

**BEFORE THE ADJUDICATING OFFICER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**  
**[ADJUDICATION ORDER Ref. No. ORDER/JS/RJ/2025-26/31547]**

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

**Sunflower Broking Private Limited**  
**PAN: AAACN5165E**

**In the matter of inspection of Sunflower Broking Private Limited**

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**BACKGROUND**

1. Sunflower Broking Private Limited (hereinafter referred to as '**Noticee**') is registered with Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') as a stock broker (hereinafter referred to as '**SB**'). Roof One Securities Private Limited is the Authorized Person (hereinafter referred to as '**AP**') of the Noticee.
2. SEBI conducted a thematic inspection of the Noticee with regard to its AP from March, 2023 to August, 2023 (hereinafter referred to as '**inspection period**'). The findings of the said inspection were communicated to the Noticee vide letter dated February 09, 2024. In response to the findings in the inspection report, Noticee submitted its comments vide letter dated February 23, 2024.
3. Based on the findings of the inspection and the reply of the Noticee, SEBI initiated adjudication proceedings against the Noticee for alleged violation of the following provisions:
  - (a) Regulation 26(xix) of the Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 (hereinafter referred to as '**Stock Broker Regulations**');
  - (b) Clauses A(1) and A(2) of Schedule II for Code of Conduct read with regulation 9(f) of the Stock Broker Regulations;
  - (c) Regulation 9(b) of the Stock Broker Regulations read with BSE Circular No.20230525-24 dated May 25, 2023 (hereinafter referred to as '**BSE Circular dated May 25, 2023**'), and NSE Circular No. NSE/MEM/3574 dated August 29, 2002(hereinafter referred to as '**NSE Circular dated August 29, 2002**');)

- (d) SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 06, 2009 (hereinafter referred to as '**SEBI Circular dated November 06, 2009**');
- (e) Regulation 9(b) of the Stock Broker Regulations read with NSE Circular No. NSE/INSP/42448 dated October 18, 2019 (hereinafter referred to as '**NSE Circular dated October 18, 2019**') and NSE Circular No. NSE/COMP/48536 dated June 09, 2021 (hereinafter referred to as '**NSE Circular dated June 09, 2021**'); and
- (f) Regulation 9(b) of the Stock Broker Regulations read with NSE Circular No. NSE/INSP/6938 dated December 09, 2005 (hereinafter referred to as '**NSE Circular December 09, 2005**') and NSE Circular No. NSE/INSP/56947 dated June 02, 2023 (hereinafter referred to as '**NSE Circular dated June 02, 2023**').

#### **APPOINTMENT OF ADJUDICATING OFFICER**

- 4. Pursuant to the superannuation of the earlier Adjudicating Officer (hereinafter referred to as '**AO**') who had been appointed so vide communique dated October 11, 2024, the undersigned was appointed as AO in this matter vide communique dated April 09, 2025, to inquire into and adjudge under section 15HB of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act**') for the aforesaid violations alleged to have been committed by the Noticee.

#### **SHOW CAUSE NOTICE, REPLY AND HEARING**

- 5. Show Cause Notice (hereinafter referred to as '**SCN**') bearing No. SEBI/HO/EAD2/NH/RJ/2024/34147 dated October 30, 2024, was issued to the Noticee under rule 4 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**Rules**') to show cause as to why an inquiry should not be held and penalty, if any, should not be imposed against the Noticee under section 15HB of the SEBI Act for the aforesaid alleged violations.
- 6. The SCN dated October 30, 2024, *inter alia*, alleged the following:

##### ***Terminal Verification and Certifications***

- (a) *During the inspection, Roof One Securities Private Limited, AP of Noticee was asked to provide the details of dealers engaged by it, including the terminals allotted to them. In this regard, the AP stated that it had not engaged any dealers. Further, the AP vide email dated January 13, 2024, provided a list of seven entities to whom it had provided*

*terminals. The AP also submitted in its reply that said seven entities were its employees (i.e., terminals were allotted to its employees only).*

- (b) In this regard, AP was advised to provide complete details with regard to the employment of the said seven entities with AP, including copies of the offer letter, relevant date(s) of employment, attendance details, proof of payment of salary, proof of income tax deduction and proof of PF payment. In response to the same, the AP, vide email dated January 19, 2024, provided only a one-page appointment letter pertaining to six out of the said seven entities (to whom the terminal was allotted). On perusal of said one page letters, it was found that the said letters were vague and ambiguous. It was observed that the address of the candidate, terms and conditions of the appointment, etc., were absent in the letter. It was, further, observed that no other details like relevant dates of appointment, attendance details, etc., were provided in spite of specific advice being given to the AP to provide the same. Further, it was observed that no details were provided in respect of one entity.*
- (c) In this context, Post Inspection Analysis Report(hereinafter referred to as 'PIA') alleged that the AP had not maintained any records (apart from a single page appointment letter) relating to the relationship with the persons to whom the terminals were allotted. It was stated in the PIA that this casts a serious doubt on the usage of terminals by Authorized Persons/employees as there were no records regarding the attendance, salary payment proofs, employee benefit, tax deduction proofs. Further, it was alleged that the Noticee could not clearly explain the absence of such records. Considering the absence of documents indicating the relationship with the persons to whom these terminals are being allotted, it was alleged that the Noticee had not ensured control over terminals granted to AP.*
- (d) In view of the above, the Noticee was alleged to have violated regulation 26(xix) and Clauses A(1) and A(2) of Schedule II for Code of Conduct read with regulation 9(f) of the Stock Broker Regulations, regulation 9(b) of the Stock Broker Regulations read with BSE Circular dated May 25, 2023 and NSE Circular dated August 29, 2002.*

#### ***Misuse of Terminals***

- (e) It was observed during the inspection that one Ms. Ilaben Sangani was appointed on March 01, 2023 as per the one page 'appointment letter' provided by AP. However, it was observed that, as per the details submitted by NSE, the terminals were allotted to*

the said person on April 26, 2021, i.e., two years prior to the purported appointment letter.

(f) In response, the Noticee, inter alia, stated as under:

“Ila Sangani was initially appointed in March, 21 via reference from one trusted source of the Director. As mentioned in above paragraph that Roof One was operated with very minimal staff, Roof One faced heavy shortage of staff during covid period and during said time, we got Ila’s reference and management hired her so that basic operations of the company do not get affected. As everyone was working from home, required joining formalities were not done. In Apr,21 & May,21 there was heavy spread of novel covid pandemic situation and she got affected with covid and went on leave and re-joined the company again in 2023.”

(g) It is stated in the PIA that the terminal was active during the period when Ms. Ilaben Sangani was on leave. It was mentioned that there were several trades executed using her terminal in her absence. In this regard, PIA stated that, as there is no clear indication regarding the usage of the terminal allotted to Ms. Ilaben Sangani by herself, it is not incorrect to assume that there had been a misuse of the terminal.

(h) In view of the above, the Noticee was alleged to have violated regulation 26(xix) and Clauses A(1) and A(2) of Schedule II for Code of Conduct read with regulation 9(f) of the Stock Broker Regulations.

