BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/GR/AE/2020-21/8745-8748]

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

IN RESPECT OF

Noticee No.	Name	PAN
1	Shri Jayarama Shetty Mundaje	ABNPS1090G
2	Shri Mohan Srinivasan Nagamangala	AAPPM1422R
3	M/s Suprajit Engineering Limited	AADCS1638L
4	Shri Medappa Gowda J	ADDPJ1586A

IN THE MATTER OF SUPRAJIT ENGINEERING LIMITED.

BACKGROUND

1. Securities and Exchange Board of India (*hereinafter referred to as "**SEBI**"*) carried out an investigation in the scrip of Suprajit Engineering Ltd. Pursuant to the investigation, it was alleged that the following entities –Shri Jayarama Shetty Mundaje (*hereinafter referred to as "**Noticee 1**"*), Shri Mohan Srinivasan Nagamangala (*hereinafter referred to as "**Noticee 2**"*), M/s Suprajit Engineering Ltd (*hereinafter referred to as "**Company / SEL / Noticee 3**"*), and Shri Medappa Gowda J (*hereinafter referred to as "**Noticee 4**"*) had violated the provisions of the Code of Conduct dated May 29, 2015 of SEL and SEBI (Prohibition of Insider Trading) Regulations, 2015 (*hereinafter referred to "**PIT***

Regulations, 2015*").* Noticee 1 to 4 are hereinafter collectively referred to as "**Noticees**".

2. Noticee 1 was observed to be director of SEL during the period March 05, 2015 to June 28, 2016. It was observed that Noticee 1 sold 9,000 shares of SEL during the calendar quarter April-June 2016 for a total aggregate value of Rs. 17,85,593. In this context, it was observed although the threshold of Rs.10 lakh in transaction value in a calendar quarter was breached by the Noticee 1, he did not file any disclosures to the Company as required under Regulation 7(2)(a) of PIT Regulations, 2015 and Clause 5.3 of Code of Conduct dated May 29, 2015 of SEL read with Regulation 9(1) of PIT Regulations, 2015. Thus, Noticee 1 was alleged to have the aforesaid provisions. It was further observed that Noticee 1 did not file the requisite disclosures regarding the details of its holding of securities and transactions in the securities of the Company on a half yearly and annual basis, as required under Clause 5.3 of Code of Conduct dated May 29, 2015 of SEL. Thus, Noticee 1 was alleged to have violated Clauses 5.3 of Code of Conduct dated May 29, 2015 of SEL read with Regulation 9(1) of PIT Regulations, 2015. Further, it was observed that Noticee 1 had traded in the shares of SEL during March 05, 2015 to June 28, 2016, without obtaining pre-clearance from Company, and thus Noticee 1 was alleged to have violated Clause 6 of Minimum Standards for Code of Conduct to Regulate, Monitor and Report Trading by Insiders given under Schedule B read with Regulation 9(1) of PIT Regulations, 2015.

3. Noticee 2 held the designation of President in SEL during the FY 2015-16. It was observed that Noticee 2 sold 1325 shares of SEL during the period from January 05, 2015 to March 28, 2016 for a total aggregate value of Rs. 2,18,000/- without obtaining pre-clearance from Company, and thus Noticee 2 was alleged to have violated Clause 6 of Minimum Standards for Code of Conduct to Regulate, Monitor and Report Trading by Insiders given under Schedule B read with Regulation 9(1) of PIT Regulations, 2015.

4. It was observed that the Directors and Designated Employees of SEL had traded in the scrip of SEL without seeking pre-clearances during the period October 28, 2014 to

May 31, 2016. It was thus observed that designated employees of the Company including Directors are not following code of conduct prescribed by the Company under PIT Regulations, 2015. In view of the same, it was alleged that SEL (Noticee3) and its Compliance Officer Shri Meddapa Gowda J (Noticee 4) did not implement and monitor the Code of Conduct and compliances with PIT Regulations, 2015. Hence, it was alleged that Noticee 3 and 4 have failed to implement/administer and monitor code of conduct and did not comply with the provisions of the Regulation 9(1) and 9(3) of PIT Regulations, 2015, respectively.

5. It was further observed that the change in holdings of two entities viz. Suresh Shetty (HUF) and Shri Jayarama Shetty Mundaje was reflecting in the weekly benpos statements provided to Noticee 3 by its Registrar and Share Transfer Agent (**RTA**) viz. Integrated Enterprises (India) Limited. Shri Suresh Shetty and Shri Jayarama Shetty Mundaje were Directors of Noticee 3. It was however observed that Noticee 3 failed to disclose the trading (exceeding Rs.10 Lakh in value during a calendar quarter) of the aforesaid entities to the stock exchanges as required under Regulation 7(2)(b) of PIT Regulations, 2015. Thus, Noticee 3 was alleged to have violated the aforesaid provision.

APPOINTMENT OF ADJUDICATING OFFICER

6. The undersigned was appointed as the Adjudicating Officer **(AO)** by SEBI vide order dated February 20,2020 under Section 19 read with Section 15-I of SEBI Act, 1992 and under Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as, "**Rules"**) to inquire into and adjudge under Section 15A(b) and 15HB of the SEBI Act, 1992, the aforesaid violations alleged to have been committed by the Noticees.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

7. A Show Cause Notice no. EAD-4/ADJ/GR/AE/OW/8621/1-4/2020 dated March 06, 2020 (*hereinafter referred to as '**SCN**'*) was issued to the Noticees in terms of Section

15I of the SEBI Act, 1992 read with Rule 4 of the Rules for the violations as specified in the SCN.

8. Noticee 1 filed written submissions vide letter dated March 30, 2020. The main contentions made therein are reproduced as below –

i. *In this regard, I would like to humbly submit that:*
a. Regulation 7 (2) of SEBI (Prohibition of Insider Trading) Regulation was newly introduced during that time and I was not aware of the procedural and disclosure requirements and also, I had not realized that the transaction value had exceeded Rs.10 Lakhs during the calendar quarter from April 2016 to June 2016. Hence, unintentionally, I could not make requisite disclosures for the same.
b. I was not aware of the requirement of submitting the disclosure regarding the shareholding / transaction details on a half yearly and annual basis as per the pit Regulations since it was a completely new requirement introduced in the COC of the Company which was made effective from May 15, 2015.
c. I could not apply for pre-clearance of trades from May 2015 to June 2016 since I was under the impression that only in case of trading during the window closure period, pre-clearance needs to be taken. In my humble submissions, my trades were undertaken when the trading window was open and thus the same were not based on any unpublished price sensitive information Therefore, the procedural requirement of taking pre-clearance as per the requirement of the PIT Regulations, was just an oversight on my part and not at all intentional.

