

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/NH/YK/2024-25/31202]**

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

In respect of:

Noticee	PAN	Registration Number
Arham Share Private Limited	AAICA6860F	INZ000175534

In the matter of Arham Share Private Limited

A. BACKGROUND

1. Arham Share Private Limited (hereinafter referred to as “**Noticee/Arham**”) has been registered with the Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) as a stock broker since January 13, 2011. The registration number of the Noticee is INZ000175534. SEBI had undertaken inspection of the Noticee jointly with National Stock Exchange of India Limited (hereinafter referred to as “**NSE**”) and BSE Limited (hereinafter referred to as “**BSE**”) on October 19, 2023 and October 20, 2023 for the period from April 01, 2022 to September 30, 2023 (hereinafter referred to as “**Inspection period/IP**”).
2. Post the culmination of the aforesaid inspection, an inspection report (hereinafter referred to as ‘**IR**’) was prepared. The findings of the said inspection were communicated to the Noticee vide letter dated December 20, 2023. In response to the findings in the Inspection Report, the Noticee submitted a reply vide e-mail dated January 09, 2024.
3. After the receipt of the Noticee’s reply to the Inspection Report, findings of the inspection vis-a-vis the response of the Noticee were analysed by the concerned

department of SEBI. Thereafter, a Post Inspection Analysis report (hereinafter referred to as '**PIA**') was prepared by SEBI.

4. Based on the findings of the inspection conducted by SEBI, certain non-compliances of the Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 (hereinafter referred to as "**Brokers Regulations**"), SEBI Circulars, and Exchange Circulars were alleged. The summary of the violations alleged to have been committed by the Noticee and the corresponding provisions of the securities law are given in the table below:

Table 1

Sr. No.	Alleged Violations (Summarized)	Regulatory Provisions
1.	Two proprietary terminals were not available at the location reported by the Noticee to the Stock Exchanges and these two terminals were operated from unspecified/unapproved location.	Clause 3 of NSE Circular No. NSE/MEMB/3574 dated August 29, 2002 (hereinafter referred to as " NSE Circular dated August 29, 2002 "), Para 4 of NSE Circular No. NSE/MEMB/3635 dated September 25, 2002 (hereinafter referred to as " NSE Circular dated September 25, 2002 "), and Clause a. of " <i>Trading Terminals</i> " and Clause d. of " <i>Trading Member</i> " of " <i>Applicable Observances</i> " of NSE Circular No. NSE/MSD/34638 dated April 13, 2017 (hereinafter referred to as " NSE Circular dated April 13, 2017 "), read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations.

Sr. No.	Alleged Violations (Summarized)	Regulatory Provisions
2.	Four terminals were operated by persons who were not the approved users.	Clauses 2 and 6 of NSE Circular dated August 29, 2002 and Para 4 of NSE Circular dated September 25, 2002 read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations.
3.	Proprietary terminals were operated by entities who were clients and not the employees of the Noticee.	Clauses 2 and 6 of NSE Circular dated August 29, 2002, Para 4 of NSE Circular dated September 25, 2002, Clause b. of “ <i>Trading terminals</i> ” and Clause a. and b. of “ <i>Trading Member</i> ” of “ <i>Applicable Observances</i> ” of NSE Circular dated April 13, 2017 and Para 3 of NSE Circular No. NSE/MSD/56778 dated May 22, 2023 (hereinafter referred to as “ NSE Circular dated May 22, 2023 ”) read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations.
4.	The Noticee has paid incentives to the client in cash.	Clause 3 of SEBI Circular No. SEBI/HO/MIRSD/DOP/CIR/P/2018/113 dated July 12, 2018 (hereinafter referred to as “ SEBI Circular dated July 12, 2018 ”) read with Clause 27.2 of SEBI Master Circular No.

Sr. No.	Alleged Violations (Summarized)	Regulatory Provisions
		SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2023/71 dated May 17, 2023 (hereinafter referred to as “ SEBI Circular dated May 17, 2023 ”).
5.	One of the branch offices of the Noticee was managed by its client.	Clause 6 of NSE Circular dated August 29, 2002 read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations.
6.	The Noticee has not kept the pre order confirmations in respect of the orders placed by its client.	Clauses III and IV of SEBI Circular No. SEBI/HO/MIRSD/DOP1/CIR/P/2018/54 dated March 22, 2018 (hereinafter referred to as “ SEBI Circular dated March 22, 2018 ”).

B. APPOINTMENT OF ADJUDICATING OFFICER

- SEBI had appointed the undersigned as the Adjudicating Officer (hereinafter referred to as “**AO**”) in the matter vide communique dated May 29, 2024 under Section 15-I of the SEBI Act read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as “**Adjudication Rules**”), to inquire into and adjudge under the provisions of Section 15HB of the SEBI Act for the aforementioned violations of the provisions of law alleged to have been committed by the Noticee.

C. SHOW CAUSE NOTICE, REPLY, AND HEARING

6. Show Cause Notice ref. no. SEBI/EAD-2/NH/YK/19176/2024 dated June 07, 2024 (hereinafter referred to as '**SCN/Notice**') was served upon the Noticee in terms of Rule 4 of the Adjudication Rules read with Section 15-I of the SEBI Act to show cause as to why an inquiry should not be held against the Noticee and why penalty, if any, not be imposed on it in terms of the provisions of Section 15HB of the SEBI Act for the violations alleged to have been committed by the Noticee.