#### **Dealing with clients**

(i) It was observed during the inspection that Blueage Fintrade LLP and Smithblock Financial Services Pvt. Ltd. were the clients of the AP during the inspection period. From the ledger accounts of Blueage Fintrade LLP and Smithblock Financial Services Private Limited, it was observed that the Noticee had directly received funds from the said clients:

Table 1

<b>Client Name</b>	<b>UCC</b>	<b>Remarks</b>
Blueage Fintrade LLP	ROS099	Multiple transactions with the client in AP's bank account. Entries also appeared in the trial balance
Smithblock Financial Services Private Limited	USS021	Multiple transactions with the client in AP's bank account. Entries also appeared in the trial balance

(j) In response, the Noticee, inter alia, stated as under:

“...With due respect we are again accepting the fact that the financial transactions between two entities (i.e. Roof One & Blueage) are of unsecured loan which was given temporary for the working capital requirement of the LLP. Said

loan was given interest free as Directors of Roof One Securities Private Limited & Partners of Blueage Fintrade LLP are common (i.e., Malay Bhow & Bhavik Vora). Blueage Fintrade LLP Ledger in the books of Roof One Securities Private Limited is attached as Annexure 3

As mentioned in all our earlier replies that Roof One has taken unsecured loan from Family Relatives & Friends. Roof One has taken loan from Smithblock Financial Services Pvt. Ltd. in the year 2014. Said loan was taken for the working capital requirement of the Company. As the loan was taken from Family Relatives & Friends the same was interest free. Roof One has started repaying the loan amount to Smithblock Financial Services Pvt. Ltd. from the month of January 2024 and that is the only reason why multiple transactions in Roof One's Bank account is getting showed. There were no banking transaction between these two entities in the past four years (i.e., from Sep., 2019 till Dec., 2023). Ledger of Smithblock Financial Services Pvt. Ltd. in the books of Roof One is attached as Annexure 4. ...”

- (k) PIA alleges that the Noticee accepted that the AP had transactions with its clients. The Noticee stated that the AP had informed that the transactions in Table 1 were related to an unsecured loan (advance) taken for working capital purposes. These loans were provided by Blueage Fintrade LLP and Smithblock Financial Services Pvt. Ltd.
- (l) In this regard, Noticee was alleged to have violated SEBI Circular dated November 06, 2009, regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated October 18, 2019 and NSE Circular dated June 09, 2021.

**Common management of Stockbroker and AP**

- (m) The details regarding the directors of the Noticee and the AP as available at website of Ministry of Corporate Affairs (hereinafter referred to as 'MCA') as under:

Table 2

Sr. No.	Director of Noticee	Director of AP
1.	Malay Rohitkumar Bhow	Malay Rohitkumar Bhow
2.	Bhavik Prafulchandra Vora	Bhavik Prafulchandra Vora
3.	Jhanavi Dhawalbhai Dave	--

- (n) In this regard, it was observed in the inspection report that directors at Sr. Nos 1 and 2 of the Table were common for both the Noticee and the AP and the same was not in compliance with above referred Circular.
- (o) In this regard, the Noticee has, inter alia, stated as under:

*“...We are in the process to change Directors of Roof One Securities Pvt. Ltd. and the same will take a month. Once done, we will update the Exchange as part of compliance and if required, than to SEBI as well. Requesting SEBI to allow us some time to make required changes as the process is relatively lengthy ...”*

- (p) It is stated in the PIA that the Noticee and the AP were having same directors during the inspection period. In this regard, it was alleged that there were two common directors between the Noticee and the AP.*
- (q) Therefore, it is alleged that the Noticee has violated regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated June 02, 2023.*

***Funding transaction***

- (r) It was observed from the bank account statements that AP was engaged in financial transactions with 12 entities (two of such entities, Blueage Fintrade LLP and Smithblock Financial Services Private Limited were clients of the AP) during the inspection period.*
- (s) In this regard, AP was asked to provide the reason for receipt of funds from said entities by the inspection team. In response, the AP has submitted that the same were ‘loan/ intercorporate Loan’. Thereafter, AP was asked to provide a copy of the loan agreement/other relevant documents pertaining to said financial transaction. However, it was observed that no such document was provided by the AP. Further, it was observed that the AP had allocated terminals to five of the said twelve entities. In this regard, it was observed that the AP had financial arrangements /fund based activities with the said twelve entities, which was not in compliance with the above Circulars.*
- (t) In response, the Noticee, inter alia, stated as under:*

*“...Yes, Roof One had financial transaction with 12 entities and out of that only one entity (i.e., Blueage Fintrade LLP) is client of Roof One. Directors of Roof One and Partner of Blueage Fintrade LLP are common.*

*In our earlier reply, we have provided ledgers of all 12 entities and the same relates to the unsecured loan which was taken for the working capital requirement. As the same was taken from family relatives and friends, no agreements were executed and the same was interest free. Further, we would also like to state that out of all 12 entities, loan taken from 11 entities are NIL as on date (i.e., the same has been repaid).*

*Terminals were allocated only to the dealers and Roof One had no financial transactions with any of them. ...”*

- (u) *PIA alleges that the Noticee accepted that AP had transactions with various entities, of which two entities (Blueage Fintrade LLP and Smithblock Financial Services Private Limited) were their clients as well. It is stated in the PIA that the Noticee had informed that the transactions were related to an unsecured loan (advance) taken for working capital purposes from various friends and family/relatives.*
- (v) *In this regard, the Noticee was alleged to have violated regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated December 09, 2005 and NSE Circular dated June 02, 2023.*

7. The SCN was duly served upon the Noticee in consonance with the Rules.
8. In response, Noticee submitted its reply vide letter dated December 28, 2024. The relevant extracts of the reply of Noticee are reproduced below:

***Clause 7.1: Terminal verification and certifications***

*“7. We submit that we have engaged dealers from time to time in full compliance with the requirements of SEBI and Exchanges.*

*8. The SCN correctly records that the 7 persons to whom terminals were allotted are our employees.*

<b><i>Name</i></b>	<b><i>User ID</i></b>	<b><i>Exchange Segment</i></b>	<b><i>Date of appointment as an Employee</i></b>
<i>Chirag Rathod</i>	<i>360002001719</i>	<i>NSE Cash, BSE Cash</i>	<i>April 01, 2023</i>
<i>Hitesh Unadkat</i>	<i>36002001722</i>	<i>NSE Cash, BSE Cash</i>	<i>July 01, 2023</i>
<i>Bina Ramaiya</i>	<i>3600101120</i>	<i>NSE Cash, BSE Cash</i>	<i>June 01, 2023</i>
<i>Sunil Sangani</i>	<i>36001001721</i>	<i>NSE Cash, BSE Cash NSE FNO</i>	<i>June 01, 2023</i>
<i>Ila Sangani</i>	<i>36004001059</i>	<i>NSE Cash, BSE Cash</i>	<i>March 01, 2021</i>
<i>Mehul Bopaliya</i>	<i>36007001032</i>	<i>NSE Cash, BSE Cash NSE FNO</i>	<i>May 02, 2023</i>
<i>Suresh Vaghela</i>	<i>36005001003</i>	<i>NSE Cash, BSE Cash</i>	<i>April 27, 2021</i>

*9. The SCN alleges that we have provided the appointment letters only for 6 persons which are annexed to the SCN as Annexure 5 and have not provided the same for Mr. Suresh Vaghela, it appears that we had missed out on providing the copy of the letter during the submission. We therefore now submit the copy of appointment letter of Mr. Suresh Vaghela as Exhibit 1.*

*10. The SCN further alleges that we have not provided any document other than offer letter which is grossly incorrect. We have also provided the proof for payment of salaries to these entities. In fact the email attached as Annexure 5 to the SCN records that there are 2*

attachments to the email viz. "Annexure 2 Proof of Salary Payments to Dealers.zip; Annexure-1 Offer Letters.pdf". We once again attach the evidence of payment of salary in the form of cash payment vouchers with revenue stamps affixed thereon and duly acknowledged by the employees or a salary slip as Exhibit 2.

11. The salary of these employees was not subject to Tax or Provident Fund and therefore no income tax deduction proof or PF was submitted. It is submitted that tax deduction and PF is mandatory only under specific conditions and not applicable to Roof One Securities Pvt. Ltd.

12. The AP has small operations in a small office and all employees work under the direct control of the directors and sit in a manner where all people can see each other and hence attendance register was not maintained. In any case attendance register is not a mandatory document under SEBI and hence not maintained.

13. The SCN wrongly records that the our arrangement casts serious doubts on usage of terminals merely on the basis of non-availability of records like attendance register, tax deduction or provident fund, which are not applicable. Further the SCN ignores that the evidence of offer letters and payment of salary was duly attached, which substantiate beyond doubt that these were the employees of the AP.

