action but this principle is not applicable in the instant case in as much as the settlement order was with regard to violations committed by the appellant under the PFUTP Regulations. The present

show cause notice is with regard to violations of Clauses (1),(2),(3) and (4) of the Code of Conduct for Stock Brokers mentioned under Schedule II of the Brokers Regulations read with Regulation 9(f) of the Brokers Regulations, 1992 and violation on the part of the appellant for not taking necessary steps to generate alerts by putting system in place to detect and curb reversal of its proprietary trades. In our opinion the cause of action under the show cause notice dated June 7, 2022, is totally different and distinct from the cause of action which culminated into a settlement order of January 14, 2021

21. Further Hon'ble Securities Appellate Tribunal order in the matter of Ms. Sunita Gupta vs Sebi dated 21 April, 2017 has held that:

"6. Where a person violates the provisions contained in the SEBI Act and the regulations made thereunder, then, SEBI is empowered to initiate penalty proceedings against that person under Chapter VIA of SEBI Act and also issue directions in the interests of investors or securities market as it deems fit under Chapter IV of SEBI Act. Thus, the powers conferred on the Board under Chapter IV are independent from the powers to impose penalty under Chapter VIA of SEBI Act. Accordingly, in the present case, since the appellant had indulged in synchronized/ circular trades in gross violation of SEBI Act/ PFUTP Regulations and the same was detrimental to the interests of the investors and securities market, the Board deemed it fit to issue direction under Chapter IV in addition to the penalty imposed under Chapter VIA of SEBI Act. Therefore, in the facts of present case, initiation of proceedings under Chapter IV even after initiating proceedings under Chapter VIA cannot be faulted.

22. Having dealt with the preliminary objections, I now proceed to deal with the alleged violations to be established for attracting the provisions stated in Issue I in the instant matter: (I) KYC non-compliance; (ii) Risk profiling of clients; and (iii) Unfair Amount of Fees Charged from Clients.

KYC non-compliance

23. I note from the SCN that one of the allegation against the Noticees is that they had not obtained KYC of 47 clients from KRA to whom it had offered services before taking the registration.

24. Noticees in their reply have submitted that list of 47 clients has 9 duplicate clients. The actual number of clients after removing the duplicates come to 38. Noticees further submitted that as per Clause 3 of Circular No. MIRSD/Cir-23/2011 dated December 02, 2011, states that *"An intermediary shall perform the initial KYC……………once*

the client has done KYC with a SEBI registered intermediary, he need not undergo the same process again with another intermediary". Therefore, Noticees were not required to do KYC of the already existing clients.

25. Noticees also submitted that out of the 38 clients, it has verified status of KYC of 32 clients from CVL KRA website before providing services to the respective clients and confirmed that it has not verified the KYC in respect of 6 clients.

26. Upon perusal of list of Non KYC clients annexed in the SCN, I find that Noticees have rightly contended that there were 9 duplicate values of clients. After removing the duplicate values of client's total comes to 38.

27. In this regard, it is pertinent to refer Circular No. MIRSD/Cir-23/2011 dated December 02, 2011 (hereinafter referred to as "Circular"). As per Clause 3 of Circular No. MIRSD/Cir-23/2011 dated December 02, 2011, states that *""An intermediary shall perform the initial KYC of its clients and upload the details on the system of the KRA. When the client approaches another intermediary, the intermediary can verify and download the client's details from the system of the KRA. As a result, once the client has done KYC with a SEBI registered intermediary, he need not undergo the same process again with another intermediary".*

28. In accordance with the circular, KYC verification by intermediary needs to be checked in order to find out KYC compliance of existing clients. In this regard, Noticees have furnished list of the clients and screenshots of KRA website along with date and time of KYC Verification. I note that in 29 instances out of 38, Noticees have verified KYC details from KRA website which is evident from the screenshot taken from KRA portal. Therefore, I note that in most of the cases Noticees have verified KYC details from KRA website which is a mitigating factor, however in the balance 9 instances the verification was not done before providing services to the clients.

29. In view of the above, violations of provisions of Regulation 15(8) of SEBI IA Regulations read with Clause 3 of Circular No. MIRSD/Cir-23/2011 dated December 02, 2011 stand established.

Risk Profiling of clients

30. It was alleged that RPF of the clients that one question has been repeated twice and the question has been inserted to increase the RPF scoring as the question has no relevance. The same is reproduced below: -

"How secure is your current and future income from sources?"

31. Noticees in this regard submitted that repetition of said question is purely due to oversight and has no malaise intent. Noticee further submitted that clients in which this RPF got used (having the repeated question), most of them had a Risk profiling score of 85 score. So, had this question not been repeated twice, the score would have still been more than 80 making the clients fall in High Risk category. They have further stated that the RPF has since been rectified.

32. I note that upon perusal of RPF of the clients, only a few clients score would have been impacted due to the said repeated question in the RPF. Even after deducting the score assigned to question, the category of client would remain unchanged. Thus, I find merit in the contention of the Noticees, taking into account would have an insignificant impact on the RPF of the clients.

33. It was further alleged in the SCN that Noticees have sold services which are meant for High Risk Clients to the clients falling in Low Risk category.

