

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO.: Order/AK/GN/2025-26/31464]**

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

MOTILAL OSWAL FINANCIAL SERVICES LTD.

SEBI Registration number INZ000158836

PAN AAECM2876P

In the matter of

Motilal Oswal Financial Services Ltd.

Background

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') conducted a thematic inspection of Motilal Oswal Financial Services Limited (hereinafter referred to as "**Noticee**") on the theme 'Control over Authorized Persons', on March 01, 2024 and March 04, 2024 for the period from April 01, 2022 to January 31, 2024 (hereinafter referred to as "**Inspection Period**").
2. The Noticee is a SEBI registered stock broker and member of BSE and NSE, with SEBI Registration No. INZ000158836.
3. Based on the findings of inspection and reply dated May 15, 2024 received from the Noticee, certain non-compliances with provisions of SEBI (Stock Brokers) Regulations, 1992 (hereinafter referred to as **Stock Brokers Regulations**) and circulars issued by SEBI and NSE were observed.

Appointment of Adjudicating Officer

4. Upon being satisfied that there were sufficient grounds to inquire into and adjudicate upon the alleged violations of provisions of SEBI Act (hereinafter referred to as **SEBI Act**), and Stock Brokers Regulation, SEBI, in exercise of powers u/s 19 r/w sub-section (1) of section 15-I of the SEBI Act and rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as the "**Adjudication Rules**"), appointed Shri Amar Navlani

as the Adjudicating Officer, vide communiqué dated July 22, 2024, to inquire into and adjudge under the provisions of Section 15HB of the SEBI Act, the following violations allegedly committed by the Noticee-

Sr. No.	Alleged Violations (summarized)	Regulatory provisions
1	<p><u>Trading terminals</u></p> <p><u>Verification</u></p> <p>AP Name- Merit Capital Market Services Pvt Ltd</p> <p>1.1 Terminals not found</p> <p>1.2 Approved user not operating terminals</p>	<ul style="list-style-type: none"> • Para 77.2 of SEBI Master circular for stock brokers SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 r/w Para 2 of SEBI circular SMDRP/Policy/Cir-49/2001 dated October 22, 2001. • Regulation 26(xix) and Clause A (1) & A (2) of Schedule II of Code of Conduct read with regulation 9 of Stock Brokers Regulation. • Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007.
2	<p>Examination of report(s) of Inspection of the Authorized Persons (AP)</p>	<ul style="list-style-type: none"> • Para 32.5.1 and 32.7.6 of SEBI master circular for Stock Brokers (SB) number SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/ 2024/53 dated 22.05.2024. • Point No. 11 in Annexure A of NSE/INSP/42448 dated October 18, 2019 read with Clause A (5) of Schedule II for Code of Conduct of Stock Brokers Regulation
3	<p>Other observations</p>	<ul style="list-style-type: none"> • Para 32.5.1 and 32.7.6 of SEBI master circular for SB number SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/ 2024/53 dated 22.05.2024 • Clause A (2) of Schedule II of Code of Conduct read with Regulation 9 of Stock Brokers Regulation
4	<p>Whether trading Member ensured that their AP are engaged only in permitted activities</p>	<ul style="list-style-type: none"> • Clause A(1) & A(2) of Schedule II for Code of Conduct read with Regulation 9 of Stock Brokers Regulation.

and are not undertaking any business which are disallowed under the Byelaws, Rules & Regulations and Circulars of SEBI/Exchange	<ul style="list-style-type: none"> • NSE Circular NSE/COMP/48536 dated June 09, 2021 read with Clause A (5) of Schedule II for Code of Conduct of Stock Brokers Regulation
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Upon transfer, the undersigned was appointed as AO in the matter, vide communique dated December 18, 2024.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. Show Cause Notice (hereinafter being referred to as the “**SCN**”) dated August 27, 2024 was issued to Noticee in terms Rule 4(1) of Adjudication Rules to show cause as to why an inquiry should not be initiated against Noticee and why penalty, if any, should not be imposed upon Noticee under Section 15HB of SEBI Act for the alleged violations.

6. Following are the allegations made against the Noticee in the SCN-

6.1 Trading terminals Verification

6.1.1 **Terminals not found:** 13 terminals (NSE) were not found at the reported location. Further, on verification of trade data as on 04-03-2024, it was observed that trades have been executed from 5 out of 13 terminals.

6.1.2 9 terminals (BSE) were not found at reported location and trades have been executed from 1 terminal

6.1.3 **Approved user not operating terminals:** During inspection it was observed that 4 terminals were not operated by approved users to whom terminals were allocated. Further, on verification of trade data as on 04-03-2024, it was observed that trades have been executed from all 4 terminals.

6.1.4 It was also observed that 4 trading terminals (BSE) were operated by other than approved users.

- 6.1.5 Further, it was observed that Mr. Aditya Singh, Mr. Ayush Mishra, and Mr. Manwek Jha have terminals registered in their names (BSE) however; they do not have valid NISM Certification.
- 6.1.6 In view of the above, it was alleged that Noticee violated Para 77.2 of SEBI Master circular for stock brokers i.e. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 r/w Para 2 of SEBI circular SMDRP/Policy/Cir-49/2001 dated October 22, 2001, Regulation 26(xix) and Clause A (1) & A (2) of Schedule II of Code of Conduct r/w regulation 9 of Stock Brokers Regulations and Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007.

6.2 Examination of report(s) of Inspection of the APs

- 6.2.1 Noticee had conducted the onsite inspection of two APs and had submitted the inspection report to BSE and NSE however, it failed to identify fund based activities during AP inspection and did not report fund based activities between AP and client to NSE in MIS report.
- 6.2.2 In view of the above, it was alleged that Noticee violated Para 32.5.1 and 32.7.6 of SEBI master circular for Stock Brokers i.e. SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/ 2024/53 dated 22.05.2024 and Point No. 11 in Annexure A of NSE/INSP/42448 dated October 18, 2019 read with Clause A (5) of Schedule II for Code of Conduct of Stock Brokers Regulations.

6.3 Other observations

- 6.3.1 AP of Noticee viz Triventure Services Pvt Ltd had fund based relationship with 36 registered clients wherein 18.31 crores have been received and payments amounting to Rs. 1.24 crores have been made.
- 6.3.2 In case of AP of Noticee viz Merit Capital Market Services Pvt Ltd, 99 client's transaction were observed out of total transactions with 228 entities, amounting to Rs. 5.69 Crores payment to clients and Rs. 5.06 Crores received from Clients
- 6.3.3 In view of the above, it was alleged that Noticee violated Para 32.5.1 and 32.7.6 of SEBI master circular for Stock Brokers i.e. SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/ 2024/53 dated 22.05.2024 and Clause A (2) of Schedule II of Code of Conduct r/w regulation 9 of Stock Brokers Regulations.

6.4 Whether Noticee ensured that its APs are engaged only in permitted activities and are not undertaking any business which are disallowed under the Byelaws, Rules & Regulations and Circulars of SEBI/Exchange

6.4.1 AP name - Merit Capital Market Services Pvt Ltd

- Employee of the AP had logged in client's terminal by using clients login credentials
- Both the APs had fund based relationship with the clients. Thus Noticee did not ensure that its APs are engaged only in permitted activities and are not undertaking any business which are disallowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges

6.4.2 In view of the above, it was alleged that Noticee violated Clause A(1) & A(2) of Schedule II for Code of Conduct read with Regulation 9 of Stock Brokers Regulations and NSE Circular NSE/COMP/48536 dated June 09, 2021 read with Clause A (5) of Schedule II for Code of Conduct of Stock Brokers Regulations.

7. Vide letter dated September 11, 2024, Noticee sought inspection of documents. Inspection of the documents was scheduled on September 24, 2024. Regstreet Law Advisors, Authorized Representatives (ARs) of the Noticee inspected the documents on the scheduled day. Pursuant to the inspection, Noticee sought some additional documents. In view of the same, vide email dated October 17, 2024, copy of the document sought by the Noticee during inspection was provided. However, vide email dated October 17, 2024, Noticee submitted that it is unable to access the SEBI email dated October 17, 2024. In view of the same, vide letter dated October 18, 2024 all the documents as sought by the Noticee were provided. The aforesaid letter was delivered to the Noticee via SPAD.

8. In the interest of natural justice, an opportunity of personal hearing was granted to Noticee on November 28, 2024 via Hearing Notice dated October 28, 2024. The said Hearing Notice was sent to Noticee through SPAD and digitally signed email dated October 28, 2024. However, due to administrative exigencies the scheduled hearing was deferred, and the same was informed to the Noticee vide email dated November 26, 2024.

9. In the interest of Natural Justice an opportunity of personal hearing was granted to Noticee on January 20, 2025 vide Hearing Notice dated January 03, 2025.

10. Vide letter dated January 08, 2025, Noticee submitted its reply. The Noticee's reply is summarised below:

10.1. SCN is against the objects of these legislations in as much as any penalty on the Noticee in the absence of any violation having been made out would run contrary to the objection of 'promoting the development of' securities market'.

10.2. TRADING TERMINAL OF THE MERIT CAPITAL ARE WORKING IN COMPLIANCE WITH STOCKBROKER REGULATION AND CIRCULARS THEREUNDER.

10.2.1. There is no extended the use of trading terminals to unauthorized locations by AP – Merit Capital

10.2.2. Noticee clarified that the trading terminals in question were operated from an additional branch of Merit Capital, situated at 211, DLF Towers, Moti Nagar, New Delhi. The details of the aforesaid additional branch were reflected on the Noticee's portals on March 11, 2024.

10.2.3. On March 6, 2024, Merit Capital submitted the application to NSE, BSE, MCX, NCDEX and the Noticee, providing an intimation regarding the opening of an additional branch.

10.2.4. In accordance with its internal guidelines, the Noticee duly informed the stock exchanges, NSE and BSE, about the additional branch and the terminals operating thereunder on March 12, 2024. Approvals for the same were subsequently obtained.

10.2.5. Noticee submitted that the premises at 211, DLF Towers, Moti Nagar, New Delhi, serves as an additional branch of the registered main office. The main office, located at 65, Old Rajinder Nagar Market, New Delhi - 110060, remains active and fully operational. Consequently, there has been no change in the registered address; Merit Capital has simply opted to establish an additional branch to facilitate its ongoing business operations.