7. The SCN dated June 07, 2024, *inter alia*, alleged the following:

“

7.1. *Non-availability of terminals at the specified location and operation of terminals from unspecified/unapproved locations*

- *It was observed from IR that one of the inspection themes pertained to availability and operations of proprietary terminals at the locations reported by the Noticee to the Stock Exchanges.*
- *In this regard, it was observed that the Noticee has reported to the Stock Exchanges that two proprietary terminals (1 CM terminal and 1 F&O terminal with CTCL ID 410210001416) were operated by Ms. Sweta Vinod Vyas from Flat No 1202, 12th Floor, Melody Kesar Harmony, Sec-06, Kharghar, Navi Mumbai – 410 210. However, when inspection team visited the said premises on October 19, 2023, it was observed that no office of the Noticee was available in the location and the residential property was occupied by one Shri. Kailash Gupta and Ms. Soma Gupta. These two terminals were found to be operated from a different location at Flat No. 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai, Mumbai – 410 210.*
- *It was observed that the aforesaid finding was communicated to the Noticee by SEBI vide letter dated December 20, 2023. The Noticee vide e-mail dated January*

09, 2024 had, *inter alia*, stated as under in respect of the aforesaid finding in the IR:

“We humbly submit that our terminal 410210001416 was operated from the address Flat No 1202, 12th Floor, Melody Kesar Harmony, Sec-06, Kharghar, Navi Mumbai- 410210. However, a few months back we had carried out consolidation of our offices and therefore we shifted the said terminal to Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai, Mumbai-410210 where other terminals were already operative. However the team at Head Office inadvertently missed out on updating the change in address on NSE Portal. It may be noted that both offices are within a distance of 2 kms.

Without prejudice to the forgoing, the requirement of terminal address was put in place to allow the clients to know the location from which trades are executed. The Brokers are also required to mention the dealing office address on the contract note. However the terminal 410210001416 was only used for proprietary trading and therefore it did not materially affect whether it was operated from one Branch or another Branch which are just 2 kms away from one another.”

- *In this regard, it was alleged in the PIA that the Noticee has accepted the observation regarding terminals operated from unspecified/unapproved locations.*
- *In view of the above, it is alleged that the Noticee has violated the provisions of Clause 3 of NSE Circular dated August 29, 2002, Para 4 of NSE Circular dated September 25, 2002, and Clause a. of “Trading Terminals” and Clause d. of “Trading Member” of “Applicable Observances” of NSE Circular dated April 13, 2017, read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations during the IP.*

7.2. Trading terminals were operated by persons who were not the approved users

- It was observed from IR that the following terminals were not operated by approved users:

Sr. No.	Terminal ID	Terminal	Location of the terminal	Approved User as per Exchange records	Person actually using the terminal
1	395002012332	CM-1 FO-1	605, 6th Floor, Century Business Center, Ring Road, Surat – 395 002	Sureshkumar Amrutlal Sheth	Harsh Kamleshbhai Vora
2	410210001416	CM-1 FO-1	Flat No 403, Deu Bonanza Paradise, Sector	Sweta Vinod Vyas	Hemang Shah, Raghav Kedia and Vinod Vyas
3	410210001013	CM-1 FO-1	35H, Kharghar, Navi Mumbai – 410 210	Mahesh Kumar Sharma	Raghav Kedia
4	410210001012	CM-1 FO-1		Vinod Kumar Vyas	Hemang Shah

- It was observed that the aforesaid finding was communicated to the Noticee by SEBI vide letter dated December 20, 2023. The Noticee vide e-mail dated January 09, 2024 had, inter alia, stated as under in respect of the aforesaid finding in the IR:

“1. Mr. Harsh Vora had joined our organisation on 15-07-2023 as a Dealer who has been trained by Mr. Suresh Vora. As Mr. Suresh Vora was on leave on said date, the said terminal (395002012332) was operated by Mr. Harsh Vora who is our employee. As Mr. Suresh Sheth who is also our employee was on leave on said dated 19/10/2023, to manage open position, the said terminal was operated by Mr. Harsh Vora only for the said date. Moreover, please also note that one of the terminal was also allotted to Mr. Harsh Vora with CTCL ID 395002012331 at the same location. As there was no open position at the BOD in the said terminal of Mr. Harsh Vora, he operated terminal of Mr. Suresh Sheth as stated above. Mr.

Harsh Vora also have valid NISM certificate which is also attached here with as Exhibit - 2. So, the said operating of terminal was very genuine in nature. CTCL logs from Exchange portal is attached here with as Exhibit – 3.

2. The SEBI Letter wrongly mentions that terminal 410210001416, 410210001012 and 410210001013 were operated by persons other than approved users. The terminal was not logged in on the said date and a certificate from the vendor is annexed herewith and marked as Exhibit 4.

3. The allegation seems to have been levied based on the statement of 3 persons annexed to the SCN, which has been denied by them.”

- In this regard, it was observed from PIA that with respect to CTCL ID 395002012332, the Noticee has admitted that an unapproved user, viz. Mr. Harsh Kamleshbhai Vora was operating the terminal of Mr. Sureshkumar Amrutlal Sheth since Mr. Sheth was on leave. Further, Noticee has also stated Mr. Vora was also allotted a terminal with CTCL ID 395002012331. However, exchange records indicate that CTCL ID 395002012331 was assigned to Mr. Prakash Mansukhlal Sanghavi and not to Mr. Harsh Kamleshbhai Vora as on the dates of inspection.*
- It was alleged in the PIA that with respect to CTCL ID 410210001416, 410210001013 and 410210001012, the approved users of the terminals were not available at the terminal location when the inspection team visited the location. The persons available at the terminal locations, viz. Hemang Shah, Raghav Kedia and Ramesh Saraogi submitted to the inspection team in writing that the said terminals were operated by Hemang Shah, Raghav Kedia and Vinod Vyas. Further, it was also mentioned in the document dated October 19, 2023 submitted by Hemang Shah, Raghav Kedia and Ramesh Saraogi that one of the approved user, viz., Mahesh Kumar Sharma was in jail and had not visited the office since 1.5 months. However, it was observed from PIA that as per Exhibit 4 submitted by the Noticee, last trade date on CTCL ID of Mahesh Kumar Sharma is October 18, 2023 indicating that*

trading terminal was operated by unapproved user. Further, it is alleged that the statements made by Hemang Shah, Raghav Kedia and Vinod Vyas and submitted by the Noticee subsequently negating their earlier submissions, cannot be accepted since the same seems to be an afterthought to the submissions dated October 19, 2023 and have been submitted without any corroborating evidence substantiating the submissions.