34. Noticees in their reply submitted that Low Risk category clients were willing to take better and premium services and had confirmed to their executives over phone and on emails. Noticees further submitted that all the clients were satisfied from the service and no complaint was received from them. Noticees have also placed on record emails from clients consenting for high risk category services.

35. In accordance with Regulation 15 (9) read with clauses 1, 2 of the Code of Conduct as specified in Schedule III and Regulation 17 of IA Regulations, the IA shall at all-time shall act honestly, fairly and in the best interests of its clients and in the integrity of the market. Further IA shall advice is offered after thorough analysis and taking into

account available alternatives. However, in the instant case, IA has failed to carry out due diligence to ensure proper risk assessment and suitability assessment before offering high risk products to clients having medium/low risk appetite.

36. Noticees have furnished consent emails of 9 clients out of 13 falling under low risk category to whom Noticees have provided high risk services. Upon perusal of the said emails, I note that the content of the consent emails sent to IA is a standardized one as follows:

Following the discussion with your executive, I am giving the declaration below:
"As per the RPF filled by me, I am placed in the High risk category client. I know such services carry higher risk along with chance of higher returns. I am willing to work in High Risk services. I will stop working with you if I incur loss my capital."

37. The above shows that the IA had discussions with the clients and have prompted the clients to send such consent emails in advance for availing high risk services. Further in some of the emails the subject line itself states that "standard declaration for confirmation of taking high risk services".

38. As per Regulation 17 of SEBI (IA) regulations under "Suitability", all investments on which investment advice is provided is appropriate to the risk profile of the client. IA should have a reasonable basis for believing that a recommendation or transaction entered into meets the client's investment objectives and is such that the client is able to bear any related investment risks consistent with its investment objectives and risk tolerance and is such that the client has the necessary experience and knowledge to understand the risks involved in the transaction. Further whenever a recommendation is given to a client to purchase of a particular complex financial product, such recommendation or advice is based upon a reasonable assessment that the structure and risk reward profile of financial product is consistent with client's experience, knowledge, investment objectives, risk appetite and capacity for absorbing loss. In the instant case the Noticees have only stated that the client has requested and agreed for high risk service and Noticees have failed to provide any evidence that the advice given by them meets the suitability requirements as detailed above.

39. From the above, it is found that Noticees have sold products/services falling under its 'High Risk Category' to the clients falling under 'Low Risk Category' and has not acted with due skill, care, diligence, honesty and in the best interest of its clients while selling products/services to its clients. I also note that Noticees have mentioned that now they have stopped such practice of giving high risk service to low risk clients. In view of the above, I hold that Noticees have failed to abide by regulation 15(1), 15 (9) read with clauses 1, 2 of the Code of Conduct as specified in Schedule III and Regulation 17 of IA Regulations.

40. As regards allegation with respect to fraud, I do not find any documents/evidences available on record to support the alleged violation of fraud on the part of the Noticees. Hence the violation of Regulations 3 (b), (c) of the PFUTP Regulations, 2003 read with section 12A(a), (b) and (c) of SEBI Act does not stand established.

Unfair Amount of Fees Charged from Clients

41. It was alleged in the SCN that fees received from the clients was more than the annual gross income of the clients. Further, the current investment as declared by the client was less than the total fees charged by Reddito from 17 clients.

Table No:1

Sl no	Name of client	Fees received from client (Rs.)	Current investment amount as per RPF	Annual gross income as per RP form
1	Anil Sharma	1,192,140	2-5 lakh	2-5 lakh
2	Satveer Singh	726,951	2-5 lakh	5-10 lakh
3	Gaurav	659,000	5-10 lakh	5-10 lakh
4	Mula Sudhakar	658,300	2-5 lakh	5-10 lakh
5	Amrendra Kumar	650,509	2-5 lakh	5-10 lakh
6	Dhaval Shamalbhai Patel	625,700	2-5 lakh	5-10 lakh
7	Sharma Nandkishor G	622,089	2-5 lakh	5-10 lakh
8	Ashok Kumar Tumulu	619,301	NA	2-5 lakh
9	Kishor Kashinath Chidri	588,870	NA	5-10 lakh
10	Rohit Gupta	588,444	2-5 lakh	5-10 lakh
11	Vijay Soni	584,400	2-5 lakh	2-5 lakh
12	Mohammed Hamraz	581,000	2-5 lakh	5-10 lakh
13	Seema Kumar	579,719	NA	less than 5 lakhs
14	Mayankbhai Chimanlal Shah	557,933	2-5 lakh	5-10 lakh
15	Kishor Nathu Gharat	525,000	2-5 lakh	5-10 lakh
16	Ashwanikumar Prithvikumar Jain	521,100	NA	5-10 lakh
17	Maravekere Muralidhara	501,500	NA	2-6 lakh

42. Noticees in their reply have submitted that services offered are based on the risk appetite of the clients. Noticees submitted that most of the clients have been repeat

clients in nature. The fees shown in the SEBI list has not been charged in one shot, but, it has been given by clients after repeatedly being satisfied from the services and opting for other high rewarding services.