NSE was duly intimated about the additional branch office of Merit Capital

10.2.6. With respect to the 13 NSE trading terminals, Noticee submitted that these terminals were located at the new office of Merits Capital and on the day of SEBI's inspection, certain users were on leave or attending business meetings, which is why they had not logged into the system. A detailed list of the individuals operating the terminals, along with reasons for non-login on the inspection day, is provided in the attached table:

Sr. No.	Name of Individuals operating the terminal	Reason
1	Mr. Kamalpreet Kaur Banga	Not operational on the day of inspection and had not logged in.
2	Mr. Kamalpreet Kaur Banga	Not operational on the day of inspection and had not logged in.
3	Mr. Manwek Rajesh Jha	Not operational on the day of inspection and had not logged in.
4	Mr. Varun Kumar Kalra	Operational from their additional branch office at 211, DLF Towers, Moti Nagar, New Delhi.
5	Mr. Varun Kumar Kalra	Operational from their additional branch office at 211, DLF Towers, Moti Nagar, New Delhi.
6	Mr. Aditya Devender Singh	Operational at their additional branch office at 211, DLF Towers, Moti Nagar, New Delhi.
7	Mr. Aditya Devender Singh	Operational at their additional branch office at 211, DLF Towers, Moti Nagar, New Delhi.
8	Mr. Ayush Deepak Mishra	Operational at their additional branch office at 211, DLF Towers, Moti Nagar, New Delhi.
9	Mr. Ayush Deepak Mishra	Operational at their additional branch office at 211, DLF Towers, Moti Nagar, New Delhi.
10	Mr. Harish K Kumar	Operational at their additional branch office at 211, DLF Towers, Moti Nagar, New Delhi.
11	Mr. Harish K Kumar	Operational at their additional branch office at 211, DLF Towers, Moti Nagar, New Delhi.
12	Mr. Vaibhav Umakant Dhok	Not operational on the day of inspection and had not logged in.
13	Mr. Vaibhav Umakant Dhok	Not operational on the day of inspection and had not logged in.

10.2.7. Furthermore, the additional branch location of the Merit Capital is registered on the NSE portal and the terminals operating under this additional branch are also registered with NSE on March 12, 2024, and the same is approved on March 14, 2024.

BSE was duly intimated about the additional branch office of Merit Capital

10.2.8. Similarly, SEBI's observations regarding 9 BSE trading terminals not being at the registered location are addressed. These terminals were also located at the additional branch office of Merit Capital and fully operational. As with the BSE terminals, certain users were unavailable on the day of the inspection due to business commitments, which explains the non-login at the time of SEBI's verification. The details of the same can be seen from the following table:

Sr. No.	Name of the Individuals operating the terminal	Reason
1	Mr. Kamalpreet Kaur Banga	Not operational on the day of inspection and had not logged in.
2	Mr. Kamalpreet Kaur Banga	Not operational on the day of inspection and had not logged in.
3	Mr. Manwek Rajesh Jha	Not operational on the day of inspection and had not logged in.
4	Mr. Manwek Rajesh Jha	Not operational on the day of inspection and had not logged in.
5	Mr. Aditya Devender Singh	Operational at their new office at 211, DLF Towers, Moti Nagar, New Delhi.
6	Mr. Aditya Devender Singh	Operational at their new office 211, DLF Towers, Moti Nagar, New Delhi.
7	Mr. Ayush Deepak Mishra	Operational at their new office at 211, DLF Towers, Moti Nagar, New Delhi.
8	Mr. Ayush Deepak Mishra	Operational at their new office at 211, DLF Towers, Moti Nagar, New Delhi.
9	Mr. Vaibhav Umakant Dhok	Not operational on the day of inspection and had not logged in.

10.2.9. Furthermore, the additional branch location of the office is registered on the BSE portal and the terminals operating under the new location are also registered with BSE on March 12, 2024.

No change in location; rather, an additional branch has been established alongside the existing office.

10.2.10. According to the Noticee's internal standard guidelines, an Authorised Person must adhere to the internal guidelines when undergoing a change of address. The abovementioned criteria have been complied by the Noticee with respect to the addition of a new branch office. However, such compliance was done at later date. It is respectfully submitted that there is not an intentional but a bona fide delay on the part of Merit Capital in communicating the details of the said branch to the Noticee. Upon becoming aware of the additional branch during the stock exchange inspection, the Noticee promptly took corrective actions by intimating and securing the necessary approvals from the stock exchange.

10.2.11. Noticee emphasized that the additional branch was established to facilitate ongoing business operations and does not alter the registered address, as the main office at 65, Old Rajinder Nagar Market, New Delhi, remains active and operational.

10.2.12. As per the language of the SEBI Circular dated October 22, 2001, trading terminals may be established exclusively at the registered office, branch offices, and offices of registered sub-brokers of a member. This regulatory stipulation is designed to ensure that trading terminals operate within authorized locations

directly associated with the member's formally registered business entities. In the present factual matrix, the trading terminals in the issue were operational from an additional branch office of the Merit Capital.

10.2.13. This information about the additional branch office of Merit Capital was once again communicated to SEBI via email on May 15, 2024, and supporting documents, including proof of registration of the additional branch office and trading terminals, lease agreement, have been provided.

The alleged violations are procedural lapses, at best.

10.2.14. Noticee submitted that the alleged non-compliances outlined in the SCN, without admitting any wrongdoing, are, at most, procedural lapses. It is a well-established principle that penalties should not be imposed for minor or technical breaches of procedural laws. Any delay in disclosure, if it occurred, was procedural in nature and has already been rectified prior to the issuance of the SCN. This oversight has neither caused harm to investors nor contravened SEBI's regulatory framework. In this regard Noticee referred to the Hon'ble Securities Appellate Tribunal judgment in matter of M/s. DSE Financial Services Limited v. SEBI, Religare Securities Limited v. SEBI, Gupta International Investment Co. Ltd. v. SEBI, Samrat Holdings Ltd. v. SEBI, UPSE Securities Limited v. SEBI, ACML Capital Markets Limited v. SEBI,

There is no extended the use of trading terminals to unauthorized persons by AP – Merit Capital

10.2.15. Noticee submitted that while NISM certification is a necessary requirement, the employees of the Merit Capital possess considerable experience and expertise in handling trading activities. Although there may have been lapses in certification status, there are justified reasons for this situation. The individuals mentioned - Mr. Aditya Singh, Mr. Ayush Mishra, and Mr. Manwek Jha are former employees, and their terminals were still active due to a transitional phase that had not been promptly addressed. The approved users were no longer associated with the respective AP as of March 5, 2024, leading to the deactivation of their terminals.

10.2.16. Following the inspection conducted on March 4, 2024, upon identifying this discrepancy, the terminals registered under the above-mentioned individuals were promptly deactivated to comply with regulatory standards and to uphold

the integrity of trading operations. This immediate termination of the terminals reflects the Noticee's commitment to addressing compliance requirements swiftly and responsibly. The details of the same can be seen from the following tables:

Activation and Deactivation Details for BSE Terminals

<i>Sr. No.</i>	<i>Segment</i>	<i>Terminal ID</i>	<i>Name</i>	<i>Activation Date</i>	<i>Deactivation Date</i>
1	FAO	31920	Mr. Dilmeet Singh Banga	18-05-2023	22-08-2024
2	CM	31920	Mr. Dilmeet Singh Banga	20-03-2021	22-08-2024
3	FAO	31923	Mr. Gagandeep Singh Banga	18-05-2023	15-03-2024
4	CM	31923	Mr. Gagandeep Singh Banga	20-03-2021	15-03-2024
5	CM	31924	Mr. Kamalpreet Kaur Banga	20-03-2021	05-03-2024
6	FAO	31924	Mr. Kamalpreet Kaur Banga	18-05-2023	05-03-2024
7	CM	31930	Mr. Manwek Rajesh Jha	20-03-2021	27-02-2024
8	CM	32347	Mr. Varun Kumar Kalra	01-05-2021	20-08-2024
9	FAO	32347	Mr. Varun Kumar Kalra	01-05-2021	18-05-2023
10	CM	32496	Mr. Aditya Devender Singh	18-05-2021	05-03-2024
11	FAO	32496	Mr. Aditya Devender Singh	18-05-2021	05-03-2024
12	CM	38781	Mr. Ayush Deepak Mishra	07-10-2022	05-03-2024
13	FAO	38781	Mr. Ayush Deepak Mishra	18-05-2023	05-03-2024
14	CM	41510	Mr. Harish K Kumar	23-05-2023	02-08-2024
15	CM	43700	Mr. Vaibhav Umakant Dhok	13-10-2023	05-03-2024

Activation and Deactivation Details for NSE Terminals

<i>Sr No</i>	<i>Segment</i>	<i>Terminal ID</i>	<i>Name</i>	<i>Activation Date</i>	<i>Deactivation Date</i>
1	CM	31920	Mr. Dilmeet Singh Banga	20-03-2021	22-08-2024
2	FAO	31920	Mr. Dilmeet Singh Banga	20-03-2021	22-08-2024
3	CM	31923	Mr. Gagandeep Singh Banga	20-03-2021	15-03-2024
4	FAO	31923	Mr. Gagandeep Singh Banga	20-03-2021	15-03-2024
5	FAO	31924	Mr. Kamalpreet Kaur Banga	20-03-2021	05-03-2024
6	CM	31924	Mr. Kamalpreet Kaur Banga	20-03-2021	05-03-2024
7	CM	31930	Mr. Manwek Rajesh Jha	20-03-2021	05-03-2024
8	CM	32347	Mr. Varun Kumar Kalra	01-05-2021	20-08-2024
9	FAO	32347	Mr. Varun Kumar Kalra	01-05-2021	20-08-2024
10	CM	32496	Mr. Aditya Devender Singh	18-05-2021	05-03-2024

11	FAO	32496	Mr. Aditya Devender Singh	18-05-2021	05-03-2024
12	CM	38781	Mr. Ayush Deepak Mishra	07-10-2022	05-03-2024
13	FAO	38781	Mr. Ayush Deepak Mishra	07-10-2022	05-03-2024
14	CM	41510	Mr. Harish K Kumar	23-05-2023	02-08-2024
15	FAO	41510	Mr. Harish K Kumar	23-05-2023	02-08-2024
16	CM	43700	Mr. Vaibhav Umakant Dhok	13-10-2023	05-03-2024
17	FAO	43700	Mr. Vaibhav Umakant Dhok	13-10-2023	05-03-2024

No misuse of trading terminal nor there has been any harm to cause to any investor

10.2.17. The Noticee respectfully asserts that the alleged violations outlined in the SCN have neither resulted in any harm to investors nor provided any undue advantage to Merit Capital. It is crucial to emphasize that the integrity of the trading process has been maintained throughout, and there have been no reported grievances from any investors regarding orders placed through the trading terminals operated by the AP in question.

10.2.18. Furthermore, the absence of complaints indicates a lack of negative impact on investors, reinforcing the notion that the operations conducted from these terminals did not compromise the interests of clients or the integrity of the market.