14. In light of the forgoing, it is submitted that the allegations of having violated Regulation 26(xix) and Clause A(1) and A(2) of the Code of Conduct read with Regulation 9(f) and 9(b) of the Stock Broker Regulation read with BSE Circular 20230525-24 dated May 25, 2023 and NSE Circular No. NSE/MEM/3574 dated August 29, 2002 is incorrect.

a. Regulation 26(xix) quotes as under

***Liability for monetary penalty.***

26. A stock broker or a sub-broker shall be liable for monetary penalty in respect of the following violations, namely

(ix) Extending use of trading terminal to any unauthorized person or place.

b. SEBI and Exchange require uploading details of terminals to the Exchanges before allotment thereto.

c. The details include name of the dealer, address, identification and other details along with NISM certificates wherever applicable along with relationships.

d. In the current case all the terminals have been duly registered with the Exchanges and all reporting requirements have been complied with. There is no adverse observation in the SCN in this regards.



e. We therefore submit that none of the terminals are allotted to unauthorised person or place and hence the allegation of violating Regulation 26(xix) does not hold good.

f. We submit that specific clause of BSE Circular 20230525-24 dated May 25, 2023, alleged to be violated by us is not provided in the SCN. We have gone through the circular and have tried to identify the clause ourselves and the relevant portion which may be of concern to SEBI and it quotes:

"...it is re-iterated that all trading terminals allotted by members, which are enabled/activated for trading shall be operated/accessed only through User Ids allotted to Approved user namely Employee, Dealer, Remisier and registered authorized persons (AP) or employee of on AP. No other person shall operate or place orders from such trading terminals. Trading Members shall not entrust the ETI/dealer terminals to their clients or to any unregistered intermediary other than Approved Persons."

g. In the current case it can be observed that all the persons to whom terminals were allotted were our dealers categorised as approved users and hence compliance with the circular has been ensured.

h. We therefore humbly submit that the allegation of violating BSE Circular 20230525-24 dated May 25, 2023 does not hold good.

i. If SEBI is of the view that some other clause of the circular applies to the current case, then the same may be clarified and we would be happy to provide further clarifications.

j. We submit that specific clause of NSE Circular No. NSE/MEM/3574 dated August 29, 2002, alleged to be violated by us, is not provided in the SCN. We have gone through the circular and have tried to identify the clause ourselves and the relevant portion which may be of concern to SEBI and it quotes:

"6. Trading Members shall not entrust the CTCL terminals to their clients or to any unregistered intermediary (refer points 1 and 5 of Circular 163) other than Approved Persons. Approved Person may be an employee of the Trading Member, registered sub-broker, an Approved User or an Authorised Person who has been approved by the Exchange."

k. In the current case it can be observed that all the persons to whom terminals were allotted were approved persons and hence compliance with the circular has been ensured.

*l. We therefore humbly submit that the allegation of violating NSE Circular No. NSE/MEM/3574 dated August 29 2002 does not hold good.*

*m. If SEBI is of the view that some other clause of the circular applies to the current case, then the same may be clarified and we would be happy to provide further clarifications.*

*n. Regulation 9(b) require members to abide by the rules, regulations and bye-laws of the stock exchange which are applicable and regulation 9(f) requires members to abide by the Code of Conduct as specified in Schedule II.*

*o. From the aforesaid submissions it is evident that we have complied with the circulars of the Exchanges mentioned in the SCN. Further the SCN alleges that we have not abided by clause A(1) and A(2) of the code which quote as under:*

*"A. General*

*a. Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.*

*b. Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business."*

*p. There is nothing in the SCN that substantiates that we have not maintained integrity, promptitude and fairness in the conduct of all his business or have failed to exercise due skill, care and diligence in the conduct of our business.*

*q. We therefore humbly submit that the allegation of violating the code of conduct does not hold good.*

*15. In light of the forgoing submissions we humbly submit that the observations in "Clause 7.1: Terminal verification and certifications" and the allegations are not made out and hence we cannot be said to have violated Regulation 26(xix) and Clause A(1) and A(2) of the Code of Conduct read with Regulation 9(f) and 9(b) of the Stock Broker Regulation read with BSE Circular 20230525-24 dated May 25, 2023 and NSE Circular No. NSE/MEM/3574 dated August 29, 2002 as alleged or at all.*

***Clause 7.2: Misuse of terminals***

*16. At the outset we would like to clarify that there is a miss statement in the response regarding Ms. Ila Sangani that "in Apr,21 & May, 21 there was heavy spread of novel covid pandemic situation and she got affected with Covid and went on leave and re-joined the company again in 2023." This misstatement is on account of a human error where it was*

*mentioned that she was on leave whereas the communication should have been that she was doing other office work, but not dealing.*

*17. It appears that this error has resulted in a misunderstanding that in spite of being on leave her terminal was being used resulting in misuse of terminal.*

*18. We humbly submit that Mrs. Ila Sangani got affected from Covid during April and May 2021 when she was on leave. After her recovery she started working for us, but did not execute trading.*

*19. First trade through her terminal has taken place only in May 2023 which was wrongly termed as re-joined the office. For abundant clarification we reiterate that no trades have been done from her terminal before May 2023.*

*20. In any case the terminal, though validly allotted to her, was never used till May 2023 and therefore there is no question of misuse of terminal as alleged or at all.*

*21. In light of the forgoing, it is submitted that the allegations of having violated Regulation 26(xix) and Clause A(1) and A(2) of the Code of Conduct read with Regulation 9(f) is incorrect*

*a. Regulation 26(xix) quotes as under*

***Liability for monetary penalty.***

*A stock broker or a sub-broker shall be liable for monetary penalty in respect of the following violations, namely-*

*(ix) Extending use of trading terminal to any unauthorized person or place.*

*b. SEBI and Exchange require uploading details of terminals to the Exchanges before allotment thereto. The terminals were permitted to be allotted to Approved Persons including Approved Users who are duly reported to the Exchange.*

*c. The details include name of the dealer, address, identification and other details along with relationships was duly reported to the Exchanges.*

*d. Further the SCN alleges that we have not abided by clause A(1) and A(2) of the code which quote as under*

***"A. General***

*a. Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.*

*b. Exercise of due skill and care A stock-broker shall act with due skill, care and diligence in the conduct of all his business."*

*e. There is nothing in the SCN that substantiates that we have not maintained Integrity, promptitude and fairness in the conduct of all his business or have failed to exercise due skill, care and diligence in the conduct of our business.*

*f. We therefore humbly submit that the allegation of violating the code of conduct does not hold good.*

*22. In light of the forgoing submissions we humbly submit that the observations in Clause 7.2: "Misuse of Terminals" and the allegations are not made out and hence we cannot be said to have violated Regulation 26(xix) and Clause A(1) and A(2) of the Code of Conduct read with Regulation 9(f) of the Stock Broker Regulation as alleged or at all.*

***Clause 7.3: Dealing with clients***

*23. The SCN records that Blueage Fintrade LLP and Smithblock Financial Services Pvt. Ltd. are clients of our AP.*

*24. The SCN further relies on ledgers annexed in Annexure 8 thereto to alleges that the Noticee i.e. in the current case we (Sunflower Broking Pvt. Ltd.) had directly received funds from these 2 entities.*

*25. Table 1 of the SCN then records that there are multiple transactions with the client in AP's bank account and entries also appeared trial balance.*

*26. On the basis of our acceptance that AP had transactions with clients for unsecured loans and working capital it is alleged that we have violated SEBI Circular MIRSD/ DR-1/ Cir-16 109 dated November 06, 2009, Regulation 9(b) of the Stock Broker Regulation read with NSE Circular No. NSE/INSP/42448 dated October 18, 2019 and NSE Circular No. NSE/COMP/48536 dated June 09 2021.*

*27. At the outset we submit that Annexure 8 are ledgers of Blueage Fintrade LLP and Smithblock Financial Services Pvt. Ltd. in the books of our AP and therefore the observation that the ledgers in Annexure 8 reflect that we (Sunflower Broking Pvt. Ltd.) had transactions with them is incorrect. We believe that the SCN actually prefers to say that the ledgers in Annexure 8 reflect that our AP had transactions with them.*

*28. Basis this error, we would like to highlight that at times certain mistakes may appear to give incorrect statements on facts and the same need to be appreciated on the basis of corrections. We therefore pray that a similar approach be adopted for our submission of Mrs. Ila Sangani hereinabove where we have clarified that our earlier response was erroneous.*

29. With regards to the transactions, it is an admitted fact that our AP had borrowed money from Blueage Fintrade LLP and Smithblock Financial Services Pvt. Ltd. as unsecured loan for meeting its working capital requirements

30. It is also correct that Blueage Fintrade LLP and the AP are promoted and managed by Mr. Malay Bhow and Mr. Bhavik Vora. It is only natural for such entities to allow their surplus funds to be used by other entity of the same promoters and therefore no fault can be found with these unsecured loans for meeting the working capital requirement of the AP.