ii. *I would like to submit that the impugned sale transaction of 19,510 constituted a meagre **0.013%** of total share capital of SEL and buy transaction of 1,349 shares constituted **0.009%** of share capital of SEL. Considering the insignificant trades and the factors enumerated under Section 15J of SEBI Act, my humble request is that no penal action is warranted for an inadvertent procedural lapse.*

iii. *In any case, the Company issued a Notice against me for the said inadvertent noncompliance. A penalty of Rs. 1,00,000 was collected from me by the Company. I would be happy to share the remittance proof (s) if directed by the learned Adjudicating Officer.*

iv. *I would like to humbly submit that Hon'ble Courts of India have taken a consistent stand that every procedural and inadvertent technical lapse should not be visited with penal consequences especially when I did not gain materially in the entire impugned transaction. Taking cognisance of the fact that the Noticee did not gain materially by not obtaining pre-*

*clearance, in the **Naishadh Desai case** (Appeal 404/2019), the Hon'ble Securities Appellate Tribunal had reduced the penalty imposed on said Appellant from Rs. 12 lacs to Rs. 2 lacs.*

v. *In view thereof, I request you to dispose of the proceedings against me with a 'warning' which will serve the ends of justice. I undertake to be more careful and diligent in the future while dealing in the securities market.*

I request you to grant me an opportunity of hearing through my legal counsel, to explain the facts of my case and seek discharge from the captioned proceedings. I request you take cognisance of the factors mentioned under Section 15 J of the SEBI Act and not impose any monetary penalty especially since the volume of trade was insignificant and I am a senior citizen and Individually practising professional. Therefore, any monetary penalty would be disproportionate considering the facts of my case.

9. Noticee 2 filed written submissions vide letter dated March 30, 2020. The main contentions made therein are reproduced as below –

i. *I would like to humbly submit that I had joined SEL in December 2013. Before joining the Company, I was working with many multi-national corporations in the European and South Asian region since the year - 2000. Before joining SEL, I had not worked with any company listed on an Indian stock exchange in any senior position and hence I misunderstood the procedural requirements to buy shares as a senior executive of SEL.*

ii. *As mentioned in the Show Cause Notice, I bought only 1,325 shares of the Company over the period of one year, which is shown hereunder:*

Sr. No.	**Date**	**Buy Qty**	**Buy Value**
1	January 5, 2015	500	67,500
2	October 20, 2015	300	40,200
3	January 14, 2016	225	30,150
4	February 22, 2016	100	13,500
5	February 25, 2016	100	13,250
6	March 28, 2016	100	13,000
Total		**1,325**	**2,18,000**

iii. *I would like to humbly submit that:*

a. The PIT Regulations were notified on January 15, 2015 and hence the charge of violating the same ought not be levied on the buy transaction of

500 shares executed on January 5, 2015 especially when the Company itself adopted the Code of Conduct on May 15, 2015.

b. For the remaining five (5) days, I submit that I had only bought the shares in meagre quantities of 100 shares to 300 shares. The total buy quantity for said five days is only 825 shares and the total amount is also insignificant i.e. Rs. 1,50,500. Since, the said trades constitutes a miniscule i.e. 0.009 % of the share capital of SEL, the inadvertent lapse be condoned.

c. I did not sell any share of SEL during the entire period. Hence, there was no intention to make any financial gain. The buy trades were undertaken when the trading window was open and thus the same were not based on any unpublished price sensitive information Therefore, the procedural requirement of taking pre-clearance for the inconsequential buy trades as per the requirement of the PIT Regulations, was just an oversight on my part and not at all intentional.

iv. *In any case, the Company issued a Notice against me for the said inadvertent noncompliance. Since the quantity of trade was minor and the transaction amount was meagre, I requested the Company to not to impose any penalty on me. Taking into account the facts of my case and since I had joined SEL recently, the Company reprimanded me and took an action of "warning" me.*

v. *I would like to humbly submit that Hon'ble Courts of India have taken a consistent stand that every procedural and inadvertent technical lapse should not be visited with penal consequences, especially when I did not gain financially or materially in the entire impugned transaction. Taking cognisance of the fact that the Noticee did not gain materially by not obtaining pre-clearance, in the* ***Naishadh Desaicase*** *(Appeal 404/2019), the Hon'ble Securities Appellate Tribunal had reduced the penalty imposed on said Appellant from Rs. 12 lacs to Rs. 2 lacs. It is pertinent to note that in the* ***Naishadh Desai case****, the number of transaction (12 trades) and amount involved (more than Rs. 8 lacs) was far higher than in my case. In fact, in said case, the Noticee therein had bought as well as sold the shares of FTIL company and earned some profit which is copiously absent in my case. I humbly submit that I am better placed than said entity.*

vi. *In view thereof, I request you to dispose of the proceedings against me with a 'warning' which will serve the ends of justice. I undertake to be more careful and diligent in the future while dealing in the securities market.*

vii. *I request you to grant me an opportunity of hearing through my legal counsel, to explain the facts of my case and seek discharge from the captioned proceedings. I request you take cognisance of the factors mentioned under Section 15 J of the SEBI Act and not impose any monetary penalty especially since total trade value of impugned buy transactions on five (5) days was only Rs. 1.5 lacs. and I am a salaried of the Company. Therefore, any monetary penalty would be disproportionate considering the facts of my case.*

10. Noticee 3 and 4 filed written submissions vide letter dated March 30, 2020. The main contentions made therein are reproduced as below –

i. *We humbly submit that as per the Regulation 9 (1) of PIT Regulations, SEL had implemented the Code of Conduct as per the model code of conduct prescribed under Schedule B of the PIT Regulations with effect from May 15, 2015. As seen from the Code of Conduct, all the required mandatory provisions as directed by SEBI are contained in the Code. There is no deviation or any relaxation whatsoever from what is required from a listed company. We submit that the Code of Conduct is more stringent which is prepared on the basis of professional advice and the inputs from the best practices in the industry.*

ii. *Further, as per the Regulation 9 (3) of PIT Regulation, SEL had appointed Noticee No. 4 who is a Company Secretary by qualification and who has been associated with SEL since 24 years. He has been effectively complying with all the requirements of PIT Regulations without any default. He circulated the Code of Conduct to the designated persons and the Directors with a strict directive to follow the same in letter and spirit. Confirmation from all such persons was received which clearly states that they have understood the provisions under the Code of Conduct and that they would be complying with the same at all times*.