10.3. NOTICEE HAS THOROUGHLY CONDUCTED INSPECTIONS OF THE RESPECTIVE APs AS REQUIRED UNDER STOCKBROKER REGULATION AND CIRCULARS THEREUNDER:

10.3.1. It was observed that the Noticee failed to identify violations related to the non-verification of bank statements for Triventure Services, as the latter did not provide the last six months bank statements. These statements were necessary to verify certain transactions conducted with a registered client, amounting to a gross value of Rs. 19.56 crores. As per report of Noticee dated November 24, 2023, the Noticee had examined and verified the various aspects of Triventure Services, however did not observe any violations concerning the non-maintenance of a Notice Board, complaint register, and voice recording at the AP facility. However, during the Exchange verification as on March 01, 2024, violation on these points has been observed.

10.3.2. The Noticee has diligently conducted inspections of APs as per SEBI's Master Circular for Stock Brokers and Stock Broker Regulations, 1992 and as required under the NSE Circular dated October 18, 2019. The inspections were carried

out with due diligence, and all findings were documented in compliance with the guidelines. It is submitted that any alleged violations need to be viewed in light of the actions taken by the Noticee to ensure that APs adhered to the prescribed norms.

Noticee has undertaken proactive measures to rectify any discrepancies identified with AP - Triventure Services

- 10.3.3. Noticee submitted that the Noticee conducted an internal audit at the premises of the AP Triventure Services, on November 17, 2023. During the audit, certain documents and information were unavailable, including the AP's six-month bank statements. Consequently, this was marked as "non-complied" in the internal audit report.*
- 10.3.4. Subsequently, the Noticee sought the remaining documents/information from Triventure Services via an email dated November 23, 2023. In response, the AP provided the requested six-month bank statements on December 1, 2023.*
- 10.3.5. Upon subsequent analysis of the bank statements of the Triventure Service, certain discrepancies were observed in the financial records, particularly to specific transactions. In light of these observations, the Noticee promptly raised detailed queries with Triventure Services to seek clarification on the nature and legitimacy of these transactions via email dated December 4, 2023. The Noticee, acting in good faith and in adherence to regulatory compliance, sought to ensure that all transactions were in line with applicable regulations and circulars.*
- 10.3.6. In response, Triventure Services provided clarifications on December 5, 2023, regarding the identified non-cash transactions executed between clients and the AP. The clarifications were accompanied by supporting documents to substantiate the explanations.*
- 10.3.7. To substantiate the explanations, Triventure Services had also provided relevant supporting documents, including copies of loan agreements, referral agreements, and employee salary slips. The Noticee, upon receiving these explanations, ensured that all necessary documentation was collated and reviewed to ensure compliance with applicable laws.*
- 10.3.8. The Noticee has consistently acted with diligence and in good faith to address concerns arising from the internal audit. All relevant information and*

explanations have been provided to SEBI to demonstrate compliance with the applicable laws. The clarifications and documentary evidence submitted by Triventure Services further validate the legitimacy of the transactions in question.

The notice board was maintained at the AP facility at Triventure Service

10.3.9. It is pertinent to note that during the audit conducted by the Noticee at the Triventure Services office in November 2023, the Noticee observed the presence of a notice board at the office. Accordingly, this compliance was recorded in the audit report, and an image of the displayed notice board is attached and the same is also provided annexure 5 to the reply to the SEBI observation vide email dated May 15, 2024. SEBI has in fact acknowledged and accepted the same in the Post Inspection Analysis of SEBI.

The complaint register was maintained at the AP facility at Triventure Service

10.3.10. Furthermore, during the same audit, the Noticee also found a Complaint Register at the Triventure Services office. As confirmed by Triventure Services and verified by the Noticee, no complaints had been received as of the date of the stock exchange audit. The register had no entries and was kept inside a drawer. The same been acknowledged and accepted in the Post Inspection Analysis of SEBI.

The facility of voice recording was maintained at the AP facility at Triventure Service

10.3.11. Triventure Services has clients who execute trades through two methods: some clients self-execute trades via the online platform, while others place trades by submitting order instruction slips or by calling in their orders, with recordings of these calls maintained through a recording system installed at Triventure Services office.

10.3.12. Noticee submitted that during the internal audit conducted on November 17, 2023, the Noticee thoroughly reviewed the order instruction slips and listened to the call recordings maintained by the AP, Triventure Services. Based on this review, the internal audit report conclusively marked this aspect as “complied”.

10.3.13. Noticee submitted that Triventure Services utilized the TATA Smart Office (SIP) Communication product for recording client calls related to trade instructions.

This system ensured that all trade orders were executed only after obtaining explicit client confirmation. Triventure Services primarily caters to clients engaged in online trading, and their processes are designed to ensure that trades are executed only upon the receipt of client authorization, which is recorded and securely maintained by the AP.

10.3.14. To further demonstrate compliance and transparency, the Noticee provided SEBI with copies of order instruction slips and sample call recordings via a detailed letter dated May 15, 2024. These documents substantiate that client confirmations were duly obtained and recorded for all executed trades.

10.3.15. It is pertinent to note that the SEBI has accepted the Noticee's response on the aforesaid issue in the Post Inspection Analysis, thereby acknowledging the measures implemented by the Noticee to ensure adherence to regulatory requirements. The acknowledgment by SEBI during the PIA validates that the measures undertaken by the Noticee and the AP has met with the regulatory standards and complied with the requirement under law.

Noticee has undertaken proactive measures to rectify any discrepancies identified with AP - Merit Capital

10.3.16. Noticee submitted that as per the audit checklist, the noticee inquired with Merit Capital about any fund-based activities being carried out by them. Upon verification, the noticee did not find any evidence of such activities. The transactions are unrelated to trading activities. They involve various financial dealings such as the purchase and sale of unlisted NSE shares, salary payments to employees, loans obtained for working capital from family members and friends who are also clients, commission and dividend reimbursements, duplicate entries, and a disputed entry involving the Noticee. These transactions were properly clarified by the Merit Capital with appropriate supporting documents. As a result, no non-compliance was raised on this matter.

*10.3.17. Noticee submitted that the alleged transactions are independent dealings of Merit Capital, unrelated to the core regulatory obligations of trading or brokerage activities and beyond the scope of the Noticee's review. Upon examination, the Noticee did not identify any fund-based activity associated with these non-trading transactions. Noticee referred to the order of Hon'ble Bombay High Court in **Tri-Sure India Ltd. vs. A.F. Ferguson and Co. & Ors.***

10.3.18. As per Para 32.5.1 of the SEBI Master Circular, stockbrokers are responsible for the actions of their APs. The Noticee carried out thorough inspections in accordance with this requirement. During the inspection process, the Noticee acted with integrity, due skill, care, and diligence as required under the SEBI Code of Conduct for Stock Brokers. All acts of omission and commission were identified and appropriately addressed.

10.3.19. In the present factual matrix, the Noticee has demonstrated a proactive approach in identifying the questionable transactions and addressing the same. As a responsible SEBI registered Stock Brokers, the Noticee has put in place a robust compliance framework and internal controls to ensure that all regulatory obligations are consistently met.

10.4. THERE IS NO BREACH OF SEBI STOCKBROKER REGULATIONS AND SEBI MASTER CIRCULAR FOR STOCK BROKER FOR THE ALLEGED NON-TRADING TRANSACTIONS BY TRIVENTURE SERVICES AND MERITS CAPITAL

AP – Triventure Services has not undertaken any fund-based activities.

10.4.1. SEBI's primary allegation relates to the transactions carried out by Triventure Services, which purportedly involved the receipt of Rs. 18.31 crores and payment of Rs. 1.24 crores to 36 registered clients. However, it is critical to emphasize that these transactions are non-trading in nature and relate to legitimate business dealings such as loan agreements, consultancy service agreements, referral fees, and employee payments. These were the transactions in the ordinary course of business. All transactions were done in the capacity of Triventure Services as a business entity, not as an Authorized Person for trading purposes.

10.4.2. The non-cash entries were attributed as loan, salaries, commissions/ referrals etc. Such bank entries have been substantiated with supporting documents such as Loan Agreements, Consultancy Service Agreement, TDS, Form 16, Salary Slips. Below is the tabular representation of the proof provided by the Triventure Services.

Particulars	SEBI's Remarks	Noticee's Submissions
Loan	SEBI noted that only 15 loan agreements were provided as supporting documents for the loan transactions.	The Noticee has submitted all 22 loan agreements as annexure to letter dated May 15, 2024 to SEBI.

Referral Commissions	<i>SEBI observed that only 50 referral agreements and TDS Certificates were submitted as supporting documents for Commission and Consultancy Charge transactions.</i>	<i>The Noticee has submitted all 61 referral agreements, as annexure to letter dated May 15, 2024 to SEBI.</i>
Consultancy Charges	<i>SEBI has noted that the AP submitted an agreement and TDS certificates for one party, while for the other party, the AP provided a copy of the share application agreement as supporting documentation.</i>	<i>The Noticee has submitted supporting documentation for both the Consultancy Charges, as annexure to letter dated May 15, 2024 to SEBI.</i>
Salaries	<i>SEBI stated that only details of 115 employees were submitted, including the consolidated list of employees on the letterhead, appointment letters, attendance registers, and TDS Certificates as supporting documents for salaries paid.</i>	<i>The Noticee has submitted a complete list of 143 employees along with appointment letters, attendance registers, and TDS Certificates, as annexure to letter dated May 15, 2024 to SEBI.</i>

Majority of Documentation is provided to justify the non-cash entries in the bank account of Trvienture.

10.4.3. The Noticee has provided loan agreement for all 22 employees as highlighted in the SCN. Additionally, the effect of not paying duty or paying an inadequate amount renders an instrument inadmissible and not void. Non-stamping or improper stamping does not result in the instrument becoming invalid. The Stamp Act does not render such an instrument void. The non-payment of stamp duty is accurately characterised as a curable defect. The Stamp Act itself provides for the manner in which the defect may be cured and sets out a detailed procedure for it. Noticee referred to the matter of **Thiruvengadam Pillai v. Navaneethammal**.

10.4.4. In light of the above, the loan agreements executed on plain paper without stamping or notarization should not pose a legal issue. The absence of stamping does not affect the validity or enforceability of these agreements, provided that the procedural remedy for non-stamping, such as payment of stamp duty and penalty, is adhered to. Therefore, the loan agreements remain legally valid and enforceable.

10.4.5. In light of the above, the loan agreements executed on plain paper without stamping or notarization should not pose a legal issue. The absence of stamping does not affect the

validity or enforceability of these agreements, provided that the procedural remedy for non-stamping, such as payment of stamp duty and penalty, is adhered to. Therefore, the loan agreements remain legally valid and enforceable.

10.4.6. Additionally, with reference to the loans in question that were extended exclusively to the employees of the AP - Triventure Services, as part of legitimate employer - employee relationship. It is pertinent to highlight that under the prevailing legal framework, there is no blanket prohibition on providing loans to employees by an AP. Such transactions are permissible and do not, in themselves, constitute a regulatory violation.