31. The SCN also seems to have a reservation that Blueage Fintrade LLP and Smithblock Financial Services Pvt. Ltd. are clients of the AP and certain circulars appear to prohibit transactions of clients with APs. We humbly submit that the reservation is incorrect and is not in line with the applicable laws for the reasons recorded hereunder:

a. The relevant extracts of SEBI Circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 quote as under:

"1. Pursuant to the recommendations made by the Secondary Market Advisory Committee of SEBI and discussions with major stock exchanges and with a view to expand the reach of the markets for exchange traded products, it has been decided to allow SEBI registered stock brokers (including trading members) of stock exchanges to provide access to clients through authorised persons."

5. Conditions of Appointment

c) The authorized person shall not receive or pay any money or securities in its own name or account. All receipts and payments of securities and funds shall be in the name or account of stock broker.

b. Clause 1 of the circular sets the context of the circular and records that APs are to be appointed to expand the reach of the markets and therefore all subsequent paras have to be read in that context.

c. Expanding the reach of the markets means allowing the clients at various places to transact in securities markets.

d. Consequentially the condition "c" hereinabove has to be interpreted to relate to securities transactions and no other transactions and therefore it will effectively mean that APs shall not receive any money or securities in its own name or account for securities transactions of the clients and cannot be stretched beyond. In fact the subsequent part of the condition makes it even clear that all receipts and payments of securities and funds shall be in the name or account of stock broker. This effectively

*restricts the APs from issuing their own invoices/bills/confirmation statements etc, like it was permitted to sub-brokers earlier and that all dealings for securities transactions would be with the member and not the APs.*

*e. However the aforesaid condition no way deals with transactions not related to securities markets and in the current case the transactions are in the nature of unsecured loans to AP and have nothing to do with securities transactions and therefore out of the purview of the quoted circular.*

*f. The relevant extracts of NSE Circular No. NSE/INSP/42448 dated October 18, 2019 quote as under:*

*"Member's attention is drawn to SEBI circular MIRSD/DR-1/ Cir- 16/09 dated November 06, 2009*

*Clause 3 of Annexure A Quotes*

*There is no movement of Funds and securities between the client and AP/branch official for settlement of trades on the Exchange, Demat statement and bank accounts of the AP to be examined to verify such instances."*

*g. From the above circular it is evident beyond doubts that the restriction is for movement of funds is for settlement of trades on the Exchange and not beyond and the transactions of unsecured loans as in the current case are not covered under this circular and hence not restricted.*

*h. Further this circular draws attention to SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 and this buttresses our earlier submission that the restriction under the SEBI Circular is with regards to transactions on the Exchange and not beyond.*

*i. The relevant parts of NSE Circular No. NSE/COMP/48536 dated June 09 2021 quote as under"*

*"Member's attention is drawn to SEBI circular MIRSD/DR-1/Cir-16/09 doted November 06, 2009*

*...*

*An Authorised Person is a person/entity who, as an agent of a Member, provides access to the clients of the Member to trading platform of a stock exchange. While doing so, the Authorised Person is prohibited from:*

*Accepting any receipt or payment/delivery of funds & securities of the clients. Authored Person shall not collect or receive any funds or securities from the clients and shall not*

*charge any amount from the clients, directly or indirectly, for the services rendered on behalf of the Member as an agent.”*

*j. This circular records that AP is an agent of Member and provides access to clients of the members to trading platform and thus it can be construed that the circular deals with transactions on the trading platform of the stock exchange and not beyond. In the current case the transactions pertain to unsecured loans taken by the AP and are therefore not covered under this circular.*

*k. Even further this circular also refers to the SEBI circular of 2009 and therefore it is evident beyond doubt that the SEBI circular also pertains to transactions on the trading platform of the Exchange and not beyond.*

*32. In light of the forgoing submission it is humbly submitted that the allegation of violating SEBI Circular MIRSD/DR-1/Cir- 16/09 dated November 06, 2009, Regulation 9(b) of the Stock Broker Regulation read with NSE Circular No. NSE/INSP/42448 dated October 18, 2019 and NSE Circular No. NSE/COMP/48336 dated June 09 2021 does not hold good.*

***Clause 7.4: Common management of Stockbroker and AP***

*33. The SCN alleges that we have violated clause 5(c) of NSE Circular dated June 2, 2023 which quotes as under:*

*"c) Trading Members shall ensure following:*

*i. Director/Partner of a registered AP/Trading Member is not appointed in the capacity of AP with any other Trading Member, or the same Trading Member registered with the Exchange.*

*ii. Director/Partner of an AP is not associated as Designated Director/Designated Partner/Compliance Officer with any Trading Member registered with the Exchange.*

*iii. Director/Partner of AP is no associated as Director/Partner with other AP registered with the Exchange.*

*iv. Further an Authorized person shall be affiliated with only one Trading Member of the Exchange at any point in time”*

*34. The SCN observes that we and our AP have 2 common directors viz. Malay Rohitkumar Bhow and Bhavik Prafulchandra Vora and therefore alleges that we have violated the circular dated June 2, 2023.*

*35. We humbly submit that the appointment of the directors was prior to the issuance of the circular details of which are as under:*

<i>Name</i>	<i>Date of appointment with Noticee</i>	<i>Date of appointment with AP</i>
<i>Malay Rohitkumar Bhow</i>	<i>01.09.2009</i>	<i>16.09.2021</i>
<i>Bhavik Prafulchandra Vora</i>	<i>17.07.2018</i>	<i>04.07.2018</i>

36. From the above table it can be observed that all the appointments are prior to the issuance of circular dated June 2, 2023 and hence we humbly submit that we have not violated the circular as alleged or at all.

37. Without prejudice to the forgoing, we have now ensured that our directors are not the directors of AP and as on date the directors of APs are as under:

a. Chavda Pravinbhai Becharbhai

b. Kanaiyalal Harjibhai Chauhan

38. From the above it can be observed that the requirement of not having common directors was as recent as June 2, 2023 and the inspection period was up to August 31, 2023 which means that it was a recent requirement at the relevant point in time. Further the compliance with the circular has also been done and we are now fully compliant. In any case the circular did not mention any deadline for changing the directors but the same has been carried out by us within a reasonable period.

39. In light of the forgoing, it should not be created that we have violated clause 5(c) of NSE Circular dated June 2, 2023.

#### **Clause 7.5: Funding Transactions**

40. The SCN alleges that we have violated certain clause of NSE/INSP/6938 dated December 9, 2005 and clause 9(xi) of NSE Circular NSE COMP/56947 dated June 02, 2023.

41. The relevant extracts of NSE/INSP/6938 dated December 9, 2005 quotes:

"3. Certain arrangements have come to the notice of the Exchange by which, the securities and funds of a client are received/transferred by trading members routinely from/to the accounts of different entities or the joint accounts of the client with the financier or its agents, or the trading member operates the clients bank account and / or depository account, under a financing arrangement with a general authorisation by the clients.

