**BEFORE THE ADJUDICATING OFFICER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**

**[ADJUDICATION ORDER Ref. No. ORDER/SBM/KL/2021-22/15298]**

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

In respect of
**Janata Sahakari Bank Limited**
**Depository Participant (DP) of NSDL & CDSL- Regn no. IN – DP – 68 - 2015**
Bharat Bhavan, 1360, Shukrawar Path,
Bajirao Road, Pune - 411002

In the matter of
**Inspection of the Depository Participant ( DP) operations of Janata Sahakari Bank Limited**

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## FACTS OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI'**) conducted an inspection w.r.t the procedures and practices put in place by Janata Sahakari Bank Limited (hereinafter referred to as '**Noticee**') with respect to its Depository Participant operations (hereinafter referred to as '**DP operations**') and the related compliance by the Noticee w.r.t the provisions of the regulations and circulars issued by SEBI regarding the DP related activities/operations. The inspection was conducted at the Noticee's registered office at Pune. The period of inspection was from April 01, 2014 till August 28, 2015 (hereinafter referred to as '**inspection period**'/'**relevant period**'). The Noticee is registered with SEBI as a depository participant ('DP') of NSDL and CDSL with registration number viz. IN-DP-68-2015.

2. During the course inspection, among other aspects pertaining to the DP activities, the compliance of the Noticee w.r.t the Prevention of Money Laundering Act, 2002 and the related policy framework (hereinafter referred to as '**PMLA policy**') pertaining to the DP activities of the Noticee were examined by SEBI. In this regard, it was observed during the course of inspection that the Noticee was maintaining a PMLA

policy w.r.t the Beneficiary Account Holders (BO Accounts) who were also its bank customers. However, as regards the customers/persons/entities who were not having any bank accounts with the Noticee and who were only enrolled as direct DP clients with the Noticee, it was observed that the Noticee did not have a dedicated PMLA policy in place during the relevant period. In this context, pursuant to the inspection, it was brought out in the inspection report that there were 1052 such DP accounts which did not maintain any bank accounts /banking facility with the Noticee but had only availed the DP facility offered by the Noticee. During the course of inspection, it was brought out that the Noticee did not have a PMLA policy w.r.t the aforesaid 1052 DP accounts maintained with it. In view of the same, it is alleged that Noticee has violated the provisions of SEBI Circular No. ISD/CIR/RR/AML/1/06 dated January 18, 2006 and clause 11 of the code of conduct prescribed for the Depository Participants read with Regulation 20AA of SEBI (Depositories and Participants) Regulations, 1996 (hereinafter referred to as **'DP Regulations 1996'**) read with Regulation 98 of the SEBI (Depositories and Participants) Regulations, 2018 (hereinafter referred to as **'DP Regulations 2018'**). In view of the above observations / findings, adjudication proceedings were initiated against the Noticee under the provisions of section 15HB of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act'**).

## APPOINTMENT OF ADJUDICATING OFFICER

3. The undersigned was appointed as the Adjudicating Officer ('**AO**') in the matter vide order dated February 5, 2021 under Section 19 of the SEBI Act read with Section 15-I of the SEBI Act and 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 section 15HB of the SEBI Act, the aforementioned alleged violation of the provisions of law by the Noticee.

## SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

4. Show Cause Notice ('**SCN**') ref no. SEBI/EAD1/SBM/JR/SCN/2234/1/M/2021 dated

March 8, 2021 was issued to the Noticee in terms of Rule 4 (1) of the Adjudication Rules read with Section 15-I of the SEBI Act to show cause as to why an inquiry should not be held against the Noticee and why penalty be not imposed on it under the provisions of section 15HB of the SEBI Act for the aforementioned alleged violations committed by the Noticee. The SCN, *inter-alia,* alleged the following :-

a. *As on date of inspection, it was observed that the Noticee had a total of 33,162 BO accounts under CDSL and NSDL. Out of these, 32,110 BO accounts are the bank customers of Janata Sahakari Bank. Remaining 1052 BO accounts are not the bank customers of Janata Sahakari Bank. While there is a bank Prevention of Money Laundering Act, 2002 (hereinafter referred to as "PMLA") policy, there is no separate PMLA policy for DP clients. Hence it is alleged that 1052 clients who are not the bank customers are not getting covered under any PMLA policy.*

b. *In view of the above, it is alleged that the Noticee is in violation of provisions of SEBI Circular No. ISD/CIR/RR/AML/1/06 dated January 18, 2006 read with clause 11 of Code of Conduct prescribed for Depository Participants read with Regulation 20AA of SEBI (Depositories and Participants) Regulations, 1996 read with Regulation 98 of SEBI (Depositories and Participants) Regulations, 2018.*