- In view of the above, it is alleged that the Noticee has violated the provisions of Clause 2 and 6 of NSE Circular dated August 29, 2002 and Para 4 of NSE Circular dated September 25, 2002 read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations during the IP.*

7.3. Operation of Proprietary terminals by non-employees:

- It was observed from IR that during the course of inspection, the Noticee submitted that all proprietary terminal dealers are their employees and receives salary and incentive as a compensation. However, from the following observations, it is alleged that the Noticee does not have employer-employee relationship with the proprietary dealers. Instead, the arrangement has attributes of broker-client relationship. The observations were as follows:*
- The Noticee has collected a total deposit of Rs. 28.50 Crores from 298 proprietary terminal dealers and amount of deposits ranged from Rs. 0.5 lakhs to Rs. 53 lakhs. Deposits taken from proprietary terminal dealers were placed with Clearing Corporations (CC)/Clearing Members (CM) as Fixed Deposits (FD)/Cash to fulfill margin requirements. It is alleged that collection of deposits and placing same with CC/CM portrayed the feature of Broker-Client relationship, rather than that of a Broker-Employee relationship.*
- The Noticee did not issue appointment letters on joining or salary slips on a monthly basis to proprietary terminal dealers. The same were given only on*

specific requests by the dealers. It was further observed during the inspection that the Noticee has not returned the deposits of 5 proprietary dealers who have left.

- One of the premises in which the terminals were located (Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai, Mumbai-410210) was neither in the name of the Noticee nor taken on lease by the Noticee. The said location was taken on lease and operated by an entity named Navratri Share Trading Private Limited, which is a client of the Noticee.*
- Three persons operating the terminals at Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai, Mumbai-410210, viz. Mr. Hemang Shah, Ms. Sweta Vyas, and Mr. Vinod Vyas were stated to be taken on roll of the Noticee only from September 01, 2023 and there were no appointment letters issued to them. However, the terminals were operated in the name of these dealers, even prior to September 01, 2023, indicating that the terminals were operated by non-employees. It was also observed that Shri. Ramesh Saraogi, client of the Noticee and director of another client, viz. Navratri Share Trading Private Limited, used to pay salary to the terminal operators before September 01, 2023.*
- In respect of the terminals located at Vikas Center, 1402, 14th Floor, C G Rd, Chembur (E), Mumbai – 400 074 (Terminal ID - 400074001456), it was observed that the terminal operator, Mr. Aditya Chandrasekhar Iyer, was appointed as an employee of the Noticee only with effect from October 15, 2023. However, there was huge trading volume from this terminal even prior to October 15, 2023, indicating that the terminal was available in the same location and operated by non-employees.*
- The Noticee has paid incentives to Shri. Ramesh Saraogi, one of its clients, for supervising, advising and trading in proprietary terminals located at Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai – 410 210.*
- Eight proprietary terminal dealers were not on payroll of the Noticee and the Noticee had collected a cumulative deposit of Rs. 44.24 Lakhs from them.*

- *SEBI issued Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2020/127 dated July 20, 2020 (hereinafter referred to as “SEBI Circular dated July 20, 2020”), requiring Stock Exchanges and Clearing Corporations to implement a framework for regular monitoring of collection of margins and penalty for short-collection/ non-collection of margins from clients’ in both the cash and derivative segments. Before implementation of aforesaid circular, margin reporting was happening only on EOD basis, due to which brokerage firms allowed their customers to take intraday positions with margins far lesser than requirement. Post implementation of aforesaid circular, stock brokers are mandated to collect upfront margin from clients.*

It was observed that post implementation of SEBI Circular dated July 20, 2020 which came into effect from December 01, 2020, no. of proprietary terminals and proprietary turnover of the Noticee have increased 2.78 times (from 472 as on March 31, 2020 to 1,313 as on October 30, 2023) and 4.18 times (from Rs. 28,691.23 Crores in 2019-20 to Rs.1,20,002.84 Crores in 2022-23) respectively. The Noticee has collected a total deposit of Rs. 28.50 crore from 298 Proprietary Dealers which were placed with CC/CM as FD/Cash to fulfil margin requirement. Further, the Noticee has given exposure of approx. 10 times of the deposit collected from the respective dealers. Deposits, so taken from the proprietary dealers have also increased 16.66 times (from Rs.1.71 Crores as on March 31, 2020 to Rs. 28.50 Crores as on October 20, 2023 since implementation of the aforesaid SEBI circular dated July 20, 2020.

- *In view of the above, it was alleged that the Noticee has given access of proprietary terminals to entities including clients, who were not employees, for bypassing the collection of margins separately from clients.*
- *It was observed that the aforesaid finding was communicated to the Noticee by SEBI vide letter dated December 20, 2023. The Noticee vide e-mail dated January*

09, 2024 had, *inter alia*, stated as under in respect of the aforesaid finding in the IR:

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- a. *With regards to observations of deposits of proprietary dealers placed with CC we would like to state that Exchanges and SEBI have always maintained a very strong focus on risk management to ensure stability in markets and prevention of rash, haphazard and indiscriminate trading. We carry out proprietary trading in the nature of arbitrage, jobbing and positional trading by employing dealers. Dealers are required to ensure that they transact strictly as per our trading strategy and not beyond. We also maintain strict risk management controls in our systems for their exposure limits etc. however the trades within limits may also carried out be beyond our permitted strategies which may result in losses. Deposits collected in order to ensure that the transactions are always carried out as per our strategies prudently and not in a reckless manner. Further there is no bar in depositing moneys collected as security deposit from dealers to be deposited with the CC.*
- b. *With regards to observation of broker did not issue appointment letters on joining or salary slip on monthly basis to our prop dealers, we submit that issuance of appointment letter is not mandatory. Further, we always pay salary on a monthly basis and the salary slips are accessible from our employee service portal. Print screen of said employee portal is also attached here with as Exhibit – 5.*

As regards to the refund of deposit is concerned, Mr. Gada Nitin Shantial discontinued his association with us on September 28, 2023 and we have refunded his deposit on 26/10/2023 which is within one month from the date of reliving dated 28/09/2023 (Amount Rs. 10,00,000/-).