4. Such arrangements are in violation of the above referred circulars, in view of the same, trading members are advised to ensure the following:

4.1. Trading members shall not be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary/holding company or group company, to fund the transactions executed by the trading members on behalf of their clients, or



*recognise or act in accordance with any such agreement or arrangement entered into by the clients with any person."*

*42. A holistic reading of the circular sets out the context in which the circular has been issued. It pertains to arrangements whereby trading members of Exchanges used to finance or arrange for financing of clients for their trading in securities markets. In the current case there is no finding in the SCN that we or our AP has got into any such arrangement.*

*43. The SCN in fact recognises that the AP had borrowed the money for its business and not arranged money for clients as mentioned in the circular.*

*44. It is humbly submitted that such borrowings are specifically permitted by SEBI vide circular SMD/POLICY/CIR-6//97 dated May 07, 1997 which quotes "Based on the suggestions/representations received from various Stock Exchanges, SEBI has examined the applicability of Rule 8(1)(f) and 8(3)(t) of the Securities Contract (Regulation) Rules, 1957, relating to Fund Based Activities Brokers. It has been opined that borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under Rule 8(1)(f) and 8(3)(f) ."*

*45. From the above circular it is evident beyond doubt that borrowing money in connection with or incidental to securities business not to be treated as a fund based activity.*

*46. It is also alleged that we have violated clause 9(ix) of NSE Circular No. NSE/COMP/56947 dated June 02, 2023. The circular quotes under: "xi. The Authorised Person is not involved in any fund-based activities/collecting deposits from investors/unauthorised trading/chit funds or any other such schemes."*

*47. Borrowings for securities business are specifically excluded from being categorised as fund based activity as per the SEBI Circular dated May 7, 1997 and hence we cannot be said to have violated clause 9(ix) of NSE Circular NSE/COMP/56947 dated Date: June 02, 2023.*

*48. In light of the forgoing we humbly submit that we have not violated any clause of NSE/INSP/6938 dated December 9, 2005 or clause 9(xi) of NSE Circular NSE/COMP/56947 dated June 02, 2023 as alleged or at all.*

#### ***Other Submissions***

*49. From the above response it can be observed that most allegations do not hold good and even if a few still remain those are of technical and venial nature and have not caused any prejudice to the clients or markets at large. We are committed to complying with the law and request that the procedural lapse be seen in the context of our overall scale of operations handled and the various compliance measures adopted by us. Further, on becoming aware of*

*the stray instances pointed out during the course of inspection, we have immediately taken steps to rectify the same and avoid their recurrence in future.*

*50. It is submitted that, in the past for the similar procedural/technical violations, regulators and exchanges had merely issued warning to the brokers. In this context we invite your attention to the following Orders passed by SEBI, wherein similar procedural/technical violations were condoned by SEBI and had issued simple warning to the brokers, as stated in Order passed by Hon'ble Securities Appellate Tribunal in the matter of Chona Financial Services Pvt Ltd vs. SEBI (Appeal No 95 of 2003). ”*

*.....*

*“51. In this context we also invite your attention to the following observations of Hon'ble Securities Appellate Tribunal in its;*

*Order dated 16.6.2011 in the matter of Religare Securities Ltd vs. SEBI:*

*"it must be remembered that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements in regard to the maintenance of records. We also cannot lose sight of the fact that every minor discrepancy/irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant*

*Order dated July 25, 2011 in the matter UPSE Securities Ltd. v/s SEBI*

*"The object of carrying out inspection of the books of accounts and records of any intermediary including a stock exchange or its subsidiaries is to ensure compliance with the provisions of the Act, Rules, Regulation By-laws and circulars issued from time to time which are meant to regulate the securities market. Every little irregularity/deficiency noticed during the course of the inspection is not culpable and does not call for initiation of penalty proceedings. The purpose of inspection in quite a few cases could be better achieved if the inspecting team at the time of the Inspection were to advise the erring entity..."*

*SEBI Order dated 16.06.2017 in the matter of Inspection of Indiabulls Mutual Fund passed by the Adjudicating Officer, SEBI:*

*"Though there has been a procedural lapse on part of Indiabulls of not taking approval of trustee and not publishing addendum for declaring the dividend on 4 instances, I do not find from the inspection report that it is a repetitive irregularity on part of the*

*noticees. Further the observations made in inspection report are procedural in nature and corrective measures are taken by Noticees on being pointed out by the inspection team. No observations are made in inspection report as to whether investors' interests have adversely affected on account of procedural lapse on the part of Noticees."*

*SEBI Order ADJUDICATION ORDER NO EAD/ AO-NP/ JR/39/2017 dated May 22, 2017 clause 16 records "There are observations in the inspection report and Noticee have taken rectifying steps or have improved procedure for better compliance. Further the observations made are procedural in nature and many of these are complied with after being pointed out by the inspection team. No serious observations are made where investors' interests would be adversely affected. Further if SEBI finds any suspicious transaction not reported by Noticee then matter may be referred to FIU for appropriate action. In view of these, I do not find it a fit case for imposing monetary penalty*

*52. The current case squarely falls under the aforesaid orders of the AO and SAT where no penal action was taken against members or other noticees and a similar action is warranted in the current case."*

*"53. Your kind attention is also drawn to section 15J of the SEBI Act which quotes as under:*

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

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

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

*(c) the repetitive nature of the default."*

*54. Without admitting that we have defaulted on the requirements of SEBI and Exchanges, we humbly submit as under:*

*a. It is neither alleged in the SCN for we have made any disproportionate gain or unfair advantage.*

*b. It is neither alleged in the SCN or we caused any loss to investor or group of investors.*

*c. The observations are highlighted for the first time and are not of a repetitive nature. Further we have put in place processes to ensure non-repetition thereof.*

*55. It is further submitted that while considering our submissions, we humbly request you to take into account the following factors:*

- a. *Neither we nor our clients have ever defaulted in meeting their payment/ delivery obligations.*
- b. *The alleged discrepancies either do not exist or are at the highest a technical, procedural and venial breach.*
- c. *The alleged technical lapses were not deliberate and intentional and in contumacious disregard of provisions of law.*
- d. *We have not indulged in any manipulative, fraudulent or unfair trade practices. Admittedly, there is no finding/observation in the Inspection Report of us indulging in any kind of fraudulent, manipulative or unfair trade practices in the market.*
- e. *We have not made any gains or derived any unfair advantage as a result of alleged technical and minor lapses.*
- f. *The alleged deficiencies have already been cured.*
- g. *The alleged discrepancies have not caused any loss to any of our clients. Further, it may be noted that there are no client/investor complaints in this regard.*
- h. *That as result of alleged discrepancies, we have not made any gain or gained any unfair advantage.*
- i. *it is assured that we will continue to scrupulously abide by the provisions of the SEBI/Exchange Circulars and Regulations.*

*56. In view of the foregoing submissions, we repeat, reiterate and submit that we have conducted our business and operations in compliance with applicable Regulations and Circulars issued by SEBI and have not acted in disregard of statutory compliances. It is respectfully submitted that, we have no committed any violations, warranting initiation of any further proceedings or a penalty and therefore it is humbly prayed that no action be taken in the matter and be exonerated from all the allegations and observations in the SCN.”*

9. After receipt of the written reply, in compliance with the principle of natural justice, an opportunity of personal hearing was granted to the Noticee on April 28, 2025. Based on the request of the Noticee, the hearing was rescheduled to May 02, 2025. On May 02, 2025, the Noticee was represented by its authorised representative, Mr. Ravi Ramaiya.
10. Since the Noticee disputed the execution of trades from the terminal allotted to Mrs. Ila Sangani despite specific allegation of such trades in the SCN, the list of trades executed through the terminal allotted to Mrs. Ila Sangani during the period from June 2021 to March 2023 was provided to the Noticee. The said communication was duly served on Noticee through email

dated May 29, 2025. In the interest of natural justice, the Noticee was granted time till June 13, 2025 to submit additional reply, if any. The Noticee vide email dated July 22, 2025 reiterated its earlier submission and stated that it has no further submission to make.