5. Vide letter dated March 24, 2021 and email dated May 19, 2021, Noticee made the following submissions: -

***Reply letter dated March 24, 2021***

a. *We as a Depository Participant of NSDL / CDSL and are having tie-up with many other Co-op Banks with the noble thought of imparting depository services to their customers. AML policy and PMLA policy is applicable to all the Co-operative banks hence our tie-up Banks along with their customers come under the scope of AML & PMLA –directives. We are having documentary tie-up agreements with these and the said point has been covered in the tie-up agreements of these Banks. By virtue of this bipartite agreement AML & PMLA, guidelines are adhered:*
b. *With reference to your said observation we have made a separate PMLA policy for our depository clients as on 19.12.2015 having approval of our Hon'ble Board of Directors. The said policy is made applicable-to all our NSDL& CDSL Demat Clients irrespective*

*they are customers of our Bank or not. Copy of the said sanctioned policy was sent to you vide our reply letter dt.04.01.2016.*

c. *Since 19.12.2015 the revised policy is in operation and we have not received any alert /caution from quarterly report of NSDL / CDSL. Further we state that monthly concurrent audit is also conducted by external CA firm and the scope of audit includes adherence of AML &. PMLA directions by the Dermot Clients. We also conduct half yearly "Internal Audit" through C.A. firma, the report of which is exhaustive & having inclusion of PMLA directives.*
d. *Considering all above points we feel that we have observed the directives of PMLA and will continue to do so in future. We request you to consider our sincere efforts in addressing the issue.*
e. *We with respect request you not to consider this as a violation of the Act. We shall be very thankful to you if called for personal hearing in the said matter.*
f. *We are aware of importance of AML & PMLA directives and ensure that they will be effectively implemented by us all the time. We once again humbly request you not to consider this as a violation & oblige us.*

***Reply email dated May 19, 2021***

a. *We request you to provide us the list of 1052 demat a/cs which is mentioned in the report at your earliest and oblige.*

6. In the interest of natural justice and in terms of the Adjudication Rules, Noticee was provided with an opportunity of hearing in the matter on October 06, 2021, through the online webex platform. The Authorized representatives of the Noticee viz, Mr. Jitendra Ravetkar, Mr. Neelesh Pandit and Mr. Sachin Dhawale (hereinafter referred to as '**ARs**') appeared on behalf of the Noticee on the stipulated date of hearing and reiterated the submissions made by the Noticee vide its letter dated March 24, 2021. Pursuant to the hearing, the Noticee also made additional submissions in the matter vide its letter dated October 13, 2021 and October 25, 2021, details of which are mentioned below:

   a. *Our Bank's KYC AML policy for the year 2014-15 was applicable to all the products and services offered by the bank through our Bank Branches and Depository Cells. As* *suggested in the SEBI Audit and to have more clarity towards the subject; the separate KYC AML policy has been prepared for Depository Cell which specifies the inclusion of nonbanking DP Account Holders covering referred 1052 Accounts. The same was approved in the Board of Directors meeting as on 19/12/2015.*

*b. All the mentioned 1052 Demat Account holders were and are fully KYC compliant.*

*c. We apply the necessary checks regarding AML & PMLA to all the Depository Customer without discriminating between our Bank and Non-Bank Account holders.*

*d. Additionally, we would like to submit that there is no single instance of violation of PMLA till date. To substantiate the same please find attached copy of the Audit Reports carried out by NSDL Depository from 2015-2020 for your reference. Also we want to inform you that we are working as a Bank and Depository Participant only not having any Broking License.*

*e. Considering our submission and compliances, we kindly request you not to treat this as a violation.*

## CONSIDERATION OF ISSUES AND FINDINGS

7. I have carefully perused the allegations leveled against the Noticee in the SCN, the replies of the Noticee and also the documents/material available on record, including the inspection report in the instant matter.

   The issues that arise for consideration in the present matter are as follows:-

   I. Whether the Noticee has violated the provisions of SEBI Circular No. ISD/CIR/RR/AML/1/06 dated January 18, 2006 read with clause 11 of the Code of Conduct prescribed for Depository Participants read with Regulation 20 AA of the DP Regulations, 1996 read with Regulation 98 of DP Regulations, 2018?

   II. If yes, whether the violation would attract monetary penalty on the Noticee under the provisions of section 15HB of the SEBI Act?