Further in case of Mr. Chirag Damani and Mr. Tejas Vora, they had left our office without completing formalities and therefore the deposits were not returned to them at the relevant time. Further with regards to the pending amounts of Brijesh

Jayendra Shah and Mr. Krunal Shah, the amounts were on hold due to pending discussion on performance.

- c. With regards to the premises in which terminal were located not belongs to either stock broker or not taken on lease by stock broker, we would like to state that the said location has been reported as a place where terminals are operated from. Any place where the terminals are located is deemed to be a branch of the broker and there is no mandatory requirement of taking the premises on lease or rent or ownership. Without prejudice to the forgoing, while negotiating the terms with Navratri, we had offered them a brokerage rate of 0.05% (Delivery), 0.005% (Intraday and F&O) and the same was lower than many clients. This was done on the basis that we would be using the premises. This has been admitted by Mr. Ramesh Saragoi in his affidavit.*
- d. With regards to observations of non-issuance of appointment letters to Mr. Hemang Shah, Ms. Shweta Vyas and Mr. Vinod Vyas, we would like to state that as per NSE Circular no. NSE/MSD/56778 dated May 22, 2023 regarding Operation of Trading Terminals, exchange has allowed time till 31st August 2023 for changing relationship of existing CTCL Users & later exchange has extended the deadline for changes in relationship of user till 30th October, 2023 vide NSE Circular no. NSE/MSD/58166 dated August 30, 2023. Before these circular brokers were allowed to issue trading terminal to be issued to Approved Person. In light of these circulars we have taken them on payroll from September 1, 2023.*
- e. With regards to terminal operator Mr. Aditya Chandrasekhar Iyer was appointed as employee w.e.f October 15, 2023 we would like to state that Mr. Aditya Iyer was on probation period before October 2023. Without prejudice to the forgoing, the dealer was uploaded to NSE as approved person. This was as per the extant law of NSE at the relevant time. As per NSE Circular no. NSE/MSD/56778 dated May 22, 2023 regarding Operation of Trading Terminals, exchange has allowed time till 31st August 2023 for changing relationship of existing CTCL Users & later*

exchange has extended the deadline for changes in relationship of user till 30th October, 2023 vide NSE Circular no. NSE/MSD/58166 dated August 30, 2023. Before these circular brokers were allowed to issue trading terminal to be issued to Approved Person.

- f. With regards to observations of payment of incentives to Mr. Ramesh Saraogi for supervising proprietary terminals, we deny the observations & we would like to state that we have not paid any incentives to Mr. Ramesh Saraogi and no evidence thereof has been provided with the SCN except for the statement which is denied by Mr. Ramesh Saragoi himself in his affidavit. Exhibit – 1*
- g. With regards to observations of 8 proprietary terminal dealers were not on payroll, we would like to state all the dealers were our approved person. This was as per the extant law of NSE at the relevant time. As per NSE Circular no. NSE/MSD/56778 dated May 22, 2023 regarding Operation of Trading Terminals, exchange has allowed time till 31st August 2023 for changing relationship of existing CTCL Users & later exchange has extended the deadline for changes in relationship of user till 30th October, 2023 vide NSE Circular no. NSE/MSD/58166 dated August 30, 2023. Before these circular brokers were allowed to issue trading terminal to be issued to Approved Person. As regards the collection of deposit, we have offered a detailed response hereinabove and the same is not being repeated in the interest of brevity.*
- h. All our proprietary trades are done in F&O segment. The requirement of margin collection was always applicable since the inception of F&O segment. Further of the about 500 dealers who carry out proprietary trading at the time of inspection. On and around July 20, 2020 we had about 300 dealers. So the number of dealers increased was only 200. Even further none of the dealers were our client and it is not a case that we converted our clients to dealers to avoid margin collection. It is an admitted fact that post 2019 there has been a unprecedented growth in the markets and likewise we have engaged more dealers in this growing and*

expanding markets. Further increase in our number of dealers is in line with increase in volumes of NSE by 1100% from Rs. 34,45,32,891.81 Crores in FY 19-20 to Rs. 3,82,23,26,468.06 Crores in FY 22-23 and implementation of our growth strategy of engaging more dealers to carry out proprietary trades. (source:<https://www.nseindia.com/market-data/business-growth-fo-segment>). We therefore submit that the increase has nothing to do with the implementation of margin requirement on a intraday positions, but is a normal growth of business and the overall economy of our country.”

- In this regard, the followings were observed from PIA:
 1. The Noticee has accepted that the deposits collected from the dealers were placed with CC/CM as FD/Cash to fulfill margin requirement, which is generally resorted to in case of deposits made by the clients.
 2. The Noticee has not provided any supporting evidence to substantiate its claim of returning the deposit to Mr. Gada Shantial. Regarding the other four former dealers, the Noticee has admitted that the deposits were not returned to the respective dealers.
 3. The Noticee has admitted that the premises at Kharghar in which terminals were located were not owned or leased by it but was leased out by one of its client viz. Navratri Share Trading Private Limited.
 4. NSE vide Circular dated May 22, 2023, reiterated to its members that trading terminals allotted by members shall be operated / accessed only through User IDs allotted to Approved Persons namely employees of trading member, partner / proprietor / director(s), registered authorized persons (AP) or employee of an AP. Further, NSE vide Circular No. NSE/MSD/58166 dated August 30, 2023 has given extension only for submitting the correct relationships of all the User IDs / CTCL IDs to the exchange and extension was not given for any other provision of the preceding circulars. Thus, it is alleged that operation of trading terminals

by the entities other than prescribed in the NSE circular dated May 22, 2023 shall be in violation of the said circular.