10.4.7. The loans provided to employees have no direct or indirect impact on client funds, investor interests, or market integrity. The transactions were conducted within the AP's operational framework which do not contravene any SEBI guidelines or directives and does not constitute as fund-based activity.

10.4.8. It is important to highlight that the Noticee has provided a comprehensive table along with supporting documentation to justify the bank entries associated with employee salaries and the corresponding Tax Deducted at Source (TDS) entries. However, it should be noted that for certain administrative and clerical staff, documentation proof may not be available, as their earnings do not meet the threshold that mandates TDS under the Income Tax Act.

10.4.9. To provide clarity, Form 16B is a certificate issued by an employer to its employees, detailing the amount of TDS from salary payments made during a specific financial year. It is essential to note that TDS is only applicable when the income or payment exceeds Rs. 2,50,000 in that financial year. This provision highlights the regulatory framework surrounding TDS and its relevance to the documentation process within the organization.

10.4.10. Furthermore, regarding the transactions related to consultancy and salaries for Triventure Services, NSE has already accepted the submission without raising any adverse observations.

10.4.11. Clause 32.5.1(c) restricts an AP from receiving or paying money in its own name for securities trading. However, the Noticee asserts that the funds in question were not used for securities trading, and thus, there is no violation of this Clause. All payments were made in the course of legitimate non-brokerage business, such as consultancy services, loans, and referrals, and the agreements provide sufficient clarity on the nature of the transactions.

10.4.12. Furthermore, Triventure Service has obtained a Chartered Accountant's certification for all transactions, including loans, referral commissions, consultancy charges, and salaries, covering the period from January 2022 to February 2024.

10.4.13. Triventure Services, in its role as an AP, provided only administrative assistance in procurement of documents and settlement between the stockbroker and clients, without independently handling client funds for trading. All trading-related fund settlements were handled directly by the stockbroker, and Triventure Services acted only as a facilitator, which is permissible under SEBI regulations. The funds in question were related to consultancy services, employee salaries, and loans, which do not fall under the purview of trading-related activities. Therefore, the settlement requirement under Para 32.7.6 does not apply to these transactions.

10.4.14. The Noticee took proactive steps to seek clarification from the APs regarding the nature of transactions, confirming that they were not for trading purposes. As soon as any concerns were raised, the Noticee provided explanations and supporting documents to establish the legitimacy of the transactions. This proactive approach evidences the Noticee's good faith effort to comply with SEBI's Code of Conduct.

AP – Merit Capital has not undertaken any fund-based activities.

10.4.15. To address the observations of the stock exchanges concerning the 99 transactions of Merits Capital, Noticee submitted that these transactions are not related to trading purposes. These transactions include a variety of financial dealings, such as the purchase and sale of unlisted NSE shares, salary payments to employees, loans obtained for working capital from family members and friends who are also clients, salary disbursements, commission and dividend reimbursement payments, duplicate entries, and a disputed entry involving the Noticee. These transactions reflect regular business and financial operations rather than any trading activity. A detailed explanation of these transactions has been provided as Annexure 5 in response to SEBI's findings dated May 15, 2024, which demonstrates their non-trading nature and relevance to legitimate business activities.

10.4.16. Further, to substantiate the above claims, the transactions in question have been verified and validated by an independent Chartered Accountant for the financial year 2022-23 and 2023-24. The verification was conducted based on the books of accounts and records maintained by the AP - Merits Capital. The Chartered Accountant's examination report confirms the legitimacy of these transactions and categorically

establishes that they are not connected to any irregular trading activity. A copy of the certification, dated December 10, 2024, is attached.

The Alleged purchase and sale of unlisted NSE Transactions are Independent Legal Transactions of AP – Merit Capital

10.4.17. Noticee submitted that the alleged unlisted NSE transactions attributed to Merit Capital do not fall within the scope of the Noticee's review of the Authorized Person for the following reasons:

- At the outset, it is pertinent to note that the unlisted NSE transactions are done Merit Capital and none of these transactions are routed and required to be routed on/by Noticee's systems or platform. It is also relevant to note that these transactions has been approved by the NSE without having any role of Noticee.*
- These transactions, by their very nature, are Over-the-Counter (OTC) transactions and do not constitute standard stock exchange transactions executed in the regular trading mechanism of the stock exchange. Consequently, such transactions do not fall under the regulatory purview of the Noticee as part of its audit responsibilities concerning the AP.*
- Merit Capital, in its capacity as the AP, has confirmed that these transactions are independent legal arrangements between the AP and its clients. The Noticee does not play any role in facilitating, executing, or reviewing such transactions, as they lie outside its functional domain.*

10.4.18. The transactions under scrutiny were not related to stockbroker-client activities. Instead, they were part of personal and business arrangements that fell entirely outside the ambit of the broker-client fund settlement mechanism. These transactions had no connection to the stockbroker's obligations under SEBI's stock regulations and circulars, as they were unrelated to securities trading or brokerage activities.

10.4.19. Noticee submitted that the loans and payments made were based on longstanding personal relationships between Merit Capital and certain individuals, who also happened to be clients. These transactions were of a non-brokerage nature, executed in the personal capacity of the AP, and had no nexus with securities trading. Such arrangements are beyond the purview of the Noticee to review.

10.4.20. The Clause 32.5.1, outlined under the heading Conditions of Appointment in the May 22, 2024 circular, specifies that the AP shall receive remuneration for services whether in the form of fees, charges, commission, salary, etc exclusively from the stockbroker and

is prohibited from charging clients directly However, this principle should be interpreted pragmatically in light of securities trading or brokerage activities of the stock broker and its authorised person.

10.4.21. The core principle underlying this restriction is to prevent misuse of authority and ensure that clients are not subjected to hidden or arbitrary charges. However, in the present factual matrix (a) the alleged transactions are independent transactions of Merit Capital outside the scope of the Noticee's review. (b) the clients are also the employees, friends and family to the Merit Capital. Hence the flexibility in the interpretation of this rule is warranted, particularly when assessing the nature and purpose of the transactions.

10.4.22. In cases where the transactions provided by the AP are outside the core of his obligations mandated under regulatory framework such as providing loans to staff, salaries, operational maintenance of the office etc then such transactions should not be automatically deemed a violation of the principle. These transactions are distinct from the core functions tied to trading or brokerage.

10.5. THE NOTICEE HAS ENSURED THAT THEIR AUTHORIZED PERSONS ARE ENGAGED ONLY IN PERMITTED ACTIVITIES AND ARE NOT UNDERTAKING ANY BUSINESS WHICH ARE DISALLOWED UNDER THE BYELAWS, RULES & REGULATIONS AND CIRCULARS OF SEBI/EXCHANGE.

10.5.1. Noticee submitted that no such activities were overlooked, and all relevant details were duly reported to the stock exchanges, thereby ensuring full transparency and compliance with regulatory requirements.

AP – Merit Capital engaged solely in the permitted activities

10.5.2. Noticee submitted that Mr. Parminder Singh provided a letter of authorization to Merit Capital, permitting them to place trades on his behalf. Furthermore, it is pertinent to note that Mr. Parminder Singh is the uncle of Gagandeep Singh, who is closely related to the client. This familial connection further supports the trust and understanding inherent in the authorization granted by Mr. Parminder Singh.

10.5.3. On the day of the inspection, Mr. Gagandeep Singh was preoccupied with preparations for his daughter's wedding, which compelled his absence from the office. In his lieu, Mr. Rajesh Paswan, as an employee of Merit Capital, executed trades on behalf of Mr. Parminder Singh. This situational context clarifies that Mr. Rajesh Paswan was assisting the client to place trades.

- 10.5.4. *There is no requirement to provide any separate letter of authority, and it is not the case that Mr. Gagandeep Singh is disowning or distancing from giving that authority. In the context of business operations, employees are often granted the implicit authority to act on behalf of their supervisors or employers in order to facilitate operational continuity. This concept of implied authority is well-recognized in legal frameworks, particularly when dealing with internal business matters, and serves to protect both the employer and clients in transactional scenarios.*
- 10.5.5. *In respect of the allegation against Mr. Rajesh Paswan concerning non-compliance with client login credentials, Noticee submitted that Mr. Paswan has not obtained or utilized any login credentials from the clients in question. The SEBI has provided the whatsapp chats of Mr. Rajesh Paswan during the inspection of documents, but nowhere in those chat transcripts it can be inferred that Mr. Rajesh Paswan has obtained any sort of login credentials from any of the clients of the Noticee.*
- 10.5.6. *Even, the Exchanges have failed to furnish any documentary proof or evidence of such login credentials being shared by the clients, namely DIVK5013, DIVK0076, DIVK0163, DIVK0470, and DIVK0051. The only exception is Mr. Parminder Singh (UCC code DIVK0097), who is a relative of the Managing Director, Mr. Gagandeep Banga of Merits Capital, and no breach is attributed to him.*
- 10.5.7. *The details of all the aforementioned logins and trades executed on March 4, 2024, are provided below. Each login and trade was either executed directly by the clients of the Authorized Person or carried out by the authorized user following pre-trade confirmation from the clients. Please find the specifics outlined below.*

Client Code	Client Name	Login	Traded	Source	Remark
DIVK0097	Parminder Singh	Yes	No	Client Exe	Authority Letter Provided by Parminder Singh.
DIVK5013	Surinder Kumar Syal	Yes	Yes	Client Exe	No OTP was obtained from the client, and the Authorized Person maintains a chat log from July 8, 2013, to March 2, 2024, confirming that all trades were executed exclusively through the client's terminal. On the day of inspection, while the inspection team was present, the trade was executed solely from the client's end.

DIVK0076	Hema Devi Jain	No	Yes	Dealer – CTCL	The trade was executed from the AP's registered terminal with proper pre-trade confirmation, and no OTP was obtained from the client for this order. Proof of the pre-trade confirmation is attached as Annexure N .
DIVK0163	Ajit Kumar Mishra	No	No		No trades were executed on the day of inspection, and there was no login activity.
DIVK0470	Pratap Kumar Ghosh	Yes	No	Mobile App	The client logged in via their mobile device; however, no trades were executed.
DIVK0051	Babita Devi	No	No	-	No trades were executed on the day of inspection, and there was no login activity.

10.5.8. Furthermore, the AP has provided client declarations confirming that they have never shared their login credentials with Merits Capital for the placement of orders. Accordingly, Noticee submitted that the allegations of improper use of client credentials are baseless and unsupported by any substantive evidence.

10.5.9. The arrangement to have Mr. Rajesh Paswan assist in executing trades for Mr. Parminder Singh was made with the intent of retaining the client relationship. Merit Capital's proactive measures to facilitate trading for Mr. Singh demonstrate a commitment to maintaining client satisfaction and service continuity. This reflects a good-faith of the AP to serve its clients' interests, which should be encouraged in a competitive marketplace.