### **CONSIDERATION OF ISSUES AND FINDINGS**

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

- I. Whether the Noticee failed to ensure control over terminals granted to AP and thereby violated regulation 26(xix) and clauses A(1) and A(2) of Schedule II for Code of Conduct read with regulation 9(f) of the Stock Broker Regulations, regulation 9(b) of the Stock Broker Regulations read with BSE Circular dated May 25, 2023 and NSE Circular dated August 29, 2002?
- II. Whether there was misuse of AP's trading terminal and thereby Noticee violated regulation 26(xix) and clauses A(1) and A(2) of Schedule II for Code of Conduct read with regulation 9(f) of the Stock Broker Regulations?
- III. Whether the AP had directly received funds from the clients and thereby Noticee violated SEBI Circular dated November 06, 2009, regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated October 18, 2019 and NSE Circular dated June 09, 2021?
- IV. Whether the AP and the Noticee had common directors and thereby Noticee violated regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated June 02, 2023?
- V. Whether the AP had financial arrangements /fund based activities with twelve entities and thereby Noticee violated regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated December 09, 2005 and NSE Circular dated June 02, 2023?
- VI. Does the violation, if any, on the part of Noticee attract a monetary penalty under section 15HB of the SEBI Act?
- VII. If so, what would be the monetary penalty that can be imposed upon Noticee taking into consideration the factors stipulated in section 15J of the SEBI Act?

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

#### ***Stock Broker Regulations***

*“9. Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,-*

*...*

*(b) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;*

*...*

*(f) he shall at all times abide by the Code of Conduct as specified in Schedule II*

*....*

*26. A stock broker shall be liable for monetary penalty in respect of the following violations, namely—*

*...*

*(xix) Extending use of trading terminal to any unauthorized person or place.*

*...*

*Schedule II*

*A. General.*

*(1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.*

*(2) Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business.*

*... ”*

## **CONSIDERATION**

### **I. Whether the Noticee failed to ensure control over terminals granted to AP and thereby, violated regulation 26(xix) and clauses A(1) and A(2) of Schedule II for Code of Conduct read with regulation 9(f) of the Stock Broker Regulations, regulation 9(b) of the Stock Broker Regulations read with BSE Circular dated May 25, 2023 and NSE Circular dated August 29, 2002?**

13. During the course of inspection, AP vide email dated January 13, 2024, provided a list of seven individuals to whom it had provided terminals. The AP had further submitted that these seven individuals were its employees and in support thereof provided one page appointment letters in respect of six out of the said seven entities. In this regard, it was alleged in the SCN that apart from a single page appointment letter belonging to six entities, AP had not maintained any records substantiating the employment relationship of AP with the said seven individuals. In the absence of the documents indicating the relationship of AP with the seven individuals to whom the terminals were allotted, it was alleged that the Noticee has not ensured control over the terminals granted to AP.

14. In this regard, Noticee reiterated that the said seven individuals to whom the terminal was allocated were, in fact, the employees of AP. Noticee also adduced the appointment letter of the seventh individual, Suresh Vaghela which was not provided during the inspection. In addition, the Noticee has also provided the salary slips for all the said seven individuals to

further substantiate its submission. On perusal of the appointment letters and the salary slips, which have been adduced by the Noticee along with the reply of the Noticee, the following details emerge:

**Table 1**

<b>Employee Name</b>	<b>Date of appointment as an Employee as per the appointment letter</b>	<b>Date of appointment as an Employee as per Noticee's submission</b>	<b>Salary Slip Period</b>
Chirag Rathod	April 01, 2023	April 01, 2023	April 2023 to September 2023
Hitesh Unadkat	July 01, 2023	July 01, 2023	July 2023 to September 2023
Bina Ramaiya	June 01, 2023	June 01, 2023	June 2023 to November 2023
Sunil Sangani	June 01, 2023	June 01, 2023	June 2023 to September 2023
Ila Sangani	March 01, 2023	March 01, 2021	March 2021 to September 2023
Mehul Bopaliya	May 02, 2023	May 02, 2023	May 2023 to July 2023
Suresh Vaghela	April 27, 2021	April 27, 2021	April 2021 to May 2023

15. From the aforesaid table, I note that for the six individuals, namely, Chirag Rathod, Hitesh Unadkat, Bina Ramaiya, Sunil Sangani, Mehul Bopaliya and Suresh Vaghela, the date of the appointment letters aligns with the period reflected in the salary slips. Consequently, it appears to me that the said six individuals were indeed the employees of the AP during the inspection period.

16. However, with respect to the seventh individual, Mrs. Ila Sangani (hereinafter referred to as 'Ila'), there lies an inconsistency in the date of the appointment letter and the period reflected in the salary slips. It is noted that the appointment letter specifies March 01, 2023 as the date of appointment, while the accompanying salary slips pertain to the period from March 2021 to September 2023. Considering that salary slips are recognized as valid and standalone proof of employment, I am inclined to accept Noticee's submission that Ila was employed with the AP since March 2021.

17. In light of the above, it is not established that Noticee has violated regulation 26(xix) and clauses A(1) and A(2) of Schedule II read with regulation 9(f) of the Stock Broker Regulations, regulation 9(b) of the Stock Broker Regulations read with BSE Circular dated May 25, 2023 and NSE Circular dated August 29, 2002.

## **II. Whether there was misuse of the trading terminal of AP and thereby Noticee violated regulation 26(xix) and clauses A(1) and A(2) of Schedule II for Code of Conduct read with regulation 9(f) of the Stock Broker Regulations?**

18. It was alleged in the SCN that the terminals allocated to Ila were misused as the terminal was active during the period where Ila was on leave.
19. Noticee has submitted that Ila was on leave only in the months of April and May 2021. Noticee further stated that the instant allegation results from a misunderstanding, as it was inadvertently mentioned during the inspection that Ila remained on leave from April and May 2021 until she rejoined in 2023, whereas she was in reality, performing other office work apart from trading after she had resumed her work since her leave in the months of April and May 2021. In this background, Noticee submitted that no trades were executed through her allocated terminal until May 2023.
20. However, on perusal of the trade data regarding the terminal allotted to Ila, it is noted that trades were executed at regular intervals from the said terminal allocated to Ila during the period from June 2021 to March 2023. Specifically, 849 orders were placed in the cash market segment and 54 orders were placed in the F&O segment through the terminal allocated to Ila. This clearly contradicts the assertion of the Noticee that no trades were executed through the trade terminal of Ila until May 2023. Therefore, the instant submission of the Noticee is devoid of merit and hence, cannot be accepted.
21. Thus, it is established that the trade terminal of Ila was used by an unauthorized person until May 2023. Accordingly, it is established that the Noticee has violated regulation 26(xix) and clauses A(1) and A(2) of Schedule II read with regulation 9(f) of the Stock Broker Regulations.