- 5. The Noticee has also admitted that the trading terminal located at Chembur location (Terminal ID 400074001456) was allocated to an individual who was appointed as an employee of the Noticee only since October 15, 2023. However, trades were placed from the terminal even before such appointment. It is alleged that this is in violation of NSE circular dated May 22, 2023.*
- 6. The statements made by Hemang Shah, Raghav Kedia and Ramesh Saraogi, and submitted by the Noticee, contradicts their previous submissions. It is alleged that it seems to be an afterthought in response to the inspection observations. It is alleged that while these entities have accepted the non-compliances during the course of inspection, they might have subsequently chosen to deny the facts thinking that they had, knowingly or unknowingly, played a role in the scheme deployed by the Noticee to bypass the collection of margins separately from clients and therefore, they may also attract penal action. Hence, it is alleged that the statements subsequently made by them and submitted by the Noticee, contradicting their earlier submission made during the course of inspection cannot be accepted.*
- 7. The Noticee has acknowledged that the eight dealers were not on their payroll and argued that terminals could be operated by non-employees before October 01, 2023. However, NSE vide Circular dated May 22, 2023, reiterated that trading terminals allotted by members shall be operated / accessed only through User IDs allotted to approved persons namely employees of trading member, partner / proprietor / director(s), registered AP or employee of an AP. Moreover, the Noticee has not submitted any documentation to explain the financial relationship between them and the Noticee for operating the Noticee's proprietary terminals.*

- *In view of the above, it is alleged that the Noticee has given access of proprietary terminals to entities who were not employees of the Noticee. Therefore, it is alleged that the Noticee has violated the provisions of Clause 2 and 6 of NSE Circular dated August 29, 2002, Para 4 of NSE Circular dated September 25, 2002, Clause b. of “Trading terminals” and Clause a. and b. of “Trading Member” of “Applicable Observances” of NSE Circular dated April 13, 2017 and Para 3 of NSE Circular dated May 22, 2023 read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations during the IP.*

7.4. Payment of incentives to the client in cash:

- *It was observed from IR that one of the clients of the Noticee, Mr. Ramesh Saraogi, has received incentives from the Noticee in cash for supervising, advising and trading in proprietary terminals.*
- *It was observed that the aforesaid finding was communicated to the Noticee by SEBI vide letter dated December 20, 2023. The Noticee vide e-mail dated January 09, 2024 had, inter alia, stated as under in respect of the aforesaid finding in the IR:*
“We deny the observations & we would like to state that we have not given any incentives in cash to Mr. Ramesh Saraogi and no evidence thereof has been provided with the SCN except for the statement which is denied by Mr. Ramesh Saragoi himself in his affidavit.”
- *In this regard, it was observed from PIA that the statement made by Mr. Ramesh Saraogi and submitted by the Noticee, contradicts his previous submissions. It is alleged that it appears to be an afterthought in response to the inspection observations. It is alleged that while Mr. Ramesh Saraogi had accepted the non-compliances during the course of inspection, he might have subsequently chosen to deny the facts thinking that he had, knowingly or unknowingly, played a role in the scheme deployed by the Noticee to bypass the collection of margins separately from clients and therefore, he may also attract penal action. Hence, it is alleged*

that the statement subsequently made by him and submitted by the Noticee, contradicting his earlier submission made during the course of inspection cannot be accepted.

- In view of the above, it is alleged that the Noticee has violated the provisions of Clause 3 of SEBI Circular dated July 12, 2018 read with Clause 27.2 of SEBI Circular dated May 17, 2023 during the IP.*

7.5. Improper supervision of branch:

- It was observed from IR that the branch office of the Noticee at Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai – 410 210, where the proprietary terminals of the Noticee were located was managed by one of the clients of the Noticee, Mr. Ramesh Saraogi.*
- It was observed that the aforesaid finding was communicated to the Noticee by SEBI vide letter dated December 20, 2023. The Noticee vide e-mail dated January 09, 2024 had, inter alia, stated as under in respect of the aforesaid finding in the IR:
“It is incorrect that Mr. Ramesh Saragoi was managing the branch office. The dealers are connected to the central risk management system of our company and the risk is managed from head office. Only the premises where the dealers were stationed belongs to Navratri Share Trading Pvt. Ltd. where he is a director. Mr. Ramesh Saragoi has denied managing our dealers in his affidavit.”*
- In this regard, it was observed from PIA that the statement made by Mr. Ramesh Saraogi and submitted by the Noticee, contradicts his previous submissions. It is alleged that it seems to be an afterthought in response to the inspection observations. It is alleged that while Mr. Ramesh Saraogi had accepted the non-compliances during the course of inspection, he might have subsequently chosen to deny the facts thinking that he had, knowingly or unknowingly, played a role in*

the scheme deployed by the Noticee to bypass the collection of margins separately from clients and therefore, he may also attract penal action. Hence, it is alleged that the statement subsequently made by him and submitted by the Noticee, contradicting his earlier submission made during the course of inspection cannot be accepted.

- In view of the above, it is alleged that the Noticee has violated the provisions of Clause 6 of NSE Circular dated August 29, 2002 read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations during the IP.*

7.6. Pre-order confirmations not kept by the Noticee:

- It was observed from IR that the pre order confirmations for trades placed in the month of October 2023 by the Noticee for the client Navratri Share Trading Private Limited were sought by the inspection team during their visit to the branch offices of the Noticee. However, the same was not provided to the inspection team.*
- It was observed that the aforesaid finding was communicated to the Noticee by SEBI vide letter dated December 20, 2023. The Noticee vide e-mail dated January 09, 2024 had, inter alia, stated as under in respect of the aforesaid finding in the IR:
“We would like to state that client Navratri Share Trading Pvt Ltd. is a corporate body & one of the director Mr. Ramesh Saraogi carries out the trades using ODIN Diet internet trading terminal from the said office and hence evidence of order instruction is not required. Further at times the trades are executed by the authorised dealers under their instruction in the presence of Mr. Ramesh Saragoi and hence recording is not required.”*
- In this regard, it was alleged in the PIA that the Noticee has not maintained pre order confirmation.*