10.5.10. In light of these justifications, it is clear that Mr. Paswan's intent behind these actions was to maintain the client relationship and ensure uninterrupted service, reaffirming the legitimacy of Merit Capital's operational practices.

10.6. THE NOTICEE HAS DEMONSTRATED CARE, SKILL, AND DUE DILIGENCE IN THEIR ACTIONS AS REQUIRED UNDER SCHEDULE II OF THE SEBI (STOCK-BROKERS) REGULATIONS, 1992.

10.6.1. This submission is made on behalf of the Noticee with respect to its adherence to the standards of care, skill, and due diligence as required under applicable laws and regulations, specifically in the context of its actions as a registered stock broker and principal to its AP. The Noticee maintains that it has consistently acted with the

requisite care, skill, and diligence, both in its own operations and in its supervision of its APs.

- 10.6.2. *To further enhance oversight, the Noticee has established a dedicated compliance team tasked with overseeing AP activities and conducting periodic reviews to ensure adherence to SEBI regulations and internal standards. Additionally, the Noticee has developed escalation protocols to promptly address any compliance concerns and has implemented stringent onboarding criteria to evaluate the suitability and reliability of prospective APs. Despite the extensive scale of its operations, SEBI has raised concerns regarding alleged non-compliance in relation to only two APs, underscoring the Noticee's effective control framework and commitment to regulatory standards across its network. This limited instance of alleged non-compliance reflects the Noticee's ongoing diligence and commitment to regulatory integrity in managing a vast and varied client base through its APs.*

Thorough background checks before and after onboarding of the APs

- 10.6.3. *The Noticee employs a comprehensive and multi-layered approach to monitor and ensure compliance among its network of APs. This monitoring framework begins at the onboarding stage, where MOFSL conducts rigorous background checks. These checks include verifying potential APs against SEBI's debarred list, conducting CIBIL checks, and using internal systems like the CSafe software to flag defaulters. Additionally, the Noticee verifies personal and professional details, including PAN and bank details, to confirm the credibility of prospective APs. By employing such stringent background checks, the Noticee aims to minimize risks associated with non-compliance from the outset.*
- 10.6.4. *Once onboarded, APs are provided with a Welcome Kit that includes essential business and compliance documents. This kit contains guidelines such as "Dos and Don'ts," the SEBI Certificate, the Investor Charter, and other compliance requirements that APs are required to display prominently at their offices. In addition to the onboarding kit, the Noticee issues regular circulars through a common software platform. These circulars provide APs with updated regulatory requirements, FAQs, and compliance points, thereby ensuring that APs are kept informed of ongoing compliance obligations.*

Regular training sessions and surveillance

10.6.5. *The Noticee also organizes regular training sessions for its APs, covering compliance updates and best practices in trading and client management. Furthermore, it conducts “mystery shopping” audits at AP offices, particularly if there are client complaints or other indicators of potential non-compliance. These audits allow the Noticee to assess AP operations discreetly and address issues in real-time, taking decisive action if any significant violations are detected. In cases of serious non-compliance, the Noticee reserves the right to terminate the AP relationship immediately, demonstrating its commitment to regulatory standards.*

Regular inspections at the facility of both the APs

10.6.6. *As part of its obligations, the Noticee undertook multiple inspections of both APs during the inspection period. Below table provide for a comprehensive record of the inspections conducted by the Noticee to ensure compliance with regulatory standards and to identify any operational or procedural discrepancies.*

	<i>Financial Year</i>	<i>Date of Inspection</i>
Merits Capital Market Services Private Limited	2022-23	February 28, 2023
	2023-24	November 17, 2023
Triventure Services Private Limited	2022-23	November 07, 2022
	2023-24	November 17, 2023

10.6.7. *Additionally, the Noticee conducted an onsite inspection of both APs and promptly submitted the inspection reports to the BSE and NSE, in compliance with regulatory requirements. This thorough inspection process reflects the Noticee’s commitment to maintaining transparency and accountability in its operations. The Noticee’s immediate intimation to the APs regarding the alleged violations outlined in the SEBI SCN demonstrates its promptness and proactive efforts to ensure compliance with the law and regulatory requirements.*

10.6.8. *Noticee relied on the Hon’ble Securities Appellate Tribunal judgement in the matter of **Mehra Equities Ltd., v. Adjudicating Officer, Securities and Exchange Board of India, Imperial Corporate Finance & Services Pvt. Ltd. v. Securities and Exchange Board of India**. Based on the above, the Noticee promptly raised queries with the APs regarding all the discrepancies identified during the onsite inspection conducted in November 2023.*

10.6.9. *Noticee submitted that adjudging quantum of penalty as per section 15j factors requires no penalty to be imposed and submitted that*

<i>Statutory provisions</i>	<i>Inapplicability of the same to the Noticee</i>
<i>15J(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;</i>	<i>There is no finding or allegation by SEBI that the Noticee has made any disproportionate gain or had any unfair advantage.</i>
<i>15J(b) the amount of loss caused to an investor or group of investors as a result of the default;</i>	<i>There is no finding or allegation by SEBI that the actions of the Noticee caused any loss to an investor or group of investors.</i>
<i>15J(c) the repetitive nature of the default.</i>	<i>There is no finding or allegation by SEBI that the alleged default was repetitive in nature.</i>

10.6.10. Noticee submitted that the Hon'ble Supreme Court in its subsequent judgment in **Bharjatiya Steel Industries v Commissioner, Sales Tax, Uttar Pradesh**¹, expressly referred to the judgment in the matter of **SEBI vs. Shriram Mutual Fund (supra)** and held that the concerned authority always has to exercise his discretion as to whether to levy a penalty or not, and that for the exercise of such discretion, existence of mens rea becomes a relevant factor. Thus, every contravention of statutory provisions, irrespective of how trivial or venial the breach is, does not merit levy of a penalty. Further, Noticee referred to the decision of the Hon'ble Supreme Court in decision in **SEBI v. Bhavesh Pabari**, where the Hon'ble Court has held the Adjudicating Officers of SEBI to have sufficient discretion to impose penalties or exonerate entities by applying factors beyond Section 15J (a)(b)(c). Noticee also referred to the observations of Hon'ble SAT in **Piramal Enterprises Limited v. SEBI**

VIOLATIONS OF PRINCIPLES OF NATURAL JUSTICE

- 10.6.11. On September 11, 2024, the Noticee made a request to SEBI seeking inspection of originals of documents which was made through an Inspection Letter dated September 11, 2024. While SEBI granted the inspection opportunity on September 20, 2024, it failed to provide a majority of the requested documents.
- 10.6.12. The Inspection letter dated September 11, 2024, outlined a comprehensive list of documents requested during the inspection conducted on September 24, 2024. Unfortunately, the majority of these documents have not been provided which were as below:

¹ (2008) 11 SCC 617

S. No	Document required	Provided/Not Provided	Reason by SEBI
1.	Copy of the opinion of the Whole-Time Member / Executive Director (ED) / Competent Authority and copy of pre-inspection notice	<u>Not Provided</u>	The same was internal document of SEBI.
2.	Copy of the order appointing inspecting authority.	<u>Not Provided</u>	
3.	Copy of the action matrix recommended by the inspecting authority and approval of Whole-Time Member / ED	<u>Not Provided</u>	
4.	Copy of the order of the Competent Authority dated July 19, 2024 appointing the Ld. Adjudicating Officer.	<u>Not Provided</u>	
5.	Copy of BSE Exchange records pertaining to Mr. Aditya Singh.	<u>Not Provided</u>	Not provided, as SEBI mentioned during the inspection that they would send the soft copy via email. However, no copy has been provided in this regard.
6.	Copy of bank statements provided by the Authorized Person (Triventure Services Pvt Ltd) to the Exchange during inspection.	<u>Provided</u>	
7.	Copy of bank statements provided by Authorized Person (Triventure Services Pvt Ltd) wherein it has transacted with multiple parties.	<u>Provided</u>	
8.	Copy of Agreements provided by the Authorized Person (Triventure Services Pvt Ltd)	<u>Provided</u>	
9.	Copy of bank statements provided by the Authorized Person (Merits Capital Market Services Pvt Ltd).	<u>Not Provided</u>	Not provided, as SEBI mentioned during the inspection that they would send the soft copy via email. However, no copy has been provided in this regard.
10.	Copy of confirmation note/letter signed by authorised representative Mr. Varun Kalra.	<u>Not Provided</u>	
11.	Copy of WhatsApp chat of Rajeev Paswan with reference to obtaining login credential of the clients.	<u>Provided</u>	

S. No	Document required	Provided/Not Provided	Reason by SEBI
12.	Copy of final observation report/communication from the exchange dated April 23, 2024.	<u>Not Provided</u>	Not provided, as SEBI mentioned during the inspection that they would send the soft copy via email. However, no copy has been provided in this regard.
13.	Copy of Exhibit 1 of the Inspection Report.	<u>Not Provided</u>	
14.	Copy of Annexure A of the Inspection Report.	<u>Not Provided</u>	
15.	Legible copy of Exhibit 3 of the Inspection Report.	<u>Provided</u>	
16.	Copies of any other inspection report/observations/statements with respect to the present matter either submitted by NSE or BSE.	<u>Not Provided</u>	Not Provided
17.	Copy of all the communications / emails with the BSE and NSE with respect to the inspection.	<u>Not Provided</u>	The same is vague as per SEBI.
18.	Copy of the opinion formed by the Competent Authority for determining that there are grounds to conduct inquiry / adjudicate upon by adjudicating officer.	<u>Not Provided</u>	The same was the internal document of SEBI.
19.	Copy of opinion formed by the Competent Authority, SEBI that an inquiry should be held against the Noticee.	<u>Not Provided</u>	
20.	Copy of Case Management System (CMS) screenshot in the present proceedings.	<u>Not Provided</u>	
21.	All the documents received, communications made by SEBI with any person in respect of the present proceedings, not provided along with the SCN, if any	<u>Not Provided</u>	The same is vague as per SEBI.
22.	Any statement recorded by SEBI during the inspection.	<u>Not Provided</u>	
23.	Any adverse material available on record or any documents with SEBI evidencing anything in relation to the allegations against the Noticee.	<u>Not Provided</u>	
24.	Copy of "Format for handing over Fresh Cases" in the present proceedings.	<u>Not Provided</u>	The same was the internal document of SEBI.