**III. Whether the AP had directly received funds from the clients and thereby Noticee violated SEBI Circular dated November 06, 2009, regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated October 18, 2019 and NSE Circular dated June 09, 2021?**

22. It was observed during the inspection that Blueage Fintrade LLP and Smithblock Financial Services Pvt. Ltd. were the clients of the AP. On perusal of the ledger accounts of Blueage Fintrade LLP and Smithblock Financial Services Pvt. Ltd., it was observed that the AP had directly received funds from the said clients. The relevant details in this regard is tabulated below:



**Table 2**

<b>Client Name</b>	<b>UCC</b>	<b>Remarks</b>
Blueage Fintrade LLP	ROS099	Multiple transactions with the client in AP's bank account. Entries also appeared in the trial balance
Smithblock Financial Services Private Limited	USS021	Multiple transactions with the client in AP's bank account. Entries also appeared in the trial balance

23. I note that the Noticee has acknowledged that the AP undertook multiple financial transactions with the aforesaid clients. However, the Noticee argued that such transactions were for the purpose of meeting the working capital requirement. In this regard, Noticee has contended that clause 5(c) of Annexure 1 of the said SEBI Circular dated November 06, 2009 should be interpreted as applicable only to securities transactions and not to funds received for other purposes. Noticee argued that the subsequent part of the said clause 5(c) makes it clear that all receipts and payments of securities and funds shall be in the name or account of the stock broker. Accordingly, Noticee asserted that this condition in no way deals with transactions not related to securities markets, like in the present case where the transactions are in the nature of unsecured loans to AP.

24. In this regard, I take note of the relevant extracts of the SEBI Circular dated November 06, 2009 which has been reproduced below:

*"1. Pursuant to the recommendations made by the Secondary Market Advisory Committee of SEBI and discussions with major stock exchanges and with a view to expand the reach of the markets for exchange traded products, it has been decided to allow SEBI registered stock brokers (including trading members) of stock exchanges to provide access to clients through authorised persons. The framework governing the market access through authorised persons is enclosed at Annexure-1. This framework provides the minimum requirements and the stock exchanges and stock brokers may prescribe additional requirements, as they may deem appropriate, in the interest of investors and market."*

***Annexure 1***

***Regulatory Framework for Market Access through Authorised Persons***

...

*5. The following are the conditions of appointment of an authorised person:*

...

*c) The authorized person shall not receive or pay any money or securities in its own name or account. All receipts and payments of securities and funds shall be in the name or account of stock broker."*

25. On perusal of paragraph 1 of the SEBI Circular dated November 06, 2009, it is obvious that the scope of the SEBI Circular dated November 06, 2009 is confined to the securities market and it does not extend to unrelated financial dealings having no nexus with securities market. In this background, a conjoint reading of the said paragraph 1 with clause 5(c) of Annexure 1 of the SEBI Circular dated November 06, 2009, indicates the fact that the framework prescribed

in the said SEBI Circular dated November 06, 2009 governs only such receipts or payments that are part of or related to securities market activities.

26. Therefore, I find merit in the contention of the Noticee that the ambit of the said clause 5(c) of Annexure 1 of the SEBI Circular dated November 06, 2009 is limited to transactions having nexus with securities market. In this context, I note that there is no evidence on record indicating that the transfer of funds between the AP and the said clients had any nexus to securities market related activities. Consequently, I am of the opinion that the Noticee cannot be held liable for the violation of SEBI Circular dated November 06, 2009.

27. Similarly, with regard to the submission of the Noticee regarding NSE Circular dated October 18, 2019, I note that the clause 3 of the Annexure A specifically deals with the settlement of trades. As noted above, in the absence of any evidence on record to indicate that the movement of funds between the clients and the AP was connected to settlement of trades, the question of applicability of the said NSE Circular does not arise. Accordingly, Noticee cannot be held liable for the violation of the NSE Circular dated October 18, 2019.

28. The Noticee further contended that the NSE Circular dated June 09, 2021, deals exclusively with transactions conducted on the trading platform of the stock exchange and not beyond that. Noticee submitted that in the present case, the transactions in question involve unsecured loans taken by the AP from its client and therefore not under the ambit of NSE Circular dated June 09, 2021. In this regard, the relevant extracts of the said NSE Circular dated June 09, 2021, has been reproduced below:

*“Member’s attention is drawn to SEBI circular MIRSD/DR-1/Cir-16/09 dated November 06, 2009 Market Access through Authorised Persons, wherein the framework governing the market access through Authorised persons (AP) was introduced.*

*An Authorised Person is a person/entity who, as an agent of a Member, provides access to the clients of the Member to trading platform of a stock exchange. While doing so, the Authorised Person is prohibited from:*

*1. Accepting any receipt or payment/delivery of funds & securities of the clients. Authorised Person shall not collect or receive any funds or securities from the clients and shall not charge any amount from the clients, directly or indirectly, for the services rendered on behalf of the Member as an agent. ...”*

29. Upon perusal of the clause 1 of the said NSE Circular dated June 09, 2021, it is evident that the ambit of the said NSE Circular is limited to the services rendered on behalf of the member as an agent. Hence, the said NSE Circular dated June 09, 2021 cannot be invoked in the present case as there is nothing on record to show that the financial transactions in question stemmed from the services rendered by AP on behalf of the member as an agent. Further, it is apparent

from the language of the NSE Circular dated June 09, 2021 that this NSE Circular intends to supplement the mandate of the SEBI Circular dated November 06, 2009. As noted above, the ambit of the SEBI Circular dated November 06, 2009 is limited to transactions in the securities market. Therefore, the NSE Circular dated June 09, 2021 cannot be interpreted in a manner that supersedes or overrides the mandate set forth in the said SEBI Circular dated November 06, 2009. Consequently, the said NSE Circular dated June 09, 2021 cannot be construed as extending to those transactions that are not related to the securities market.

30. In this background, it cannot be held that Noticee has violated SEBI Circular dated November 06, 2009, regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated October 18, 2019 and NSE Circular dated June 09, 2021.

**IV. Whether the AP and the Noticee had common directors and thereby Noticee violated regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated June 02, 2023?**

31. It was alleged in the SCN that the Noticee and the AP had common directors during the inspection period. The relevant details are as under:

**Table 3**

<b>Sr. No.</b>	<b>Director of Noticee</b>	<b>Director of AP</b>
1.	Malay Rohitkumar Bhow	Malay Rohitkumar Bhow
2.	Bhavik Prafulchandra Vora	Bhavik Prafulchandra Vora

32. Noticee admitted that it was having common directors with AP during the inspection period. In this regard, the Noticee submitted that both the said directors were appointed before the NSE Circular dated June 02, 2023 came into effect. Noticee further stated that the said NSE Circular had come into effect on June 02, 2023 while the period of inspection was until August 31, 2023. In this regard, the Noticee contended that this mandate was a very recent requirement and the Noticee complied with it within a reasonable period.
33. Here, I note that the Noticee stated that it had complied with the obligations of the NSE Circular dated June 02, 2023 within ‘reasonable time’ without specifically mentioning the actual date of compliance. It is relevant to note that on the date of inspection, i.e., on December 18, 2023, the Noticee was non-compliant. From the public records<sup>3</sup>, it is noted that the directors in question had ceased to be the directors of the AP on the following dates:

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<sup>3</sup>MCA Master Data, Available at <https://www.mca.gov.in/content/mca/global/en/mca/master-data/MDS.html>.

**Table 4**

<b>Sr. No.</b>	<b>Director of AP</b>	<b>Date of cessation</b>
1.	Malay Rohitkumar Bhow	February 27, 2024
2.	Bhavik Prafulchandra Vora	February 27, 2024

34. From the aforesaid Table, it is evident that the Noticee had complied with the NSE Circular dated June 02, 2023 only on February 27, 2024 which is almost eight months after coming into force of the said NSE Circular. Therefore, it cannot be said that the Noticee complied with the NSE Circular dated June 02, 2023, within reasonable time.

35. It is further noted that the findings of the instant inspection were communicated to the Noticee vide letter dated February 09, 2024. As noted above, it is evident that the concerned entities had ceased to be directors of AP on February 27, 2024. Thus, it appears that Noticee initiated steps to comply with the said NSE Circular dated June 02, 2023 only after receipt of the findings of inspection.

36. In this background, I find that the Noticee has violated regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated June 02, 2023.

**V. Whether the AP had financial arrangements /fund based activities with twelve entities and thereby Noticee violated regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated December 09, 2005 and NSE Circular dated June 02, 2023?**

37. It was alleged in the SCN that the AP had financial arrangements or engaged in fund based activities with the twelve entities.