iii. *The instances of lapse which is mentioned in the Show Cause Notice are correct and there is no dispute on the same. However, with respect to instances of other Noticees having failed to comply with their obligations, we respectfully submit that the general allegation that the Company failed to monitor the Code of Conduct may be far-fetched and not warranted. Though, there was a minor procedural lapse on part of some designated persons to inform their trading activities, it does not imply that the Noticee have violated Regulation 9 (3) of PIT Regulations and in fact the provisions of same are not applicable in facts of present case. This allegation is vicariously attributed to the Company as there is no direct violation committed by the Company. Correspondingly, the Compliance Officer is also charged with the same violation.*

iv. *The Noticees have taken all necessary steps for the effective implementation of the PIT Regulations. The trading window is closed from time to time as prescribed under the PIT Regulations and Noticee No. 4 monitors the trading of designated persons and directors during the said period to ensure that nobody trades in the shares of SEL while in possessions of unpublished price sensitive information when the trading window is closed.*

v. *However, during the earlier times, when the PIT regulations were in their nascent stage (implemented w.e.f. January 15, 2015), the listed companies did not have a full-proof mechanism of checking the weekly Benpos statement so as to investigate the trades of every individual entity, especially at a time when the trading window was open. In good faith, it was expected that the designated persons and directors would indeed take a pre-clearance when they trade beyond the prescribed threshold limit. The level of diligence which we always take during the closure of trading window was not taken for trades during regular period. Moreover, the instances mentioned by SEBI pertain to the period when the listed companies were just adopting to the new regime and regulations. It is not the case of SEBI before the learned Adjudicating Officer that there was any insider trading or a case where designated employees traded when the trading window was closed or when there was any UPSI. This is a case where other Noticees traded without informing the Compliance Officer.*

vi. *In our humble opinion, all designated employees are required to seek prior approval of Compliance Officer to trade in securities of the company, subject to the value of such trade not being below such de minimis threshold as may be determined by the company. Undertaking and conformation of acceptance of the Code of Conduct was also obtained from the designated employees in the present case. If any designated employee trades regardless of mechanisms of pre-clearance that is put in place, it would not be possible for Compliance Officer, to prevent execution of such trades. In such a case, violation by a designated employee should not constitute a breach of any legal requirement by the Company or the Compliance Officer since the Noticee does not physically control trading actions of designated persons. Further, there is no reason why any employee trades secretly when there are no restrictions for such trades per-se. Given this, there was a difference in approach over the monitoring of the trades which we have realized and undertaken at a later point of time. Other than the instances mentioned in the Show Cause Notice, we humbly submit that there would be no other such instances which we can even demonstrate to the learned Adjudicating Officer.*

vii. *Regulation 7 (2) (b) of the PIT Regulations mandates a listed company to disclose the change in shareholding by directors to the stock exchange "within two days of receipt of the disclosure or from becoming aware of such information". It is humbly submitted that at the relevant time, no disclosure was received by the Company. Further, as soon as SEL came to know of the procedural lapses that had occurred, the Compliance Officer issued notices to the delinquent employees (including other Noticees) in terms of Clause 12 of Code of Conduct and the following action was taken:*

Names of the Designated Persons	***Nature of action taken***
Mr. Suresh Shetty	*Penalty of Rs. 2,00,000/- was collected.*
Mr.Jayarama Shetty	*Penalty of Rs. 1,00,000/- was collected.*
Mr. Mohan N. S	*Warning letter issued - in view of fact that he had newly joined the services of the Company & the value of the trades was significantly low.*
Mr.Diwkar Shetty	*Warning letter issued - in view of low trade value.*

viii. *The aforesaid penalties were duly paid by the concerned entities and they have been warned to be more careful in complying with the provisions of PIT Regulations. All these actions were taken before the issuance of the captioned Show Cause Notice by SEBI.*

ix. *Further, in so far as Mr. Suresh Shetty is concerned, Mr. Shetty (and his connected entities) have settled the issue underlying the non-compliance with Regulation 7 (2) of PIT Regulations with a payment of Rs. 29,54,738. The Consent Order dated February 8, 2019 records the allegation and the payment made by Mr. Shetty.*

x. *Without prejudice to the aforesaid, we humbly request the learned Officer to take a lenient view in the matter taking into consideration the following mitigating factors:*

i. Noticee No. 4 is a sincere and honest professional and has always discharged his duties as Compliance Officer to the satisfaction of all concerned authorities. This is borne out by the fact that no regulatory proceedings or any adverse order has been passed qua SEL and/or himself in his entire career.

ii. He, being the head of Finance as well as Compliance Officer of SEL had to oversee variety of functions like Accounts, Admin, Taxation, Corporate and Securities compliance etc. During the time when the PIT Regulations were notified, he was in-charge of various compliances and he had to

travel frequently to all the operational plants and therefore keeping track of weekly BENPOS at a micro level could not be taken up since designated persons were expected to suomoto inform the Company about their trading activities.

iii. Over time, we have evolved an effective system at SEL and have put into place a structure for effective monitoring of same. Further, the Compliance Officer personally monitors all the trades irrespective of the period and there are no instances of any violations observed. A training and guidance of the Code of Conduct was also held to educate and reiterate the mandatory provisions of the PIT Regulations. Further, all compliances in terms of SEBI Circular dated July 19, 2019 (ref: SEBI/HO/ISD/ISD/CIR/P/2019/82) are made where:

a. SEL shall report future violations, if any, to SEBI in a standardized format specified for this purpose vide the SEBI Circular;

b. A database of violation of code of conduct by designated person and immediate relatives of designated person shall be maintained in terms of the SEBI Circular.

iv. SEL has already taken suomoto action against the erring individuals in terms of Clause 12 of Code of Conduct (as prescribed in Schedule B of PIT Regulations) and warned them to be more careful in future.

v. The alleged violation, if any, is unintentional and beyond the knowledge of Noticee and there was no malafide on their part. In any case, we undertake that such inadvertent procedural lapse would never occur in future and provisions of PIT Regulations are complied with in letter and spirit;

xi. It is a trite law that every venial and technical breach does not lead to imposition of monetary penalty. Admittedly, there is no disproportionate gain or unfair advantage occurred to the Noticee. The Hon'be SAT in the case of Doogar and Associates vs. SEBI (SAT Appeal 20/2002) opined that:
"… Penalty will not also be imposed merely because it is lawful to do so. Whether penalty should be imposed for failure to perform a statutory obligation is a matter of discretion of the authority to be exercised judicially and on a consideration of all the relevant circumstances. Even if a minimum penalty is prescribed the authority competent to impose the penalty will be justified in refusing to impose penalty, when there is a technical or venial breach of the provisions of the Act or where the breach

flows from a bonafide belief that the offender is not liable to act in the manner prescribed by the statute…"

xii. *We request you take cognizance of the factors mentioned under 15 J of the SEBI Act to not impose any penalty in as much as:*
a. there is no quantifiable gain or unfair advantage accrued to SEL and Noticee No. 4 due to alleged violation, if any, by the concerned designated persons;
b. no harm, loss or prejudice has been caused to the investors due to the impugned disclosures requirement. Till date, there is no complaint by any shareholder on the impugned disclosure to be made;
c. there is no repetitive nature of default as this is the first time that a regulatory proceeding has been initiated qua both the Noticees;