43. Upon perusal of RPF and fees invoices, I note that the fee charged from the aforesaid clients was for multiple products and was charged over a period of time. I note that the period of inspection was from April 01, 2019 to November 27, 2020. Hence, even after considering the time period from which services were given i.e.one year and eight months and multiple product for which given fees charged, I note that the fees charged by Noticees are exorbitant. In 16 out of 17 cases, the amount of fees collected is higher than amount of current investment as per RPF. In 3 cases, is the fees charged is more than the annual income of the client.

44. The Noticees had all the client's information, including the requested investment amount, yearly income, and other financial facts, when risk profiling was being conducted. However, Noticees have not charged fees with due skill, diligence, or honesty, nor has it acted in the best interests of the clients.

45. Noticees have submitted that prior to the amendment to the IA regulations there was no restrictions of the amount of subscription fees to be charged on the clients. In this regard, I note that in accordance with clause 6 of the Code of Conduct, investment adviser shall ensure that fees charged to the clients is fair and reasonable. Thus, the IA Regulations clearly state an Investment advisor has to be fair and reasonable while charging fees from its clients.

46. I note that the Noticees have not charged fees that were fair and reasonable, taking into account the client's annual income and/or anticipated investment. I also observe that Noticees paid little regard to the risk profiles or suitability of the clients. In view of aforementioned Noticees had not performed with due skill, care, diligence and honesty when charging fees from the clients.

47. In view of the above, I hold that Noticees has failed to abide by clause 1, 2 and 6 of Code of Conduct for IA provided in Third Schedule read with regulation 15 (9) of IA Regulations.

48. As regards allegation with respect to fraud, I do not find any documents/evidences available on record to support the alleged violation of fraud on the part of the Noticees. Hence the violation of Regulations 3 (b), (c) of the PFUTP Regulations, 2003 read with section 12A(a), (b) and (c) of SEBI Act does not stand established.

Issue II. Does the violation, if any, attract monetary penalty under sections 15EB, 15HA and 15HB of the SEBI Act?

49. Since violation of regulation 15(1), 15 (9) read with clauses 1, 2 and 6 of the Code of Conduct as specified in Schedule III and Regulation 17 of IA Regulations and Regulation 15(8) of SEBI IA Regulations read with Clause 3 of Circular No. MIRSD/Cir-23/2011 dated December 02, 2011 are established, I am of the view that the same warrants imposition of monetary penalty upon the Noticees under section 15EB and 15HB, text of which is provided below:

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

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

**Inserted by the Finance Act, 2018 w.e.f. 08-03-2019.*

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 III. If the answer to Issue No. 2 is in affirmative, then what should be the quantum of monetary penalty?

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

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

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

(c) the repetitive nature of the default.

51. I observe, that the material available on record does not quantify any disproportionate gains or unfair advantage, if any, made by the Noticees and the losses, if any, suffered by the investors due to such violations on the part of the said Noticees. From the document available on record, it is not ascertainable whether the acts of the Notice are repetitive in nature. Further, I find that no complaint is pending against Reddito in SEBI Complaints Redress System (SCORES). However, I note that the role of an investment advisor is crucial to the development of the securities market, especially for the entry of the small investors who may rely on the advice of such IAs. In this regard, the role of an IA is crucial as a facilitator of small investors into the securities market. So, it is of utmost importance that every IA takes all necessary steps to comply with all the provisions applicable to them. Regulation of investment advisory activity was considered necessary to avoid unscrupulous advisory business wherein investors could be misguided towards making investments in the securities market. Quality of advice rendered to investors has an impact on investors' confidence in the integrity of the markets. The non-compliances on the part of the Noticees as brought out in the preceding paragraphs clearly shows that Noticees have failed in their fiduciary duties owed to the clients. However, I also note that this was first inspection of the Noticees after obtaining the SEBI registration and the Noticees have taken corrective steps and have revised their RPF and stopped the practise of officer high risk products to low risk clients which is taken as mitigating factors while considering the amount of penalty to be levied.

ORDER

52. After taking into consideration the foregoing paragraphs, in exercise of powers conferred upon me under section 15I of the SEBI Act read with rule 5 of the SEBI

Adjudication Rules, I hereby impose a monetary penalty of Rs. 5,00,000 lakhs (rupees five lakhs only) on the Noticees under sections 15EB and 15HB of the SEBI Act. The Noticees are liable to pay the penalty jointly and severally.

53. I am of the view that the aforesaid penalty imposed on the Noticees is commensurate with the violation committed by the Noticees.

54. The Noticees shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of demand draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, or through online payment facility available on the SEBI website on the following path by clicking on the payment link.

ENFORCEMENT → ORDERS → ORDERS OF AO → PAY NOW

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

55. The Noticees shall forward the said demand draft or the details / confirmation of penalty so paid through e-payment to the Division Chief, Enforcement Department-I, SEBI, in the format given in table below:

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

56. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this order, recovery proceedings may be initiated 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.

57. In terms of rule 6 of the SEBI Adjudication Rules, copies of this order are sent to the Noticees and SEBI.

Date: January 31, 2023 **ASHA SHETTY**

Place: Mumbai **ADJUDICATING OFFICER**