- *In view of the above, it is alleged that the Noticee has violated the provisions of Clause III and IV of SEBI Circular dated March 22, 2018.”*

8. The SCN dated June 07, 2024, along with annexures was served upon the Noticee in the following manner as mentioned below:

Table 2

Sr. No.	Mode of Delivery of SCN	Addresses/ E-mail IDs¹	Remarks
1.	Through E-mail	<u>co*****@arhamshare.com;</u> <u>me*****@ymail.com</u>	Delivered on June 07, 2024. The Noticee vide e-mail dated June 11, 2024, acknowledged the receipt of the SCN sent through e-mail.
2.	Through Speed Post with Acknowledgment Due	416-417..... <i>Gandhinagar</i> – 382 355 <i>U-8.....Surat</i> – 395 001	Delivered on June 13, 2024, as per the consignment tracking on India Post. Delivered on June 13, 2024, as per the consignment tracking on India Post.

9. The Noticee, vide e-mail dated June 25, 2024, requested an additional 15 days to submit its reply to the SCN. In the interest of natural justice, the request of the Noticee to grant additional time to submit its reply to the SCN was considered, and vide e-mail dated June 26, 2024, the Noticee was advised to submit its reply to the SCN, if any, latest by July 12, 2024. The Noticee, vide e-mail dated July 10, 2024, submitted that

¹ E-mail ID and address excised for the sake of confidentiality.

they are opting for settlement under the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 (hereinafter referred to as “**Settlement Regulations**”). It is noted that until July 15, 2024, the Noticee had not submitted its reply on merits against the SCN. Therefore, in the interest of natural justice, an opportunity of hearing was granted to the Noticee on July 23, 2024, at 03:30 P.M., vide hearing notice dated July 15, 2024. The Noticee was also advised to submit its reply, if any, latest by July 22, 2024. The Noticee, vide e-mail dated July 22, 2024, had submitted that they had filed the settlement application under the Settlement Regulations and requested to extend the date of filing response and the hearing. Considering the request of the Noticee, in the interest of natural justice, hearing scheduled on July 23, 2024 was rescheduled to August 13, 2024. The Noticee was also advised to submit its reply, if any, latest by August 09, 2024. The Noticee, vide e-mail dated August 13, 2024, had submitted its reply in response to the SCN, which are discussed in the subsequent paragraphs under different headings for ease of discussion.

10. On the scheduled date of the personal hearing, i.e., August 13, 2024, the Noticee appeared through its Authorized Representatives, viz. Mr. Ravi Ramaiya from Shah & Ramaiya, and Mr. Priyank Mehta, Director of the Noticee (hereinafter referred to as “**ARs**”), who reiterated the submissions made by the Noticee vide e-mail dated August 13, 2024. Further, ARs also requested for additional time to make further submissions in the matter that was acceded to, and the Noticee was advised to file its additional submissions, if any, latest by August 23, 2024. The Noticee, vide e-mail dated August 21, 2024, had submitted its additional submissions, which are discussed in the subsequent paragraphs under different headings for ease of discussion.

11. As mentioned in previous paragraphs, the Noticee had informed the undersigned about the filing of the settlement application vide e-mail dated July 22, 2024. Post culmination of the hearing on August 13, 2024, further action in the present

adjudication proceedings was kept in abeyance in light of the mandate of Regulation 8(1) of the Settlement Regulations.

12. It is noted from the material on record that the settlement application of the Noticee was rejected since the Noticee had failed to submit the revised settlement terms within the stipulated time frame. The undersigned was informed about the rejection of the settlement application of the Noticee on November 25, 2024.

13. Thereafter, in the interest of natural justice, vide e-mail dated November 25, 2024, the Noticee was advised that in case the Noticee desire to avail one more opportunity of hearing, it may inform the undersigned latest by November 29, 2024. However, no reply was received by the Noticee until November 29, 2024. Thereafter, vide e-mail dated December 03, 2024, the Noticee informed that it does not want to avail one more opportunity of hearing.

14. It is noted that the SCN, along with the annexures and the Hearing Notice, were duly served on the Noticee. The Noticee was granted sufficient opportunities to make submissions in reply to the SCN and of personal hearing.

D. CONSIDERATION OF ISSUES

15. I have carefully perused the charges levelled against the Noticee in the SCN, its replies, and the material/documents available on record. In the instant matter, the following issues arise for consideration and determination:

- I. Whether terminals were not available at the specified location and operated from unspecified/unapproved locations and thereby the Noticee violated provisions of securities law?**
- II. Whether trading terminals were operated by persons who were not the approved users and thereby the Noticee violated provisions of securities law?**

- III. Whether proprietary terminals were operated by non-employees and thereby the Noticee violated provisions of securities law?
- IV. Whether incentives were paid to the client in cash and thereby the Noticee violated provisions of securities law?
- V. Whether there were irregularities in the supervision of branch and thereby the Noticee violated provisions of securities law?
- VI. Whether pre-order confirmations were not kept by the Noticee and thereby the Noticee violated provisions of securities law?
- VII. Does the violation, if any, on the part of the Noticee attract a monetary penalty under Section 15HB of the SEBI Act?
- VIII. If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors stipulated in Section 15J of the SEBI Act?

16. Before proceeding further, it is pertinent to refer the relevant provisions of law, allegedly violated by the Noticee. The same are reproduced hereunder:

“Brokers Regulations

Conditions of registration.

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

conditions, namely, -

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

applicable to him;

SCHEDULE II

A. General.

(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 Circular dated July 12, 2018

3. In view of the various modes of payment through electronic means available today, it is directed that Stock Brokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of stock broker. Accordingly, paragraph 3 of the SEBI circular dated August 27, 2003 is modified as under:

All payments shall be received / made by the stock brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through electronic fund transfer, or any other mode permitted by the Reserve Bank of India. The stock brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions. Stock Brokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of stock broker.