xiii. *Further, if one considers the percentage of the impugned trades and the value, it would be miniscule compared to the volume traded on the exchange during the relevant period. Such trades were not even material or significant to have any impact on the market or affect any investment decisions of any trader watching the screen of the exchange. [Noticee – 1 –sold 0.013%, bought - 0.009%, Noticee-2 –bought 0.009%]. Further, the trades were not even motivated by any sensitive information or insider trading but a mere non reporting of the trades. In any event, the individuals are already penalized and there is also a Notice issued by the learned Officer.*

xiv. *While we do admit there should have been a proactive step in review of the BENPOS statements, we respectfully submit that an action was taken immediately upon the Company and Compliance Officer becoming aware of the undisclosed trades. It is not a case where the Company took any lenient view for such trades although the same did not have any material impact on the price or volume of the scrip during the relevant time.*

xv. *We humbly submit that if the Ld. Adjudicating Officer decides to the impose a monetary penalty on a listed company for an alleged procedural lapse it would be an unwarranted loss to the lay investors of the Company. Further, for a person who have been compliant and diligent and discharging the role of a Compliance Officer, a monetary penalty for indirect breach and technical lapse would blemish his reputation and put a dent on his career. The Compliance Officer and the Company would take the warning seriously and most graciously and humbly prays to dispose of the Show Cause Notice with such warning. In our humble submission, in the past as well, other Adjudicating Officers of SEBI have taken a lenient view when there is a technical violation and disposed of the proceedings*

without imposing monetary penalty. We crave leave to refer to such orders as and when required.

xvi. Based on our aforesaid submissions, we humbly pray that the Show Cause Notice be disposed of without imposing any monetary penalty on us.

xvii. We request that an opportunity of personal hearing through our legal counsel be granted to us so as to enable us to explain the facts in perspective and the attending circumstances which are mitigating factors under Section 15 J of SEBI Act.

11. Vide Hearing Notice dated August 10, 2020 an opportunity of personal hearing was granted to the Noticees on August 21, 2020, and the same was held through video conference. The Authorized Representatives (AR) appeared on behalf of the Noticees and made reiterated the written submissions made earlier by the Noticees vide their replies dated March 30, 2020.It was further stated that the penalty imposed / action taken by the Company on the designated employees was only after SEBI initiated investigation in the matter. Subsequently, vide letter dated August 24, 2020 submitted additional reply. The main submissions made therein are reproduced below –

i. These submissions are being filed with the limited purpose of providing clarification to the queries raised by the learned officer at the time of personal hearing:

Sl. No.	**Query**	**Our Clarification**	**Underlying Evidence**
i	*What was the threshold, if any, for seeking preclearances?*	*At the relevant time, in terms of the Code of Conduct ("**COC**") adopted by SEL, all designated persons who intended to deal in the securities of SEL, directly/indirectly or through immediate relative were mandated to obtain preclearance. There was no specific threshold limit that was prescribed for obtaining pre-clearance of trades at the time when the trading window was open.*	*Relevant extract of the COC pertaining to pre-clearances is attached as **Annexure – "1"***
ii	*Date when the action was*	*SEL issued a Show Cause Notice (dated September 2, 2019) against*	*Copy of cheque*

	taken by SEL against the erring entities.	*the erring entities in terms of its COC. As mentioned in the Reply, Mr. Jayaram Shetty and Mr. Suresh Shetty were directed to pay the penalty (to be credited to our CSR – Suprajit Foundation) on November 12, 2019. The same was complied by them immediately. The said action was taken suo-moto prior to the issuance of captioned Show Cause Notice.*	*received from Mr. Jayaram Shetty and Mr. Suresh Shetty as a compliance of penalty imposed on them and bank statement of Suprajit Foundation is attached as* ***Annexure – "2"***
iii	*Process in place to monitor benpos statements / trading by designated persons/ compliance to COC*	*Currently, SEL has a robust system of monitoring trades by designated persons. SEL monitors the weekly transaction reports sent by their Registrars and Transfer Agents (RTA) to keep a track on the transactions of the designated persons. Thereafter, the Compliance Officer also places the details of pre-clearance and trading done by designated persons in each quarter before the Board of Directors to ensure strict compliance with the PIT Regulations.*	*Copy of latest agenda (relevant extract) for the Board Meeting elucidating the same is attached as* ***Annexure – "3"***

ii. It can be noticed hereinabove, as well as from the Reply, that Noticees have taken active steps to ensure that the alleged lapses mentioned in the Show Cause Notice do not occur anymore. Additionally, Noticees undertake and assert that the provisions of PIT Regulations shall be complied in letter and spirit by each and every designated employee of the SEL as well as by SEL in its day to day functioning.

iii. We request the learned office to take cognizance of the fact that the impugned trades by Mr. Jayaram Shetty and Mr. Mohan Srinivasan Nagamangala : (i) were not motivated by any price sensitive information or insider trading (ii) did not have any material impact on the price / volume of the scrip (iii) did not cause harm, loss or prejudice to any shareholder of SEL.

iv. *In view thereof, it is submitted that there is no requirement for any monetary penalty against the Noticee and it is prayed therefore that the Show Cause Notice be disposed of without any monetary penalty on Noticee.*

v. *We humbly submit that if the learned adjudicating officer decides to the impose a monetary penalty on a listed company for an alleged procedural lapse it would be an unwarranted loss to the lay investors of the company. Further, for a person (i.e. Mr. Medappa Gowda) who have been compliant and diligent and discharging the role of a Compliance Officer, a monetary penalty for indirect breach and technical lapse would blemish his reputation and put a dent on his career. The Compliance Officer and the company would take the warning seriously and most graciously and humbly pray to dispose-of the Show Cause Notice with such warning.*

CONSIDERATION OF ISSUES AND FINDINGS

12. I have carefully examined the material available on record, and the submissions made by the Noticee. The issues that arise for consideration in the present case are :

Ia) Whether the Noticee1 has violated the provisions of Regulation 7(2)(a) of PIT Regulations, 2015, Clauses 5.3 & 5.4 of Code of Conduct dated May 29, 2015 of SEL read with Regulation 9(1) of PIT Regulations, 2015, and Clause 6 of Minimum Standard of Code of Conduct contained in Schedule B read with Regulation 9(1) of PIT Regulations, 2015?

Ib) Whether the Noticee 2 has violated the provisions of Clause 6 of Minimum Standard of Code of Conduct contained in Schedule B read with Regulation 9(1) of PIT Regulations, 2015?

Ic) Whether the Noticee 3 and 4 have violated the provisions of the Regulation 9(1) and 9(3) of PIT Regulations, 2015, respectively and Whether Noticee 3 has violated the provisions of the Regulation 7(2)(b) of PIT Regulations, 2015?

II) Does the violations, if established, attract monetary penalty under Section 15A(b) and 15HB of SEBI Act, 1992?

III) Quantum of penalty.