38. It is not in dispute that the AP was engaged in financial transactions with the said twelve entities during the inspection period. It is also a fact that terminals were allocated to five out of the said twelve entities. Moreover, two of the said twelve entities were clients of the AP.

39. Noticee argued that the NSE Circular dated December 09, 2005 pertains to those arrangements where trading members of exchanges finance or arrange for the financing of clients for their trading in securities markets. Noticee contended that there is nothing on record to show that Noticee or AP had entered into such an arrangement.

40. In this regard, I note that the relevant extract of the NSE Circular dated December 09, 2005 reads under:

*“4.1. Trading members shall not be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary / holding*

*company or group or associate company, to fund any secondary market transactions in any segment or margin requirements in respect of transactions executed by the trading members on behalf of their clients, or recognize or act in accordance with any such agreement or arrangement entered into by the trading members' clients with any person...*”

41. I note that there is no material available on record to show that Noticee was party to any agreement or arrangement which was entered either by the AP/Noticee with the clients to finance or arrange for financing for trading in securities markets. Accordingly, I find merit in the submission of the Noticee that the NSE Circular dated December 09, 2005 cannot be invoked for the instant violation.
42. NSE Circular dated June 02, 2023 mandating the trading members to monitor the AP's activities, states that “*xi. The Authorised Person is not involved in any fund-based activities/collecting deposits from investors/unauthorised trading/chit funds or any other such schemes*”. In this connection, Noticee has relied on the SEBI Circular No. SMD/POLICY/CIR-6/97 dated May 07, 1997 to contend that borrowing money in connection with, or incidental to, securities business falls outside the purview of fund-based activity. However, I note that the said SEBI Circular dated May 07, 1997, relied upon by the Noticee relates specifically to fund-based activities by stock brokers and not by APs. Therefore, the reference to the said SEBI Circular dated May 07, 1997, does not in any manner help the case of the Noticee.
43. Besides, a cursory reading of the said NSE Circular dated June 2, 2023 reveals that the scope of the same extend beyond the securities market wherein the Circular draws reference to collecting deposits from investors, chit funds or any other such schemes, etc., which are matters not strictly within the ambit of securities laws.
44. The justification of borrowings for business purposes without any documentation that too from 12 entities including 2 clients, definitely falls within the ambit of fund based activities which the Circular mandates the Member to monitor. Thus, I find that Noticee has not been able to put forth any justification for the financial transaction undertaken by the AP with the said twelve entities.
45. Therefore, it is established that Noticee was involved in fund-based activities with the said twelve entities.
46. In light of the discussion in previous paragraphs, I find that the Noticee has violated regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated June 02, 2023.

**VI. Does the violation, if any, on the part of Noticee attract a monetary penalty under section 15HB of the SEBI Act?**

47. From the previous paragraphs, it has been established that Noticee had violated:

- (a) Regulation 26(xix) of the Stock Broker Regulations;
- (b) Clauses A(1) and A(2) of Schedule II for Code of Conduct read with regulation 9(f) of the Stock Broker Regulations;
- (c) Regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated June 02, 2023; and
- (d) Regulation 9(b) of the Stock Broker Regulations read with NSE Circular dated June 02, 2023.

48. As noted from previous paragraphs, it is established that the terminal allocated to Ila was used by an unauthorized person, Noticee and AP had common directors and AP had engaged in financial transactions, i.e., fund based activities with twelve entities. These lapses committed by the Noticee, cannot be dismissed as mere technical or venial breaches.

49. I note that the Noticee contended that the purpose of inspection is not punitive and not every infraction calls for the initiation of adjudication proceedings. In this regard, Noticee has placed reliance on the matter of *UPSE Securities Limited v. SEBI*<sup>4</sup> and *Religare Securities Limited v. SEBI*<sup>5</sup>. I note that in the matter of *UPSE Securities Limited*, Hon'ble Securities Appellate Tribunal (hereinafter referred to as 'SAT') had observed that if any serious lapse is discovered, it would always be open to the Board to take penal action in accordance with law. Similarly, in the matter of *Religare Securities Limited*, it was opined by the Hon'ble SAT that "*This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent*". As noted above, the violations committed by the Noticee cannot be considered minor breaches. I further note that the facts of the cases cited by the Noticee did not pertain to the contravention of applicable laws by the APs of a stock broker, which is in question in the present proceedings. Accordingly, I note that the submission of the Noticee lacks merit and hence, cannot be accepted.

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<sup>4</sup>Appeal No. 109 of 2011.

<sup>5</sup>Appeal No. 23 of 2011.

50. With respect to the reference to the order of Hon'ble SAT in the matter of *Chona Financial Services Pvt. Ltd. v. SEBI*<sup>6</sup>, Adjudication Order dated June 16, 2017 in the matter of Indiabulls Mutual Fund and Adjudication Order dated May 22, 2017 in the matter of inspection of IFCI Financial Services Limited are not relevant, as their factual circumstances do not concern the contravention of applicable laws by AP of a stock broker, which is the matter under consideration in the present proceedings. Moreover, I note that the order of *Chona Financial Services Pvt. Ltd.* emanates from enquiry under regulation 13 of SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 while the instant proceedings are adjudication proceedings. Therefore, I note that the ratio of these orders cannot be applied to the present proceedings and hence, the contention of the Noticee cannot be accepted.

51. Consequently, Noticee is liable for payment of a monetary penalty in terms of section 15HB of the SEBI Act. The said section 15HB of SEBI Act reads as follows:

***“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.”*

**VII.If so, what would be the monetary penalty that can be imposed upon Noticee taking into consideration the factors stipulated in section 15J of the SEBI Act?**

52. While determining the quantum of penalty under section 15HB of the SEBI Act, the following factors stipulated in section 15J of SEBI Act are taken into account:

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

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

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
- (b) the amount of loss caused to an investor or group of investors as a result of the default;*
- (c) the repetitive nature of the default.”*

53. The available records neither specify disproportionate gains/unfair advantage made by Noticee nor the loss, if any, suffered by the investors due to such violations.

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<sup>6</sup>(2005)5COMPLJ171(SAT).

54. However, I take note of the fact that SEBI had imposed monetary penalties on Noticee earlier for violations of securities laws as under:

**Table 5**

<b>Sr. No.</b>	<b>Case Name</b>	<b>Date of order</b>	<b>Violation of provisions of Act/Regulations</b>	<b>Penalty/ Regulatory action</b>
1.	Adjudication Order in respect of M/s Sunflower Broking Private Limited	May 28, 2014	Stock Broker Regulations/SEBI Act	Rs.10,00,000/-
2.	Adjudication order in respect of Sunflower Broking Private Limited in the matter of 20 Microns Limited	October 11, 2019	Stock Broker Regulations/SEBI Act	Rs. 1,00,000/-
3.	Adjudication Order in respect of Sunflower Broking Private Limited	July 28, 2022	Securities Contracts (Regulation) Act, 1956 /SEBI Act	Rs.10,00,000/-

55. Due regard is given to the submission of Noticee's that it has taken corrective actions to address the lapses identified during the inspection.

56. The aforementioned factors have been taken into consideration while adjudging the penalty.

### **ORDER**

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

**Table 6**

<b>Noticee Name</b>	<b>Penalty Provision</b>	<b>Penalty</b>
Sunflower Broking Private Limited	Section 15HB of the SEBI Act	Rs. 2,00,000/- (Rupees Two Lakh only)

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

59. Noticee shall remit/pay the said amount of penalty within 45 days of receipt of this order through the online payment facility available on the website of SEBI, i.e., [www.sebi.gov.in](http://www.sebi.gov.in) on



the following path, by clicking on the payment link: ENFORCEMENT > Orders > Orders of AO > PAY NOW.

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

**Date: July 23, 2025**

**Place: Mumbai**

**JAI SEBASTIAN  
ADJUDICATING OFFICER**