SEBI Circular dated May 17, 2023

27. Mode of payment and delivery

27.2 All payments shall be received / made by the stock brokers from / to the clients strictly by account payee crossed cheques/ demand drafts or by way of direct credit into the bank account through electronic fund transfer, or any other mode permitted by the Reserve Bank of India. The stock brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions. Stock Brokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of stock broker.

SEBI Circular dated March 22, 2018

III. To further strengthen regulatory provisions against un-authorized trades and also to harmonise the requirements across markets, it has now been decided that all brokers shall execute trades of clients only after keeping evidence of the client placing such order, which could be, inter alia, in the form of:

- a. Physical record written & signed by client,*
- b. Telephone recording,*
- c. Email from authorized email id,*
- d. Log for internet transactions,*
- e. Record of messages through mobile phones,*
- f. Any other legally verifiable record.*

When a dispute arises, the broker shall produce the above mentioned records for the disputed trades. However for exceptional cases such as technical failure etc. where broker fails to produce order placing evidences, the broker shall justify with reasons for the same and depending upon merit of the same, other appropriate evidences like post trade confirmation by client, receipt/payment of funds/securities by client in respect of disputed trade, etc. shall also be considered.

IV. Further, wherever the order instructions are received from clients through the telephone, the stock broker shall mandatorily use telephone recording system to record the instructions and maintain telephone recordings as part of its records.

NSE Circular dated August 29, 2002

2. The persons who handle each CTCL terminal of the Trading Member are known as Approved Persons (refer to para (c) of the CTCL agreement). Necessary prior approval of the Exchange is required to be obtained before any CTCL terminal is entrusted to an Approved Person (refer point 1 of the CTCL agreement) failing which it shall be treated as a violation.

3. CTCL terminals need to be located only in the office of the Trading Member or in the office of their registered sub-brokers.

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

NSE Circular dated September 25, 2002

Henceforth, prior to allotment of any CTCL terminal by a Trading Member to an 'Approved Person' or the withdrawal of any existing CTCL terminal / 'Approved Person' status by a Trading Member shall be communicated to the Exchange in the same file format. Simultaneously, application in the physical format as prescribed in circular no. 282 should also be submitted.

NSE Circular dated April 13, 2017

Applicable Observances

Trading terminals

a) Location: The location of the trading terminal is required to be only in the main/branch offices or in the office of the registered Sub-broker (only in CM segment) / approved Authorised Person (CM / FNO / CD Segment) of the trading member or at the co-location facility provided by the Exchange or at the Third party data centres/service providers site. However, internet trading terminal used by the clients for sourcing information or order placing may be located at the premises of the clients. No bills / contract notes etc. should be issued by such clients from their premises. For this purpose, a client is a person who buys and sells securities on his own account.

Note:

- Co-location facility can be used only for DMA, Algo and Smart Order Routing.
- Third party data centre/ service provider site can host Trading/ Internet/ CTCL server of the member.

b) Control: The trading terminals are required to be under the direct control of the trading member and be managed either by an authorized employee or by a registered Sub-broker / approved Authorised Person of the trading member.

Trading Member:

a) Responsibility:

The trading member would be fully responsible for all orders put through and all deals done through the trading terminal, whether contract notes or purchase/sale notes issued or not and for all acts of commission and/or omission. If the trading terminal is located in the branch office of the trading member, then the branch office shall be managed and supervised by the trading member's own employee or by a registered Sub-broker / approved Authorised Person.

b) Dealings:

No trading member shall deal through any unregistered intermediary, Further, trading members shall entrust CTCL terminals only to Approved person and not to any unregistered intermediary or clients. For this purpose, the persons who handle each CTCL terminal of the Trading Member are known as Approved Persons. Approved Person may be an employee of the Trading Member, a registered Sub-broker, an Approved User or an Authorised Person who has been approved by the Exchange. In case the unregistered intermediary is allowed to trade / deal by any trading member, such trading member shall be fully responsible for all the sale and/or purchase contracts, whether contract notes or (purchase / sale notes) issued or not, and for all the acts of commission and/or omission. Further, such trading members shall render themselves liable for non-compliance in terms of fines, penalty and/or other disciplinary action as may be deemed necessary by the relevant authority.

d) Penal/ Disciplinary Action:

i. If any terminal is found located at a place other than what is declared to the Exchange, penalty shall be levied in accordance to the Exchange Circular issued by

Inspection department from time to time. Moreover, it is re-iterated that the trading members shall continue to be responsible for all obligations arising out of their terminals.

ii. No CTCL terminal(s) shall be allotted by trading member without prior approval of the Exchange and use of terminal(s) shall be treated as Unauthorised and in violation of the requirements. Such trading members shall be liable for disciplinary action as may be deemed fit including withdrawal of the User Id that is granted to the CTCL server from which the Trading Member has extended the CTCL trading facility to such locations, without notice and / or reference, or withdrawal of trading rights entirely.”

17. Issue I - Whether terminals were not available at the specified location and operated from unspecified/unapproved locations and thereby the Noticee violated provisions of securities law?

17.1. I note that it was alleged in the SCN that two proprietary terminals (1 CM terminal and 1 F&O terminal with CTCL ID 410210001416) were not operated from the location reported to the Stock Exchanges by the Noticee but from a different location.

17.2. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

“8. We humbly submit that our terminal 410210001416 was operated from the address Flat No 1202, 12th Floor, Melody Kesar Harmony, Sec-06, Kharghar, Navi Mumbai- 410210. However a few months back we had carried out consolidation of our offices and therefore we shifted the said terminal to Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai, Mumbai- 410210 where other terminals were already operative. However the team at Head Office inadvertently missed out on updating the change in address on NSE Portal.

9. It may be noted that the SCN records that these are 2 terminals one for CM and another for F&O segment, but the fact remains that it is a single terminal where both CM and F&O segments were active.