FINDINGS

13. Before I proceed with the matter, it is pertinent to mention the relevant provisions alleged to have been violated by the Noticees and the same is reproduced below:

Regulation 7(2)(a) and 7(2)(b) of PIT Regulations, 2015

7(2)(a). "Every promoter, employee and director of every company shall disclose to the company the number of such securities acquired or disposed off within two trading days of such transaction if the value of the securities traded, whether in one transaction or a series of transactions over any calendar quarter, aggregates to a traded value in excess of ten lakh rupees or such other value as may be specified".

Continual Disclosures

7(2)(b). Every company shall notify the particulars of such trading to the stock exchange on which the securities are listed within two trading days of receipt of the disclosure or from becoming aware of such information

Clause 5.4 of Code of Conduct dated May 29, 2015 of SEL

5.4 "If the value of securities traded, whether in one transaction or a series of transaction over any calendar quarter, aggregates to a traded value in excess of Rupees Ten (10) lakhs, designated persons shall disclose to the Company the number of such securities acquired or disposed of within two trading days of such transaction in the form prescribed by SEBI".

Clause 5.3 of Code of Conduct dated May 29, 2015 of SEL

5.3 "All designated persons shall furnish in the prescribed form to the Compliance Officer details of their holding of securities and transactions in the securities of the Company on a half yearly and annual basis".

Clause 6 of Minimum Standards for Code of Conduct to Regulate, Monitor and Report Trading by Insiders given under Schedule B read with Regulation 9(1) of PIT Regulations, 2015

"When the trading window is open, trading by designated persons shall be subject to preclearance by the compliance officer, if the value of the proposed trades is above such thresholds as the board of directors may stipulate. No designated person shall apply for pre-clearance of any proposed trade if such designated person is in possession of unpublished price sensitive information even if the trading window is not closed."

Regulation 9(1) and 9(3)of PIT Regulations, 2015

Code of Conduct

9.(1)The board of directors of every listed company and market intermediary shall formulate a code of conduct to regulate, monitor and report trading by its employees and other connected persons towards achieving compliance with these regulations, adopting the minimum standards set out in Schedule B to these regulations, without diluting the provisions of these regulations in any manner.

9(3)Every listed company, market intermediary and other persons formulating a code of conduct shall identify and designate a compliance officer to administer the code of conduct and other requirements under these regulations.

Issue Ia) **Whether the Noticee 1 has violated the provisions of Regulation 7(2)(a) of PIT Regulations, 2015, Clauses 5.3 & 5.4 of Code of Conduct dated May 29, 2015 of SEL read with Regulation 9(1) of PIT Regulations, 2015, and Clause 6 of Minimum Standard of Code of Conduct contained in Schedule B read with Regulation 9(1) of PIT Regulations, 2015?**

14. From the material available on record, I note that Noticee 1 was a Director of SEL during the relevant period. It is observed that during the calendar quarter April-June 2016, Noticee 1 sold 9,900 shares as per the details below –

Name	Transaction I	Buy/Sale	Qty.	Transaction Value (Rs.)	Accumulating Value (Rs.)
Jayarama Shetty Mundaje	06/05/2016	Sale	500	75,000	75,000
Jayarama Shetty Mundaje	03/06/2016	Sale	2900	4,94,717	5,69,717
Jayarama Shetty Mundaje	06/06/2016	Sale	3541	6,42,980	12,12,697
Jayarama Shetty Mundaje	07/06/2016	Sale	959	1,77,798	13,90,495
Jayarama Shetty Mundaje	28/06/2016	Sale	2000	3,95,098	17,85,593

15. As per above table, the threshold of Rs.10 lakh in transaction value in a calendar quarter was breached on June 06, 2016 and as per Regulation 7(2)(a) of PIT Regulations, 2015 and Clause 5.4 of Code of Conduct dated May 29, 2015 of SEL, the Noticee1 had to file disclosures with the company within two trading days of such transactions i.e. by June 08, 2016. Regarding the same, I note that SEL vide its email dated August 30, 2019 to SEBI has confirmed that it has not received any disclosures from Noticee 1 w.r.t to its trades. The Noticee 1 in its reply dated March 30, 2020 has not controverted the above facts regarding non-disclosure. The Noticee 1 has stated that he had not realized that the transaction value had exceeded Rs. 10 Lakh during the said quarter, and hence unintentionally he could not make disclosure. From the same, I note that the Noticee 1 has admittedly not made the requisite disclosures. Accordingly, I find that the Noticee 1 has violated the provisions of Regulation 7(2)(a) of PIT Regulations, 2015. Similarly, I find that the Noticee 1 has violated Clause 5.4 of Code of Conduct dated May 29, 2015 of SEL read with Regulation 9(1) of PIT Regulations, 2015.

16. I further note that under Clause 5.3 of Code of Conduct dated May 29, 2015 of SEL, the Noticee 1 being a Director was required to file details of his holding of securities and transactions in the securities of the Company on a half yearly and annual basis to the Compliance Officer of SEL. However, in the present case, the Noticee 1 has not done so. The Noticee 1 in his reply dated March 30, 2020 has stated that he was not aware of the requirement of submitting the said disclosures since it was a completely new requirement introduced in the Code of Conduct of the Company which was made effective from May 15, 2015. From the above, I note that Noticee 1 has admittedly not

complied with Clause 5.3 of Code of Conduct dated May 29, 2015 of SEL. Accordingly, I find that the Noticee 1 has violated the provisions of Clause 5.3 of Code of Conduct dated May 29, 2015 of SEL read with Regulation 9(1) of PIT Regulations, 2015.

17. From the available record, I note that the trading details of Noticee 1 in the shares of SEL during the period from October 28, 2014 to June 30, 2016 are as follows –

Name	**Designation**	**Date**	**Buy**	**Buy Value (Rs.)**	**Sale**	**Sell Value (Rs.)**
Jayarama Shetty Mundaje	Director of SEL	05/03/2015	0	0	200	27,150
		17/07/2015	0	0	2000	2,94,800
		12/10/2015	0	0	1000	1,39,804
		30/10/2015	0	0	2000	2,83,089
		11/11/2015	10	1,349	0	0
		16/11/2015	0	0	1810	2,59,759
		02/12/2015	0	0	2100	3,16,001
		28/01/2016	0	0	500	71,550
		06/05/2016	0	0	500	75,000
		03/06/2016	0	0	2900	4,94,717
		06/06/2016	0	0	3541	6,42,980
		07/06/2016	0	0	959	1,77,798
		28/06/2016	0	0	2000	3,95,098
		Total	**0**	**1,349**	**19510**	**31,77,746**