   III. If yes, what should be the quantum of monetary penalty?

8. Before moving forward, the relevant provisions of Section 15HB of the SEBI Act and SEBI Circular No. ISD/CIR/RR/AML/1/06 dated January 18, 2006 and DP Regulations, 1996 and DP Regulations, 2018, allegedly violated by the Noticee are

reproduced as under:-

***SEBI Circular No. ISD/CIR/RR/AML/1/06 dated January 18, 2006.***

*To all intermediaries registered with SEBI u/s 12 of the SEBI act*
*(Through the stock exchanges for stock brokers, sub brokers and depositories for depository participants)*

*Sub: - Guidelines on Anti Money Laundering Standards.*

*……..As per the provisions of the PMLA Act, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992) shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules notified under the PMLA. Such transactions include :*

I. *All cash transactions of the value of more than Rs 10 lakhs or its equivalent in foreign currency.*
II. *All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month.*
III. *All suspicious transactions whether or not made in cash.*

*The Guidelines enclosed herewith are being issued to the intermediaries as specified above, in the context of the recommendations made by the Financial Action Task Force (FATF) on anti-money laundering standards. Compliance with these standards by all intermediaries and the country has become imperative for international financial relationships. It may be noted that these Guidelines lay down the minimum requirements / disclosures to be made in respect of clients. The intermediaries may, according to their requirements specify additional disclosures to be made by clients to address concerns of Money Laundering and suspicious transactions undertaken by clients.*

*All intermediaries are advised to ensure that a proper policy framework as per the Guidelines on anti-money laundering measures is put into place within one month from the date of the circular. The intermediaries are also advised to designate an officer as 'Principal Officer' who would be responsible for ensuring compliance of the provisions of the PMLA. Names, designation and addresses (including e-mail addresses) of 'Principal Officer' shall also be intimated to the Office of the Director-FIU, 6th Floor, Hotel Samrat, Chanakyapuri, New Delhi -110021, India on an immediate basis…..*

***Participants to abide by code of conduct.***

*20AA. The participant holding a certificate of registration shall, at all times, abide by the Code of Conduct as* specified *in Third Schedule.*

***CODE OF CONDUCT FOR PARTICIPANTS***

*11. A participant shall maintain the required level of knowledge and competency and abide by the provisions of the Act, Rules, Regulations and circulars and directions issued by the Board. The participant shall also comply with the award of the Ombudsman passed under the Securities and Exchange Board of India (Ombudsman) Regulations, 2003.*

***Regulation 98 of DP Regulations, 2018***

***Repeal and savings***

*98.(1) On and from the commencement of these regulations, the Securities and Exchange Board of India (Depositories and Participants Regulations, 1996, shall stand repealed.*

*(2) Not with standing such repeal, anything done or any action taken or purported to have been taken or contemplated under the repealed regulations before the commencement of these regulations shall be deemed to have been done or taken or commenced or contemplated under the corresponding provisions of these regulations.*

*(3) After the repeal of the regulations referred to in sub-regulation (1), any reference thereto in any regulation, guideline, circular or direction issued by the Board shall be deemed to be a reference to the relevant provisions of these regulations.*

***SEBI Act***

***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.*

**ISSUE I:- Whether the Noticee has violated the provisions of SEBI Circular No. ISD/CIR/RR/AML/1/06 dated January 18, 2006 read with clause 11 of the Code of Conduct prescribed for Depository Participants read with Regulation 20AA of the DP Regulations, 1996 r/w Regulation 98 of the DP Regulations, 2018?**

**ISSUE II:- If yes, whether the violation would attract monetary penalty on the Noticee under**

**the provisions of section 15HB of the SEBI Act?**

9. From the records made available, it is noted that the Noticee is a Multi-State Scheduled Bank registered with RBI under the AD Category II license. The registered office of the Noticee is located at Bharat Bhavan, 1360, Shukrawar Peth, Behind Saraswathi Prashala, Bajirao Road, Pune- 411002. The Noticee is a SEBI registered Depository Participant (DP) of both NSDL and CDSL with permanent registration no. IN-DP-68-2015. The DP activities of the Noticee also functions from the above mentioned address. Besides, the Noticee also undertakes its DP activities through 54 branches. As on the date of inspection, the Noticee had a total of 33,162 beneficiary owner accounts (BO accounts) under both CDSL and NSDL. The details /information pertaining to the DP activities of the Noticee, which has been mentioned in the inspection report is mentioned below :