- 10.6.13. *In this regard, the Noticee relied on the judgements of Supreme Court of India in the matter of T. Takano and Anr. v. SEBI, Reliance Industries v. SEBI, Bombay High Court in the matter of Ashok Dayabhai Shah And Ors v. SEBI And Ors, Securities Appellate Tribunal in the matter of Mukesh D. Ambani v. SEBI, National Stock Exchange of India Ltd. v. SEBI.*
- 10.6.14. *Noticee submitted that it is mandatory for SEBI to provide file noting / formation of opinion, in this regard, Noticee referred to the judgment of the Hon'ble Gauhati High Court in the matter of Sunita Agarwal v. Securities and Exchange Board of India and Another, Adventz Finance Private Ltd. v. SEBI and Anr, and Mukesh D. Ambani v. SEBI.*
- 10.6.15. *Noticee submitted that SEBI has imposed minimum penalty in stock broker inspection cases in the past and there is no reason to discriminate and be non-uniform. Noticee referred to the decision of the Hon'ble Supreme Court of India in the matter of Securities and Exchange Board of India v. Sunil Krishna Khaitan and Securities and Exchange Board of India v. R.T. Agro (P.) Ltd.*
- 10.6.16. *Noticee submitted that a fundamental principle of vicarious liability is that a principal can only be held accountable for the actions of its agent when such actions are performed within the scope of the agency and in furtherance of the agency relationship. In this regard, Noticee referred to the order of the SC in the matter of **State Bank of India v. Shyama Devi** the Madras High Court, in **N Sridhar v. Maruthi Jayaraman & Anr** and **SEBI order in the matter of Mr. Alpesh Furiya and Connected Entities.***

11. The ARs appeared for the hearing scheduled on January 20, 2025 and made submissions on the lines of reply dated January 08, 2025. Further, the AR sought time till January 27, 2025 for making additional submissions. Vide email dated January 27, 2025 Noticee reiterated the submission already made and gave the following additional submission;

- 11.1. *Noticee submitted that if SEBI were to consider any violations, the same needs to be met at worst or at best with those observed in similar cases involving other SEBI registered stockbrokers. In this regard Noticee provided the list of such cases. Noticee submitted that concept of proportionality and consistency needs to be adopted while adopting a regulatory measure, in this regard, Noticee referred to the order of Hon'ble Supreme Court in the matter of SEBI vs Sunil Krishna Khaitan.*

- 11.2. Noticee submitted that the relationship between stock broker and its AP is that of principal agent. In this regard, Noticee referred Section 227 of Indian Contract Act, 1872. Noticee contended that the alleged actions of the Aps were unauthorized, therefore liability cannot be imputed to the noticee.
- 11.3. With regard to the fund based activities of Triventure , Noticee submitted that the funds in question was obtained by Triventure for the specific purpose of purchasing office property. Such loan transactions are beyond the scope of the Noticee's review and therefore do not constitute a violation for Noticee.
- 11.4. Noticee submitted a copy of the sanction letter for the loan.

CONSIDERATION FOR ISSUES, EVIDENCE AND FINDINGS

12. I have taken into consideration the facts and circumstances of the case and the material available on record. The issues that arise for consideration in the present case are:

ISSUE I: Whether Noticee has violated the provisions as alleged in the SCN?

ISSUE II- Does the violation, if any, attract monetary penalty under Section 15HB of the SEBI Act?

ISSUE III- If so, how much penalty should be imposed taking into consideration the factors mentioned in Section 15J of the SEBI Act?

13. Before proceeding further, it will be appropriate to refer to the relevant provisions.

Master Circular for Stock Brokers

Master circular for stock brokers number SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 and dated May 22, 2024

https://www.sebi.gov.in/legal/master-circulars/may-2024/master-circular-for-stock-brokers_83521.html

SEBI circular SMDRP/Policy/Cir-49/2001 dated October 22, 2001.

https://www.sebi.gov.in/legal/circulars/oct-2001/advertisement-by-brokers-sub-brokers-and-grant-of-trading-terminals_17949.html

Securities and Exchange Board of India (Stock Brokers) Regulations 1992

Conditions of registration.

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

- (a) the stock broker holds the membership of any stock exchange;*
- (b) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;*
- (c) where the stock broker proposes change in control, he shall obtain prior approval of the Board for continuing to act as such after the change;*
- (d) he shall pay fees charged by the Board in the manner provided in these regulations;*
- (e) he shall take adequate steps for redressal of grievances, of the investors within [twenty-one calendar days] of the date of receipt of the complaint and inform the Board as and when required by the Board;*
- (f) he shall at all times abide by the Code of Conduct as specified in Schedule II; and*
- (g) he shall at all times maintain the minimum networth as specified in Schedule VI.*
- [(h) Every stock broker who act as an underwriter shall enter into a valid agreement with the body corporate on whose behalf it is acting as underwriter and shall abide by the regulations made under the Act in respect of the activities carried on by it as underwriter.*
- (i) Every Stock Broker shall be entitled to act as an underwriter only out of its own net worth/funds as may be prescribed from time to time.]*

Regulation 26 - Liability for monetary penalty - *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 - Code of Conduct for brokers

Clause 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.

(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007

Regulation 3 - Obligation to obtain certificate

(2) An associated person on being employed or engaged by an intermediary on or after the date specified by the Board shall obtain the certificate within one year from the date of being employed or engaged by the intermediary.

NSE Exchange circular no. NSE/INSP/42448 dated October 18, 2019

<https://nsearchives.nseindia.com/content/circulars/INSP42448.pdf>

NSE Circular NSE/COMP/48536 dated June 09, 2021

<https://nsearchives.nseindia.com/content/circulars/COMP48536.pdf>

FINDINGS

14. Before proceeding with the matter on merit, I would like to first deal with the preliminary submission of the Noticee that complete documents were not provided to the Noticee during inspection. In this regard, I note from the material available on record that, vide email dated September 11, 2024, Noticee sought inspection of documents. Hence, vide email dated September 20, 2024, Noticee was allowed to inspect the same. On September 24, 2024 Noticee inspected the documents and requisite copies were provided to the Noticee. During inspection, Noticee sought some additional documents. All the relevant documents sought by the Noticee were provided to the Noticee, vide letter dated October 18, 2024 and email dated October 17, 2024. Further, pursuant to the receipt of Noticee's reply dated January 08, 2024, two additional documents were also provided to the Noticee vide email dated January 17, 2025. I note that all the documents required by the Noticee to effectively respond to the allegations have been provided and as such the contention of the Noticee that the principle of Natural Justice has not been followed lacks merit.

15. I now proceed to deal with the issues on merit as under;

ISSUE I: Whether Noticee has violated the provisions mentioned in para 4 above?

16. Terminals not found at authorized place

16.1. During inspection 13 terminals (NSE) were not found at the reported location. Further, on verification of trade data as on 04-03-2024, it was observed that trades have been executed from 5 out of 13 terminals, 9 terminals (BSE) were not found at reported location and trades have been executed from 1 terminal therefore, it was alleged that Noticee violated Para 77.2 of SEBI Master circular

for stock brokers i.e. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 r/w Para 2 of SEBI circular SMDRP/Policy/Cir-49/2001 dated October 22, 2001 and Regulation 26(xix) and Clause A (1) & A (2) of Schedule II of Code of Conduct read with regulation 9 of Stock Brokers Regulations.

- 16.2. In reply to the SCN Noticee submitted that trading terminals in question were operated from an additional branch of Merit Capital, situated at 211, DLF Towers, Moti Nagar, New Delhi. On March 6, 2024, Merit Capital submitted the application to NSE, BSE, MCX, NCDEX and the Noticee, providing an intimation regarding the opening of an additional branch. In accordance with its internal guidelines, the Noticee duly informed the stock exchanges, NSE and BSE, about the additional branch and the terminals operating thereunder on March 12, 2024. Approvals for the same were subsequently obtained.
- 16.3. As per Para 77.2 of SEBI Master circular for stock brokers i.e. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 r/w Para 2 of SEBI circular SMDRP/Policy/Cir-49/2001 dated October 22, 2001, Stock Exchanges shall grant trading terminals only at the members' registered office and their branch offices and exchanges to grant trading terminals only at the members' registered office, branch offices and their registered sub-brokers' offices.
- 16.4. As per Regulation 26(xix) and Clause A (1) & A (2) of Schedule II of Code of Conduct r/w regulation 9 of Stock Brokers Regulations, a stock broker shall be liable for monetary penalty in respect of extending use of trading terminal to any unauthorized person or place. A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business. A stock-broker shall act with due skill, care and diligence in the conduct of all his business. A stock broker shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him.
- 16.5. I note that Merit Capital Market Services Pvt Ltd is the AP of the Noticee. During inspection it was observed that on 04-Mar-2024, as per exchange (NSE) data 17 terminals (9 in CM and 8 in F&O) were active at the Location visited by the Exchange- 65, Old Rajinder Nagar Market, Delhi. Upon verification of the terminals at the said location, 13 terminals were not found at the reported location. Further, on verification of trade data as on 04-03-2024, it was observed that trades have been executed from 5 out of 13 terminals.

- 16.6. During verification of active trading terminals of BSE it was observed that active trading terminal of the stockbroker on the date of inspection (04-03-2024) was 15 and all the trading terminals as per exchange record were located at 65, Old Rajinder Nagar, New Delhi. Out of 15 trading terminals, 9 trading terminals were not found at registered address and hence were operated from unauthorised location till the date of inspection and further trades have been executed from 1 terminal (Aditya Singh) on date of inspection. Further, I note that terminals were operated by other than approved users Mr. Ayush Mishra, Mr. Aditya Singh & Mr. Manwek Jha because all are ex-employees of the AP (as informed by Noticee). Noticee also, during inspection, acknowledged that location of AP office was missed to communicate to Exchange.
- 16.7. In this regard, I note that as per Noticee's submission terminals in question were operated from an additional branch of Merit Capital, situated at 211, DLF Towers, Moti Nagar, New Delhi and Noticee informed the NSE about terminal operating at new branch on March 12, 2024 and the approval for the same was granted by Noticee on March 14, 2024. Therefore, I note that the Noticee started terminal operation from its new branch before getting approval from the concerned stock exchange i.e. NSE. Hence, the aforesaid contention of the Noticee is not tenable.
- 16.8. Further, I note that on verification of active trading terminals of BSE out of 15 trading terminals, 9 trading terminals were not found at registered and further trades have been executed from 1 terminal (Aditya Singh) on date of inspection. In this regard, Noticee submitted that the terminals operating under the new location are registered with BSE on March 12, 2024 and the approval for the same was granted on March 21, 2024. Therefore, the Noticee started terminal operation from its new branch before getting approval from the concerned stock exchange i.e. BSE. Hence, the aforesaid contention of the Noticee is not tenable. Further, I observe that the trades were also executed from terminals which were not found at location visited.
- 16.9. In view of the above, violation of Para 77.2 of SEBI Master circular for stock brokers i.e. SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/53 dated May 22, 2024 r/w Para 2 of SEBI circular SMDRP/Policy/Cir-49/2001 dated October 22, 2001 and Regulation 26(xix) and Clause A (1) & A (2) of Schedule II of Code

of Conduct read with regulation 9 of Stock Brokers Regulations by the Noticee is established.