18. From the above, I note that the Noticee 1 bought shares of SEL for an aggregate value of Rs. 1349/-, and sold shares of SEL for an aggregate value of Rs. 31.78 lakh, during the period from March 05, 2015 to June 28, 2016. I note that SEL vide its reply dated March 24, 2017 and March 01, 2019 to SEBI, *inter alia* stated that the Company/Compliance Officer did not receive any pre-clearance application during the period January 01, 2015 to June 30, 2016 from the Noticee 1. Regarding the charge of not obtaining pre-clearance, the Noticee 1 in his reply dated March 30, 2020 has stated that he could not apply for pre-clearance of trades from May 2015 to June 2016 since he was under the impression that only in case of trading during the window closure period, pre-clearance needs to be taken. In this regard, it is to be noted that designated employees cannot trade in the company's shares with or without preclearance when the trading window is closed. Its only when the trading window is open, the designated employee is required to take pre-clearance from compliance officer for its trades, and that too is subject to the designated employee not being in

possession of any price sensitive information. From the above, I note that Noticee 1 has admittedly not taken pre-clearance from the Company/Compliance Officer for his trades during the period January 01, 2015 to June 30, 2016. Accordingly, I find that Noticee 1 has violated the provisions of Clause 6 of Minimum Standards for Code of Conduct to Regulate, Monitor and Report Trading by Insiders given under Schedule B read with Regulation 9(1) of PIT Regulations, 2015.

Issue Ib) **Whether the Noticee 2 has violated the provisions of Clause 6 of Minimum Standard of Code of Conduct contained in Schedule B read with Regulation 9(1) of PIT Regulations, 2015?**

19. From the material available on record, I note that the Noticee 2 held the designation of President in SEL during the relevant period. The trading details of the Noticee 2 during the period from Investigation Period are as follows –

Name	Designation	Date	Buy	Buy Value (Rs.)	Sale	Sell Value (Rs.)
Mohan Srinivasan Nagamangala	President	05/01/2015	500	67,500	0	0
		20/10/2015	300	40,200	0	0
		14/01/2016	225	30,150	0	0
		22/02/2016	100	13,500	0	0
		25/02/2016	100	13,250	0	0
		28/03/2016	100	13,000	0	0
		Total	1325	2,18,000	0	0

20. From the above, I note that Noticee 2 bought 1325 shares of SEL for an aggregate value of Rs. 2,18,000 during the period from January 05, 2015 to March 28, 2016. From the material available, I note that SEL vide its letterdated March 24, 2017 and March 01, 2019 to SEBI, *inter alia* stated that the Company/Compliance Officer did not receive any pre-clearance application from Noticee 2 during the period January 01, 2015 to June 30, 2016. In this regard, I note that Noticee 2 vide its reply dated March 30, 2020 has stated that the PIT Regulations were notified on January 15, 2015 and hence the charge of violating the same ought not be levied on the buy transaction of 500 shares executed on January 5, 2015 especially when the Company itself adopted the Code of Conduct on May 15, 2015. The Noticee 2 has further stated that for the

remaining five days, he had only bought the shares in meagre quantities of 100 shares to 300 shares and the total buy quantity for said five days is only 825 shares and the total amount is also insignificant i.e. Rs. 1,50,500/-. In this regard, I note that the provision of mandatory pre-clearance for designated employees is not a new provision that was introduced in the PIT Regulations, 2015, and a corresponding provision relating to the requirement of pre-clearance was also present in the erstwhile SEBI (Prohibition of Insider Trading) Regulations, 1992. I further note that the Company has *inter alia* stated that as per their Code of Conduct there was no specific threshold for obtaining pre-clearance, and if designated persons intended to trade they had to mandatorily seek pre-clearance w.r.t their trades, thus I find no merit in the Noticee 2's contention that he bought shares only in meagre quantities.

21. I note that Noticee 2 has stated that he did not sell any share of SEL during the entire period, hence there was no intention to make financial gain. The buy trades were undertaken when the trading window was open and thus the same were not based on any unpublished price sensitive information. In this regard, I note that the same does not absolve the Noticee from not complying with the mandatory requirement of applying for pre-clearance of its trades.

22. From the submissions of Noticee 2, I note that Noticee 2 has admittedly not taken pre-clearance for his trades. Accordingly, I find that Noticee 2 has violated the provisions of Clause 6 of Minimum Standards for Code of Conduct to Regulate, Monitor and Report Trading by Insiders given under Schedule B read with Regulation 9(1) of PIT Regulations, 2015.

Issue Ic) **Whether the Noticee 3 and 4 have violated the provisions of the Regulation 9(1) and 9(3) of PIT Regulations, 2015, respectively and Whether Noticee 3 has violated the provisions of the Regulation 7(2)(b) of PIT Regulations, 2015?**

23. I note that the allegation against Noticee 3 and 4 is that they failed to implement/administer and monitor code of conduct and thus did not comply with the

provisions of the Regulation 9(1) and 9(3) of PIT Regulations, 2015, respectively. In this regard, the aforesaid Noticees have inter alia submitted that Noticee 3 has implemented the Code of Conduct prescribed under Regulation 9(1) of PIT Regulations, 2015, and has also appointed Compliance Officer under 9(3) of PIT Regulations, 2015. It was also submitted that Noticee 4 circulated Code of Conduct to the designated persons and the Directors with a strict directive to follow the same and even confirmation was received from all such persons.

24. From the material available on record, I note that the details of trading of the Directors and Designated Employees of SEL (and their related entities) who had traded in the scrip of SEL without seeking pre-clearances during the period October 28, 2014 to May 31, 2016 are as follows –

Sr. No.	Name	Designation	Date	Buy Qty	Buy Value (Rs.)	Sale Qty	Sell Value (Rs.)
1	Jayarama Shetty Mundaje	Director of SEL	05/03/2015*	0	0	200	27,150
			17/07/2015	0	0	2000	2,94,800
			12/10/2015	0	0	1000	1,39,804
			30/10/2015	0	0	2000	2,83,089
			11/11/2015	10	1,349	0	0
			16/11/2015	0	0	1810	2,59,759
			02/12/2015	0	0	2100	3,16,001
			28/01/2016	0	0	500	71,550
			06/05/2016	0	0	500	75,000
			03/06/2016	0	0	2900	4,94,717
			06/06/2016	0	0	3541	6,42,980
			07/06/2016	0	0	959	1,77,798
			28/06/2016	0	0	2000	3,95,098
			Total	**0**	**1,349**	**19510**	**31,77,746**
2	DivakarSanku Shetty	Director of SEL	12/02/2016	150	20,200	0	0
			Total	**150**	**20,200**	**0**	**0**
3	Mohan Srinivasan Nagamangala	President	05/01/2015*	500	67,500	0	0
			20/10/2015	300	40,200	0	0
			14/01/2016	225	30,150	0	0
			22/02/2016	100	13,500	0	0
			25/02/2016	100	13,250	0	0
			28/03/2016	100	13,000	0	0