**For CDSL operations**

| | | | | |
|---|---|---|---|---|
| a | **Facts/Data as on August 26, 2015** | | | |
| b | **Registration details of DP** | IN-DP-68-2015 Permanent Registration | | |
| c | **Date of start of DP operations** | Nov 1999 | | |
| d | **Total no. of clients** | 2172 | | |
| e | **No. of active clients** | 2139 | | |
| f | **No. of clients/value of holdings** | Segment | o. of lients | alue in crores |
| | | Individuals | 208 | 505.46 |
| | | Corporate Bodies | 2 | 35.3 |
| | | HIJFs | 48 | 10.26 |
| | | NRIs | 4 | 0.11114179 |
| | | Clearing Members | 6 | 0.00036141 |
| | | Foreign national | Nil | 0.00 |
| | | Trusts | 1 | 0.00 |
| | | Bank | 9 | 0.00237075 |
| | | Financial Institution | Nil | 0.00 |

| | | | | |
|---|---|---|---|---|
| | | Total | 2172 | 551.17 |
| **g** | **Aggregate value of portfolio Crores** | 551.17 Cr | | |
| **h** | **Total no. of employees in DP operations** | 13 | | |
| | **No. of DP branches** | 54 Branches | | |
| **j** | **No of accounts opened during the period of inspection** | 53 | | |
| **k** | **No. of accounts frozen/ blocked for AML/CFT related non compliances during the period of inspection** | Nil | | |

## For NSDL Operations

| | | | | |
|---|---|---|---|---|
| **a** | **Facts/Data as on August 26, 2015** | | | |
| **b** | **Registration details of DP** | IN-DP-NSDL-26-97 Permanent Registration | | |
| **c** | **Date of start of DP operations** | Ma 1997 | | |
| **d** | **Total no. of clients** | 31012 | | |
| | **No. of active clients** | 30902 | | |
| | **No. of clients/value of holdings** | Segment | No. of Clients | Value in crores |
| | | Individuals/Resident | 30212 | 4037.51 |
| | | Corporate Bodies | 172 | 1104.5 |
| | | HIJFs | 555 | 265.3 |
| | | NRIs | 11 | 1.3 |
| | | Clearing Members | 19 | 6.9 |
| | | Foreign national | Nil | 0.0 |
| | | Trusts | 12 | 82.3 |
| | | Bank | 3 | 244.2 |
| | | Financial Institution | 1 | 0.0 |
| | | Total | 31012 | 5742.3 |
| **g** | Aggregate value of portfolio Crores) | 5742.30 Cr | | |

| | | | | |
|---|---|---|---|---|
| **h** | Total no. of employees. in DP operations | 13 | | |
| | No. of DP branches | 54 Branches | | |
| **j** | No of accounts opened during the period of inspection | 677 | | |
| **k** | No. of accounts frozen/ blocked for AMUCFT related non compliances during the period of inspection | Nil | | |

10. From the inspection report and the SCN, it is noted that the Noticee has a PMLA policy in place w.r.t its bank account holders and since 32,110 BO accounts (out of 33,162 BO accounts) were also its existing bank account holders, the said BO accounts were already covered under the PMLA policy, which were in place and applicable for its bank account holders. However, the inspection has brought out that in respect of 1052 BO account holders, who were the direct DP clients of the Noticee and were not having any banking facility / bank account with the Noticee, it is noted that the Noticee did not have a separate PMLA policy in place for such BO account holders. In this regard, I note that being a DP and a registered market intermediary with SEBI, the Noticee was expected to have a full-fledged PMLA policy in place for all its clients / BO account holders in terms of the provisions/guidelines issued under Circular no. ISD/CIR/RR/AML/1/06 dated January 18, 2006 read with clause 11 of the Code of Conduct prescribed for Depository Participants read with Regulation 20AA of DP Regulations, 1996 and Regulation 98 of the DP Regulations, 2018. During the course of inspection, the Noticee has admitted to the fact that there was no separate PMLA policy w.r.t the direct DP clients enrolled with it and who were not having any bank accounts/banking facility with the Noticee. In view of the above observations/findings, it is alleged that the Noticee by failing to comply with the PMLA guidelines in respect of the 1052 BO accounts maintained with it has violated the provisions of the aforesaid circular dated January 18, 2006 read with clause 11 of the Code of Conduct prescribed for Depository Participants read with Regulation 20AA of DP Regulations, 1996 and Regulation 98 of the DP Regulations, 2018.
11. In this regard, during the course of the instant proceeding, Noticee vide its email dated May 19, 2021 had sought the specific details and the list of the aforesaid 1052 DP

clients who were not covered under any PMLA policy. In this regard, the concerned department of SEBI i.e MIRSD in its communication stated that the observations w.r.t 1052 BO accounts were made by it in the inspection report based on the affirmation made by the Noticee during the course of the inspection that these accounts were not covered under the PMLA policy as they did not maintain any bank account with the Noticee. Therefore, the concerned department i.e MIRSD could not provide the specific details of the 1052 BO accounts sought by the Noticee viz. Name of the BO holder, address, client ID etc.