17. Approved user not operating terminals

- 17.1. During inspection on Verification of terminals (NSE), it was observed that 4 terminals were not operated by approved users to whom terminals were allocated. Further, on verification of trade data as on 04-03-2024, it was observed that trades were executed from all 4 terminals. It was also observed that 4 trading terminals (BSE) were operated by other than approved users. Mr. Aditya Singh, Mr. Ayush Mishra, and Mr. Manwek Jha had terminals registered in their name (BSE) however; they did not have valid NISM Certification therefore, it was alleged that Noticee violated Regulation 26(xix) and Clause A (1) & A (2) of Schedule II of Code of Conduct r/w regulation 9 of Stock Brokers Regulations and regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007.
- 17.2. In reply to the SCN, Noticee submitted that there may have been lapses in certification status, there are justified reasons for this situation. The individuals mentioned - Mr. Aditya Singh, Mr. Ayush Mishra, and Mr. Manwek Jha are former employees, and their terminals were still active due to a transitional phase that had not been promptly addressed. The approved users were no longer associated with the respective AP as of March 5, 2024, leading to the deactivation of their terminals.
- 17.3. As per Regulation 26(xix) and Clause A (1) & A (2) of Schedule II of Code of Conduct read with regulation 9 of Stock Brokers Regulations, a stock broker shall be liable for monetary penalty in respect of extending use of trading terminal to any unauthorized person or place. A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business. A stock-broker shall act with due skill, care and diligence in the conduct of all his business. A stock broker shall abide by the rules, Regulations and bye-laws of the stock exchange which are applicable to him.
- 17.4. I note that on Verification of terminals (NSE), it was observed that 4 terminals were not operated by approved users to whom terminals were allocated.

Further, on verification of trade data as on 04-03-2024, it was observed that trades have been executed from all 4 terminals.

- 17.5. On verification of terminals (BSE), it was observed that Authorized person Mr. Gagandeep Banga and Mr. Dilmeet Banga were not present at the registered location at the time of inspection however their trading terminals (Mr. Dilmeet Banga BSE, 1100601218004088, & 1100601218011088, user ID 31920) was operated by other than approved user Mr. Rajesh Paswan and trading terminal of Mr. Gagandeep Banga (BSE 1100601218003088, & 1100601218010088, user ID: 31923) was operated by other than approved user Mr. Varun Kalra. Thus, 4 trading terminals were operated by other than approved users.
- 17.6. Further, Mr. Aditya Singh, Mr. Ayush Mishra, and Mr. Manwek Jha have terminals registered in their name (BSE) however; they did not have valid NISM Certification. Additionally, Noticee has informed (to BSE) that Mr. Ayush Mishra, Mr. Aditya Singh, Mr. Manwek Jha are ex-employees. Hence, I note that terminals were operated by other than approved users.
- 17.7. Further, I note that Noticee admitted that Mr. Aditya Singh, Mr. Ayush Mishra, and Mr. Manwek Jha are former employees, and their terminals were still active due to a transitional phase that had not been promptly addressed. Further, I note that no comments have been made by the Noticee with regard to the NISM certifications.
- 17.8. In view of the above, I find that violation of Regulation 26(xix) and Clause A (1) & A (2) of Schedule II of Code of Conduct read with regulation 9 of Stock Brokers Regulations and Regulation 3(2) of SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007 by the Noticee is established.

18. Examination of report(s) of Inspection of the APs

- 18.1. During SEBI inspection it was observed that Noticee has conducted the onsite inspection of its APs Triventure Services Pvt. Ltd. and Merit Capital Market Services Pvt. Ltd. and has submitted the inspection report to BSE and NSE however, it has failed to identify fund based activities during AP inspection between AP and client and has not reported the same to NSE in MIS report. Therefore, it was alleged that Noticee has violated Para 32.5.1 and 32.7.6 of

SEBI master circular for Stock Broker i.e. SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2024/53 dated 22.05.2024 and Point 11 in Annexure A of NSE/INSP/42448 dated October 18, 2019 r/w Clause A (5) of Schedule II of Code of Conduct of Stock Brokers Regulations.

- 18.2. In reply to the SCN, Noticee submitted that it has consistently acted with diligence and in good faith to address concerns arising from the internal audit. Noticee further submitted that upon analysis of the bank statements of Triventure Service, certain discrepancies were observed in the financial records, particularly to specific transactions, and it promptly raised detailed queries with Triventure Services to seek clarification on the nature and legitimacy of these transactions, via email dated December 4, 2023. With respect to AP Merit Capital Noticee submitted that the transactions are unrelated to trading activities. These transactions were properly clarified by the Merit Capital with appropriate supporting documents. As a result, no non-compliance was raised on this matter.
- 18.3. I note that as per Para 32.5.1 and 32.7.6 of SEBI master circular for Stock Broker i.e. SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2024/53 dated 22.05.2024, the stock broker shall be responsible for all acts of omission and commission of the authorized person, all acts of omission and commission of the authorized person shall be deemed to be those of the stock broker, 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. No fund/securities of clients shall go to account of authorized person.
- 18.4. As per Point 11 in Annexure A of NSE/INSP/42448 dated October 18, 2019 r/w Clause A (5) of Schedule II for Code of Conduct of Stock Brokers Regulations, Members while undertaking the inspection of Branches and AP offices shall examine that all applicable regulatory requirements have been complied with including the parameter that the Authorised Person/Branch is not involved in any fund based activities / collecting deposits from investors / dabba trading / chit funds or any other such schemes.
- 18.5. I note that Noticee has conducted onsite inspection of its AP Triventure Services Pvt Ltd. Noticee has submitted the inspection report as well. As per

the report, AP didn't provide its last 6 months bank statement to Noticee. On sample verification of bank statement for the period 01-01-2022 to 29-02-2024 provided by the AP during inspection, it was observed that AP had carried out transactions with its registered client with gross value amounting to Rs 19.56 crores.

- 18.6. I note that Noticee submitted that, vide e-mail dt 28.05.2024, it had sought clarification on certain transactions appearing in the bank statement provided by the AP and raised detailed queries with the AP. However, as per the report of onsite inspection of AP conducted by Noticee during the month of November 2023, AP didn't provide its last 6 months bank statement to Noticee. This was not pointed out as a violation by the Noticee in the MIS- report submitted to the Exchange. In light of the above I note that Noticee has not pointed out these violations in its inspection report and closed the inspection report without taking critical data such as bank statement from AP.
- 18.7. Further during verification of inspection report of AP Merit Capital Market Services Pvt Ltd, for which inspection was carried out by the Noticee on Nov 17, 2023, it was observed that Noticee failed to report fund based activities with clients in the inspection report.
- 18.8. I note that Noticee submitted that transactions are unrelated to trading activities, however, I note that while, during the inspection, Noticee collected the (i) Loan agreement executed between AP and the sample clients (ii) Agreement for transaction in unlisted shares of NSE from AP (Merit Capital Market Services Pvt Ltd), it failed to identify that AP accepted funds in its bank accounts from the clients as per the loan agreement.
- 18.9. In view of the above, I find that violation of Para 32.5.1 and 32.7.6 of SEBI master circular for Stock Broker i.e. SEBI/HO/MIRSD/MIRSD-PoD1/P/ CIR/2024/53 dated 22.05.2024 and Point 11 of Annexure A of NSE/INSP/ 42448 dated October 18, 2019 r/w Clause A (5) of Schedule II of Code of Conduct of Stock Brokers Regulations by the Noticee is established.

19. Other observations

- 19.1. During inspection, it was observed that the Noticee's AP Triventure Services Pvt Ltd has fund based relationship with 36 registered clients wherein 18.31

crores have been received and payments amounting to Rs. 1.24 crores have been made. In case of Noticee's AP Merit Capital Market Services Pvt Ltd., 99 client's transaction were observed out of total transactions with 228 entities, amounting to Rs. 5.69 Crores payment to clients and Rs. 5.06 Crores received from Clients. Therefore, it was alleged that Noticee violated Para 32.5.1 and 32.7.6 of SEBI master circular for Stock Broker number SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2024/53 dated 22.05.2024 and Clause A (2) of Schedule II of Code of Conduct r/w Regulation 9 of Stock Brokers Regulations.

19.2. In reply to the SCN, Noticee submitted that transactions carried out by Triventure Services are non-trading in nature and relate to legitimate business dealings such as loan agreements, consultancy service agreements, referral fees, and employee payments. All transactions were done in the capacity of Triventure Services as a business entity, not as an AP for trading purposes. Noticee asserted that the funds in question were not used for securities trading. With regard to Merit Capital noticee submitted that these transactions are not related to trading purposes. These transactions include a variety of financial dealings, such as the purchase and sale of unlisted NSE shares, salary payments to employees, loans obtained for working capital from family members and friends who are also clients, salary disbursements, commission and dividend reimbursement payments, duplicate entries, and a disputed entry involving the Noticee. Noticee further submitted that unlisted NSE transactions attributed to Merit Capital do not fall within the scope of the Noticee's review of the AP. The transactions under scrutiny were not related to stockbroker-client activities. Noticee further submitted that the loans and payments made were based on longstanding personal relationships between Merit Capital and certain individuals, who also happened to be clients. In cases where the transactions provided by the AP are outside the core of his obligations mandated under regulatory framework such as providing loans to staff, salaries, operational maintenance of the office etc then such transactions should not be automatically deemed a violation of the principle.

19.3. I note that as per Para 32.5.1 and 32.7.6 of SEBI master circular for Stock Broker i.e. SEBI/HO/MIRSD/MIRSD-PoD1/P/CIR/2024/53 dated 22.05.2024, a stock broker shall be responsible for all acts of omission and commission of the

AP, all acts of omission and commission of the AP shall be deemed to be those of the stock broker, 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. No fund/ securities of clients shall go to account of AP. Further, Clause A (2) of Schedule II of Code of Conduct r/w Regulation 9 of Stock Brokers Regulations provides that Stock Broker shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;

19.4. In respect of Triventure Services Pvt Ltd

19.4.1. I note that during inspection on sample verification of bank statements provided by the Noticee's AP Triventure Services Pvt Ltd, it was observed that the AP has transacted with multiple parties. Further, funds amounting to Rs. 18.31 crores have been received and payments amounting to Rs. 1.24 crores have been made to 36 registered clients. In their clarification, AP has submitted that these transactions were in the nature of loans taken/ given to parties including clients, employees, directors and their relatives during the inspection period. Some transactions were attributed towards salaries, commissions/ referrals etc. During inspection, Noticee has entered into loan transactions with 22 parties.