			Total	**1325**	**2,18,000**	**0**	**0**
4	Akhilesh Kumar Goel	Chief Operating Officer	06/10/2015	100	13,240	0	0
			01/12/2015	0	0	50	7,250
			07/12/2015	0	0	50	7,405
			Total	**100**	**13,240**	**100**	**14,655**
5	Suresh Shetty	Director of SEL	17/02/2016	5500	7,83,760	0	0
			01/04/2016	4500	5,95,264	0	0
			Total	**10000**	**13,79,024**	**0**	**0**
6	Suresh Shetty (HUF)	Suresh Shetty is Karta	15/04/2015*	12,117	14,71,894	0	0
			01/04/2016	8,000	10,59,952	0	0
			Total	**20,117**	**25,31,846**	**0**	**0**
6	Reetha Shetty	Spouse of Suresh Shetty	17/02/2016	5500	7,86,500	0	0
			04/04/2016	9363	12,40,598	0	0
			Total	**14863**	**20,27,098**	**0**	**0**
7	Shruti Shetty	Daughter of Suresh Shetty	17/02/2016	5500	7,85,125	0	0
			01/04/2016	4500	5,96,237	0	0
			Total	**10000**	**13,81,362**	**0**	**0**
8	Emerging Securities Private Limited	Suresh Shetty and Reetha Shetty both are Directors of ESPL and its entire shareholding are held by Suresh Shetty and his family members	26/03/2015*	9197	10,72,570	0	0
			10/04/2015*	20803	25,57,467	0	0
			07/01/2016	5726	7,99,937	0	0
			08/01/2016	4400	6,21,224	0	0
			13/01/2016	2374	3,29,271	0	0
			14/01/2016	2500	3,44,137	0	0
			18/01/2016	10000	12,81,063	0	0
			19/01/2016	5000	6,25,000	0	0
			20/01/2016	2924	3,67,591	0	0
			21/01/2016	9348	11,88,509	0	0
			17/02/2016	29467	41,69,176	6	0
			09/03/2016	300	39,929	0	0
			09/03/2016	2000	2,66,435	0	0
			11/03/2016	1000	1,30,050	0	0
			18/03/2016	3000	3,96,123	0	0
			18/03/2016	2000	2,64,653	0	0
			22/03/2016	2000	2,65,971	0	0
			22/03/2016	13000	17,28,555	0	0
			23/03/2016	11307	15,01,663	0	0
			28/03/2016	2000	2,59,886	0	0
			28/03/2016	3000	3,89,689	0	0
			29/03/2016	200	25,643	0	0
			31/03/2016	2000	2,60,000	0	0
			01/04/2016	500	66,522	0	0
			01/04/2016	26197	34,64,911	260	34,691
			04/04/2016	16183	21,52,873	0	0
			05/04/2016	12817	17,31,712	0	0

			Total	**199243**	**2,63,00,560**	**266**	**34,691**
9	Vanijya Investment and Trading	Suresh Shetty and Reetha Shetty both are equal partners of Vanijya Investment and Trading.	04/03/2016	4100	5,38,539	0	0
			04/03/2016	5900	7,89,497	0	0
			08/03/2016	1150	1,53,354	0	0
			09/03/2016	1600	2,13,294	0	0
			10/03/2016	50	6,642	0	0
			01/04/2016	200	26,475	0	0
			Total	**13000**	**17,27,801**	**0**	**0**

25. From the above, it is seen that the Code of Conduct prescribed by the Company under PIT Regulations, 1992/2015 was not being followed as designated employees of the company including Directors were trading by not obtaining pre-clearances.

26. I note that Noticee 3 and 4 have *inter alia* submitted that the instances of lapse which is mentioned in the Show Cause Notice are correct and there is no dispute on the same, however, this is a case where other entities traded without informing the Compliance Officer. They have further stated that the designated employees are required to seek prior approval of Compliance Officer to trade in securities of the company, and in such a case, violation by a designated employee should not constitute a breach of any legal requirement by the Company or the Compliance Officer since the Noticee does not physically control trading actions of designated persons. It has been submitted that though there was a minor lapse on part of some designated persons to inform their trading activities, violation of Regulation 9(3) of PIT Regulations, 2015 cannot be ascribed to the Company and Compliance Officer. In this regard, I note that the instances of trading without pre clearances are not just a few isolated cases but rather significant and repetitive. The role of Company and Compliance Officer is not restricted to formulation of Code of Conduct and circulation of the same to the designated employees; rather they have to administer and implement the Code of Conduct effectively. I also find that the Noticee 3 and 4 could have been aware of the trading activity of the designated employees and their connected entities from the data in the weekly benpos from RTA and also from the data of shareholding of the

designated employees received on quarterly/halfyearly /annual basis. It is noted that senior employees of SEL which includes Directors, President, and Chief Operating Officer and their connected entities were trading in the scrip without any preclearance from Company. I note that 9 entities purchased 2,68,798 shares worth Rs. 3.56 crores, and sold 19,876 shares worth Rs. 32.27 Lakh on around 63 days during the period 05/01/2015 to 28/06/2016 as mentioned in the Table above. I find the submission of Noticee 3 and 4 that there were minor procedural lapses on part of some designated persons to be untenable. I find that the lapses were serious and significant. Therefore, I do not find merit in the aforesaid submissions of the Noticee 3 and 4. From the above, I find that the Code of Conduct was not being followed in the Company and thus I find that Noticee 3 and 4 failed to implement/administer and monitor code of conduct and thus did not comply with the provisions of the Regulation 9(1) and 9(3) of PIT Regulations, 2015, respectively.

27. I note that Noticee 3 has been alleged to have violated Regulation 7(2)(b) of PIT Regulations, 2015 by not filing the disclosures regarding the trading of Noticee 1 and Suresh Shetty (HUF) wherein the aggregate trading of these entities exceeded Rupees Ten Lakh in value in a calendar quarter. In response to the SCN, Noticee 3 has submitted that at the relevant time, no disclosures were received by it from the said entities. In this regard, it is to be noted that Regulation 7(2)(b) of PIT Regulations, 2015 mandates a listed company to disclose the change in shareholding by directors to the stock exchange *"within two days of receipt of the disclosure or from becoming aware of such information"*. In the present case, I note that Noticee 3 receives Benpos on a weekly basis from its RTA -Integrated Enterprises (India) Limited which contains the change in shareholding of Directors, and was thus aware of change in the holdings of Noticee 1 and Suresh Shetty (HUF). Noticee 3 has also submitted that it issued notices to the delinquent employees and also levied penalty / issued warning. However, I note that the same was done only after the intervention by SEBI's investigation. Accordingly, I find that by failing to file the requisite disclosures, Noticee 3 has violated the provisions of Regulation 7(2)(b) of PIT Regulations, 2015.