12. Further, Noticee vide its letter dated January 04, 2016 submitted a copy of its revised PMLA policy (applicable to its depository segment in entirety and to all its BO account holders) to SEBI. The Noticee stated that pursuant to the inspection, immediate steps were taken by it to make the PMLA policy applicable to all its clients/BO account holders and in compliance with the findings of the inspection dated August 26-28, 2015, the revised policy was duly approved by its Board of Directors' ( 'BOD') in its meeting held on December 19, 2015. A copy of the minutes of the said BOD meeting was also annexed along with its reply to the SCN. Further, the Noticee vide its letter dated March 24, 2021 also mentioned that the monthly concurrent audit and half-yearly internal audit were also being conducted by an external CA firm in respect of its DP operations and since the framing of its revised PMLA policy, no irregularities were observed in respect of Noticee's compliance with the PMLA policy. Further, Noticee also stated that it had not received any alert/caution/adverse finding from both NSDL and CDSL in this regard.

13. The Noticee has vide its letter dated October 13, 2021 submitted supporting documents in respect of the above observations and affirmed that all the 1052 BO accounts were fully KYC compliant and no single instance of violation/deviation of PMLA policy was brought out in the audit reports (*the scope of audits include adherence to AML & PMLA directions by its demat clients*) carried out by NSDL for the period between 2015 – 2020. In this context, it is pertinently observed that the Noticee has taken corrective measures regarding its PMLA policy based on the findings of the inspection and such steps were taken by it immediately after the

inspection. The relevant extract of the revised PMLA policy which was submitted by the Notice vide its letter dated January 04, 2016 is given below:

"***KYC/AML philosophy of Janata Sahakari bank Ltd***.
***Applicability***

*…also this policy applies to the depository activity with respect to all existing and new, banking as well as* ***non-banking clients****. Necessary customer due diligence shall be undertaken. KYC norms as specified by the Depository should be followed for opening accounts*."

14. In view of the above discussions, I am convinced that Noticee has taken immediate corrective steps to rectify the deficiencies which were pointed out to it by SEBI during the course of inspection i.e w.r.t PMLA policy. Further, the material made available does not show any investor complaint in relation to the said deficiencies or any record to show any specific gain made by the Noticee. I also note that the Noticee has adduced in support the subsequent audit reports carried out by the Depositories which did not bring out any violations against the Noticee pertaining to the PMLA policy. While I am therefore in agreement with the findings made in the inspection report w.r.t non-compliance with PMLA guidelines/policy w.r.t 1052 BO accounts by the Noticee, considering that the Noticee took immediate corrective steps to frame a PMLA policy for its entire DP activity ( irrespective of whether the BO account holders were having banking facility with it or not) and also supported the same with necessary documents, I deem it appropriate to take a lenient view on the Noticee

15. Therefore, based on the discussions above, I am inclined to give the benefit of doubt to the Noticee and accordingly drop the charges / allegations levelled against the Noticee in the SCN that it had violated the provisions of SEBI Circular No. ISD/CIR/RR/AML/1/06 dated January 18, 2006 read with clause 11 of Code of Conduct prescribed for Depository Participants read with Regulation 20AA of DP Regulations, 1996 and Regulation 98 of DP Regulations, 2018.

## ORDER

16. In view of the above observations/findings and in exercise of the powers conferred upon me under section 15I of the SEBI Act read with rule 5 of the Adjudication Rules, I hereby dispose of the Adjudication Proceedings initiated against the Noticee viz. Janata Sahakari Bank Limited initiated vide SCN dated March 08, 2021 without any penalty.

17. In terms of the provisions of Rule 6 of the Adjudication Rules, copies of this order are sent to the Noticee viz. Janata Sahakari Bank Limited and also to the Securities and Exchange Board of India.

**Date: February 28, 2022** **Suresh B Menon**

**Place: Mumbai** **ADJUDICATING OFFICER**