19.4.2. Further, I note that AP has paid referral commissions to 61 parties, out of which 12 were registered clients. For 50 parties AP provided agreements executed with the referring persons (on plain paper)/TDS certificates, however AP was unable to provide appropriate supporting documents for commission paid to remaining 11 parties amounting to Rs. 89,90,980/-.

19.4.3. Summary of the transactions appearing in the bank statement of the AP Triventure Services Pvt Ltd on sample basis is given below:

PARTICULARS	DEBITS IN BANK STATEMENTS	CREDIT IN BANK STATEMENT
Commission Paid	4,77,76,153.00	-
Consultancy charges	3,52,40,000.00	-
Loan from/to friend	6,29,66,600.00	5,91,51,600.00
Loan from/to director	-	1,00,00,000.00
Loan from/to director's family	7,00,000.00	7,25,000.00
Staff Loan	29,00,000.00	16,15,000.00
Salary to Staff	4,66,26,543.00	-
Salary to Director	11,10,00,726.00	45,00,000.00

Salary to directors sister	3,98,000.00	-
Payment as a professional fees to director sister	98,74,000.00	-
Payment for directors wife as a professional fees	4,02,77,080.00	-

19.4.4. In this regard I note that with reference to the transaction between AP and client (Loan- 13, Commission/ Referral- 12) as per Exchange circular NSE/COMP/50030 dated October 21, 2021, point 5 “APs are not permitted to undertake activities such as providing assured/ guaranteed return schemes, unauthorised portfolio management & investment schemes etc. as well as directly accepting or paying/delivering any funds and securities from/to the clients/investors. It is responsibility of the SBs to ensure that all APs registered with them are complying with the regulatory requirements and do not undertake any non-permitted activities. SBs shall be liable for all such acts of its APs and/or their Directors/ Partners, employees etc., including liabilities arising there from.”

19.4.5. With respect to the transactions in the nature of commissions (12 client & 49 Non- client), I note that as per the agreements provided by the AP/SB, these transactions are in the nature of revenue sharing. Revenue/ Brokerage should be shared between the SB and AP/ Referring person. Revenue sharing agreements between AP and clients/ non- client entities are not in the spirit of code of conduct of Trading member/ AP (sub- broker). Further, Referral scheme has been notified for the SB. In case any revenue was to be shared with clients/ entities, the correct route was to enroll such entities with SB as referrer. Any revenue/ brokerage sharing arrangement should be initiated/ managed by the SB only.

19.4.6. With respect to the loan transactions, I note that Noticee has submitted loan agreements and copy of the sanction letter for 2 loans. With regard to the sanction letter, I note that the contents and purpose of the same cannot be verified with the back office system of the Noticee at this stage and hence cannot be accepted. Further, the contents of all loan agreements submitted by the Noticee are not verifiable as all such agreements are similar, made on

plain paper which were neither stamped nor notarized and states that loans are interest free. Also, as per Exchange circular NSE/INSP/42448 dated October 18, 2019, point XI, "The Authorized Person is not involved in any fund- based activities". Hence, the transactions carried out by the AP in nature of loans are not permissible.

19.5.Merit Capital Market Services Pvt Ltd

19.5.1. I note that during inspection on verification of bank statement of the aforesaid AP, it was observed that there is a fund movement between AP and its clients. There are 99 client's transaction observed out of total transactions with 228 entities, amounting to Rs. 5.69 Crores payment to clients and Rs. 5.06 Crores received from Clients.

19.5.2. I note that in reply to the SCN, Noticee submitted that all the banking transactions between AP and their client is on account of their personal arrangement like buy and sell transactions of un-listed NSE shares, loan obtained for working capital requirement from family members and friends who happened to be client also, salary to employees, loan given on account of long personal relationship etc. However, in this regard, I note that post considering the salary slip provided by the Noticee out of 228 entities 12 entities identified as employee of the AP, for remaining instances member has not provided any documentary evidence like Demat statement for off market unlisted shares transactions, sale/ purchase invoice, loan agreement, etc. to substantiate the nature of transaction between AP and said entities/clients. Further, the Noticee has not provided any clarification for fund-based activities with other than UCC.

19.5.3. Further, I note that the Noticee accepted that the observed instances pertain to AP are their personal arrangement like buy and sell transactions of un-listed NSE shares, Loans from and to clients & salaries to employees. I further note that in 33 instances, Noticee has failed to provide supporting to substantiate his reply hence the reply of the Noticee is not tenable.

19.5.4. In 39 instances Noticee has failed to provide complete supporting i.e., client's demat transaction statement for NSE unlisted securities credited into respective client and the basis which authorised person has refunded the

money to client where NSE un-listed share were not bought into clients account, hence reply of the Noticee is not tenable.

19.5.5. I further note that in 7 instances, Authorized person has made the written arrangement with his registered client as “The rate of incentive/revenue to be shared with RA is fixed @ such as 27% or 27.5 etc. of the revenue generated by the client referred by RA in NSE & BSE”. As per BSE Stock Broker or AP cannot be in any arrangement with client for any personal financial liability. In 4 instances AP opted services i.e. decoration of office, software consultancy such as programme trading and other consultancy charges which is not related to the broking activity. Hence submission of the Noticee is not tenable.

19.6. In view of the above, I find that violation of Para 32.5.1 and 32.7.6 of SEBI master circular for Stock Broker i.e. SEBI/HO/MIRSD/ MIRSD-PoD1/P/CIR/2024/53 dated 22.05.2024 and Clause A (2) of Schedule II Code of Conduct r/w Regulation 9 of Stock Brokers Regulations Stock Brokers by the Noticee is established.

20. In respect of whether Noticee ensured that its APs are engaged only in permitted activities and not undertaking any business which are disallowed under the Byelaws, Rules & Regulations and Circulars of SEBI/Exchange;

20.1. During inspection it was observed that Employee of AP Merit Capital Market Services Pvt Ltd had logged in client's terminal by using clients login credentials. Both the APs (Merit and Triventure) of the Noticee had fund based relationship with the clients. Thus Noticee did not ensure that its APs are engaged only in permitted activities and not undertaking any business which is disallowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges. Therefore, it was alleged that the Noticee has violated Clause A(1) & A(2) of Schedule II Code of Conduct r/w Regulation 9 of Stock Brokers Regulations and NSE Circular NSE/COMP/48536 dated June 09, 2021 r/w Clause A (5) of Schedule II Code of Conduct of Stock Brokers Regulations.

20.2. In its reply Noticee submitted that Mr. Parminder Singh provided a letter of authorization to Merit Capital, permitting it to place trades on his behalf. Mr.

Parminder Singh is the uncle of Gagandeep Singh, who is closely related to the client.

- 20.3. I note that as per Clause A(1) & A(2) of Schedule II Code of Conduct r/w Regulation 9 of Stock Brokers Regulations, a stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business, a stock-broker shall act with due skill, care and diligence in the conduct of all his business, a stock-broker shall act with due skill, care and diligence in the conduct of all his business and he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him. Further, NSE Circular NSE/COMP/48536 dated June 09, 2021 provides that AP can only act as a facilitator and provide administrative assistance to the clients of the Member in accessing the trading platform of the Stock Exchange failing which the Authorised person and its Directors/partners shall be liable for appropriate disciplinary actions including cancellation of their registration, debarment from the securities market etc. Clause A (5) of Schedule II Code of Conduct of Stock Brokers Regulations states that Stock Broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.
- 20.4. I note that during onsite verification at AP - Merit Capital Market Services Private Limited premises, it was observed that Mr. Rajesh Paswan had logged in client's terminal (Name: - Parminder, UCC- DIVK0097) by using clients login credentials for carrying out online trading.
- 20.5. I note that in reply to the SCN, Noticee accepted that the client Mr. Parminder Singh is Close relative of Mr. Gagandeep Singh (Managing Director of AP Merit Capital Market Services Pvt Ltd) and Mr. Rajesh Paswan has executed trades on behalf of Mr. Parminder Singh.
- 20.6. I note that AP had employed a person who was involved in obtaining clients login credentials for carrying out online trading. Further, AP was also engaged in fund-based activities with clients, in violation of Clause A (1) & A (2) of Schedule II Code of Conduct read with Regulation 9 of Stock Brokers Regulations. AP is an agent of Noticee and Noticee is responsible for all acts

of omission and commission of his authorised person(s) and/or their employees, including liabilities arising there from.

20.7. In view of the above, I find that violation of Clause A(1) & A(2) of Schedule II Code of Conduct r/w Regulation 9 of Stock Brokers Regulations and NSE Circular NSE/COMP/48536 dated June 09, 2021 r/w Clause A(5) of Schedule II Code of Conduct of Stock Brokers Regulations by the Noticee is established.

ISSUE II: Does the violation, if any, on part of the Noticee attract penalty under Section 15HB of SEBI Act?

21. In view of the violations as established above, I find that this is a fit case for penalty under section 15HB of the SEBI Act, which reads as given below:

Penalty for contravention where no separate penalty has been provided.

15HB. Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

ISSUE III: If so, how much penalty should be imposed on the Noticees taking into consideration the factors mentioned in Section 15J of the SEBI Act?

22. While determining the quantum of penalty under sections 15HB of the SEBI Act, it is important to consider the factors stipulated in section 15J of SEBI Act, which reads as under:-

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.”

23. In the present matter, I note that no quantifiable figures are available to assess the disproportionate gain or unfair advantage made as a result of the defaults by Noticee. Further, from the material available on record, it may not be possible to ascertain the exact monetary loss to the investors /clients on account of default by the Noticee. As SEBI registered intermediary, Noticee is under statutory obligation to comply with the applicable circulars, rules and regulations. The very purpose of the said regulations is to deter wrong doing and promote ethical conduct in the securities market. Therefore, non-compliances/ violations by the Noticee deserves and attracts suitable penalty. I note that corrective action have been taken by the Noticee post inspection and also no complaint against Noticee has been brought on record etc. These are being considered as mitigating factors while deciding the quantum of penalty. I note, as per the available records, that Noticee has been penalized number of times earlier for violation of various provisions of SEBI Act and Regulations issued thereunder.

ORDER

24. After taking into consideration the facts and circumstances of the case, material available on record, submissions made by the Noticee and also the factors mentioned in the preceding paragraphs, in exercise of the powers conferred upon me under section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose penalty of Rs 3,00,000 (Rupees Three Lakhs only) for the violations, as established in this order. In my view, the said penalty is commensurate with the violation committed by the Noticee in this case.

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

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

26. 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 for realization of the said amount of penalty along with interest thereon, inter alia, by attachment and sale of movable and immovable properties.

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

Place: Mumbai

Date: June 09, 2025

**AMIT KAPOOR
ADJUDICATING OFFICER**