Issue II) **Does the violation, if established, attract monetary penalty under Section 15A(b) and 15HB of SEBI Act, 1992?**

28. I note that the Hon'ble Supreme Court of India in the matter of ***SEBI vs. Shri Ram Mutual Fund*** held that "*once the violation of statutory regulations is established, imposition of penalty becomes sine qua non of violation and the intention of parties committing such violation becomes totally irrelevant. Once the contravention is established, then the penalty is to follow.*"

29. Thus, the violation of Regulation 7(2)(a) of PIT Regulations, 2015, makes Noticee 1 liable for penalty under Section 15A(b) of the SEBI Act, 1992, and the violations of Clauses 5.3 & 5.4 of Code of Conduct dated May 29, 2015 of SEL read with Regulation 9(1) of PIT Regulations, 2015, and Clause 6 of Minimum Standard of Code of Conduct contained in Schedule B read with Regulation 9(1) of PIT Regulations, 2015 makes Noticee 1 liable for penalty under Section 15HB of the SEBI Act, 1992. The violation of Clause 6 of Minimum Standard of Code of Conduct contained in Schedule B read with Regulation 9(1) of PIT Regulations, 2015 by Noticee 2 makes it liable for penalty under Section 15HB of the SEBI Act, 1992. The violation of Regulation 9(1) of PIT Regulations, 2015 and Regulation 7(2)(b) of PIT Regulations, 2015 by Noticee 3 makes it liable for penalty for under Section 15HB and 15A(b) of the SEBI Act, 1992 respectively. The violation of Regulation 9 (3) of PIT Regulations, 2015 by Noticee 4 makes it liable for penalty under Section 15HB of the SEBI Act, 1992.The provisions of Section 15A(b) and 15HB of the SEBI Act, 1992 read as under –

SEBI Act, 1992

Penalty for failure to furnish information, return, etc.

15A. If any person, who is required under this Act or any rules or regulations made thereunder,—

(b) to file any return or furnish any information, books or other documents within the time specified therefor in the regulations, fails to file return or furnish the same within

the time specified therefor in the regulations, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less;

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) **Quantum of penalty.**

30. In this regard, the provisions of Section 15J of the SEBI Act and Rule 5 of the Rules, require that while adjudging the quantum of penalty, 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.

31. With regard to the above factors to be considered while determining the quantum of penalty, it is noted that no quantifiable figures or data are available on record to assess the disproportionate gain or unfair advantage and amount of loss caused to an investor or group of investors as a result of the default committed by the Noticees. I also note that no prior default of the Noticees is available on record. I am of the opinion that the basic premise that underlines the integrity of securities market is that persons connected with such market conform to the standards of transparency, good governance and ethical behavior prescribed in securities laws. The framework laid by the PIT Regulations ensures that appropriate disclosures are made by the designated persons in a timely manner and also that their trading happens in a transparent manner with necessary pre-clearances from the company.

32. In the present case, it is noted that Noticee 1 has not made disclosures to the company as required under Regulation 7(2)(a) of PIT Regulations, 2015 as well as Clause 5.3 and 5.4 of the Code of Conduct dated May 29, 2015 of the Company. Further, Noticee 1 and 2 has not obtained any pre-clearance for its trading in the Company's shares and thus violated Clause 6 of Minimum Standards for Code of Conduct to Regulate, Monitor and Report Trading by Insiders given under Schedule B read with Regulation 9(1) of PIT Regulations, 2015. Further, it is noted that several designated employees and their related entities were trading in the Company's shares without pre-clearances and were not following code of conduct prescribed by the Company under PIT Regulations, 2015. It is thus noted that Noticee 3 and 4 viz. the Company and its Compliance Officer failed to implement/administer and monitor code of conduct and did not comply with the provisions of the Regulation 9(1) and 9(3) of PIT Regulations, 2015, respectively. It is also observed that Noticee 3 was not filing disclosures (2 instances) as required under Regulation 7(2)(b) of PIT Regulations, 2015, thus violating the said provisions. I note that Noticee 1 has been penalized by the Company and Noticee 2 has been issued warning by the Company. Further, Noticee 3 has stated that they issued notices to several delinquent employees and took action against them, and currently they are keeping track of trading by designated persons and ensuring strict compliance. I am of the view that the object and spirit of the PIT Regulations, 2015 would get defeated if the violators of the aforesaid Regulations are not dealt as per the spirit of PIT Regulations, 2015. Therefore, I am not inclined to view the lapse on the part of the Noticees leniently and consider it necessary to impose monetary penalty on the Noticees.

ORDER

33. Accordingly, taking into account the aforesaid observations and in exercise of power conferred upon me under Section 15 I of the SEBI Act read with rule 5 of the Rules, I hereby impose the following penalties on the Noticees for the aforesaid violations–

Noticee	Violations	Penal Provisions	Penalty Amount
Noticee 1 (Shri Jayarama Shetty Mundaje)	Regulation 7(2)(a) of PIT Regulations, 2015; Clause 6 of Minimum Standard of Code of Conduct contained in Schedule B read with Regulation 9(1) of PIT Regulations, 2015; Clauses 5.3 & 5.4 of Code of Conduct dated May 29, 2015 of SEL read with Regulation 9(1) of PIT Regulations, 2015	Section 15A(b) and 15HB of SEBI Act, 1992	Rs. 3,00,000/- (Rupees Three Lakh Only)
Noticee 2 (Shri Mohan Srinivasan Nagamangala)	Clause 6 of Minimum Standard of Code of Conduct contained in Schedule B read with Regulation 9(1) of PIT Regulations, 2015	Section 15HB of SEBI Act, 1992	Rs. 1,00,000/- (Rupees One Lakh Only)
Noticee 3 (Suprajit Engineering Ltd)	Regulation 9(1) of PIT Regulations, 2015 and Regulation 7(2)(b) of PIT Regulations, 2015	Section 15A(b) and 15HB of SEBI Act, 1992	Rs. 2,00,000/- (Rupees Two Lakh Only)
Noticee 4 (Shri Medappa Gowda J)	Regulation 9(3) of PIT Regulations, 2015	Section 15HB of SEBI Act, 1992	Rs. 1,00,000/- (Rupees One Lakh Only)
TOTAL			Rs. 7,00,000/- (Rupees Seven Lakh Only)

34. 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 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.

35. The aforesaid Noticees shall forward said Demand Draft or the details / confirmation of penalty so paid to "The Division Chief (Enforcement Department - DRA-3), Securities and Exchange Board of India, SEBI Bhavan, Plot No. C – 4 A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051.". The Noticee shall also provide the following details while forwarding DD / payment information:

a) Name and PAN of the Noticee
b) Name of the case / matter
c) Purpose of Payment – Payment of penalty under AO proceedings
d) Bank Name and Account Number
e) Transaction Number

36. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under Section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

37. In terms of Rule 6 of the Rules, copy of this order is sent to the Noticees and also to Securities and Exchange Board of India.

Date: August 26, 2020
Place: Mumbai

G Ramar
Adjudicating Officer