10. Without prejudice to the forgoing, the requirement of terminal address was put in place to allow the clients to know the location from which trades are executed. The Brokers are also required to mention the dealing office address on the contract note. However the terminal 410210001416 was only used for proprietary trading and therefore it did not materially affect whether it was operated from one Branch or another Branch which are about 3 kms away from one another.

Further upon understanding our mistake we deactivated the terminal from November 4, 2023 and the details of the terminal downloaded from with the NSE portal is annexed herewith and marked as Exhibit 2.

It may kindly be appreciated that the location 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai, Mumbai-410210" was already registered as our office in the records of the Exchange where other terminals were being operated even before this terminal was shifted on account of consolidation and a screenshot of other terminal reported prior to the inspection at this address is annexed herewith and marked as Exhibit 3."

17.3. In this regard, I note that the findings of the inspection, i.e., terminal with CTCL ID 410210001416 was not operated from the location reported to the Stock Exchanges by the Noticee but from a different location, has not been disputed by the Noticee. The Noticee, in its replies, submitted that it has taken corrective measures in this regard by deactivating the terminal from the old address. The Noticee has also enclosed a copy of screenshot from NSE portal reflecting that terminal was deactivated from the old address. However, the Noticee, in its replies, has not submitted whether new address from where terminal with CTCL ID 410210001416 was operated during inspection was reported to the Stock Exchanges or not.

17.4. The Noticee in its replies further submitted that the terminal with CTCL ID 410210001416 was only used for proprietary trading and therefore, it did not materially affect whether it was operated from one branch or another branch. In this regard, I note that the violation of law as alleged in the present case has not granted

any specific exemption for terminals used for proprietary trading. Hence, the submission of the Noticee in this regard is devoid of merit.

17.5. The Noticee in its replies has further submitted that that the new address, i.e., Flat No. 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai – 410 210 from where the terminals with CTCL ID 410210001416 was operating during inspection was already registered as their office in the records of Exchange as other terminals were operated from that location. The Noticee had also enclosed the copy of screenshot from NSE portal reflecting other terminals which were reported at new address. In this regard, I would like to refer to the provisions of NSE Circular dated April 13, 2017 which, *inter alia*, states as under:

“If any terminal is found located at a place other than what is declared to the Exchange, penalty shall be levied in accordance to the Exchange Circular issued by Inspection department from time to time.”

17.6. In view of the above, it is noted that operating terminals with CTCL ID 410210001416 from the new location, i.e., Flat No. 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai – 410 210 which were reported to the exchanges for other terminals did not absolve the responsibility of the Noticee to mark the correct location for the terminals with CTCL ID 410210001416 while reporting to the exchanges. Hence, the submissions of the Noticee in this regard cannot be accepted.

17.7. In view of the above, I conclude that the Noticee has violated the provisions of Clause 3 of NSE Circular dated August 29, 2002, Para 4 of NSE Circular dated September 25, 2002, and Clause a. of “Trading Terminals” and Clause d. of “Trading Member” of “Applicable Observances” of NSE Circular dated April 13, 2017, read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations.

18. Issue II - Whether trading terminals were operated by persons who were not the approved users and thereby the Noticee violated provisions of securities law?

18.1. It was alleged in the SCN that the following terminals were not operated by approved users:

Table 3

Sr. No.	Terminal ID	Terminal	Location of the terminal	Approved User as per Exchange records	Person(s) actually using the terminal
1	395002012332	CM-1 FO-1	605, 6th Floor, Century Business Center, Ring Road, Surat – 395 002	Sureshkumar Amrutlal Sheth	Harsh Kamleshbhai Vora
2	410210001416	CM-1 FO-1	Flat No 403, Deu Bonanza Paradise,	Sweta Vinod Vyas	Hemang Shah, Raghav Kedia and Vinod Vyas
3	410210001013	CM-1 FO-1	Sector 35H, Kharghar, Navi Mumbai – 410 210	Mahesh Kumar Sharma	Raghav Kedia
4	410210001012	CM-1 FO-1		Vinod Kumar Vyas	Hemang Shah

18.2. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:

“a. With regards to 395002012332 we submit and reiterate as under:

- Mr. Harsh Vora joined us on July 15, 2023.*
- He was appointed as a dealer by us.*
- He had a valid NISM certificate much before the date of inspection*
- He was trained under Mr. Suresh Sheth who is a senior dealer.*
- Mr. Harsh was allotted terminal 395002012331 basis his NISM certificate from August 10, 2023 to August 18, 2023 after the said terminal was allotted to Mr. Prakash Mansukhlal Sanghavi. Copy of NISM certificate is annexed herewith and marked as Exhibit 5.*

- *The point to be appreciated here is that Mr. Harsh possessed valid certification for operation of a terminal.*
- *The earlier response where we mentioned that Mr. Harsh was operating terminal 395002012331 was only basis his past operations, though as on the date of inspection the terminal was allotted to and used by Mr. Prakash Mansukhlal Sanghavi. The primary reason was to substantiate that he possessed all the necessary qualifications to become a dealer.*
- *On October 19, 2023, Mr. Suresh Sheth was absent.*
- *However positions were open on his terminal and were required to be managed. Therefore solely to manage the positions, Mr. Harsh Vora was allowed to operate the terminal.*
- *From the above it can be observed that Mr. Harsh Vora had the necessary qualification to operate the terminal and operated the terminal in case of a contingency and there is no non-compliance as such.*

b. Further the terminals 410210001416, 410210001012 and 410210001013 were not logged in on October 19, 2023 i.e. the day of inspection and the allegation is merely based on the oral statements which of Hemang Shah, Raghav Kedia and Ramesh Saraogi which has been denied by way of an Affidavit as aforesaid. A certificate from the vendor that the terminal was not put to use on the said date is annexed herewith and marked as Exhibit 6.

c. With regards to the terminal 410210001013 allotted to Mr. Mahesh Kumar Sharma we had deactivated the terminal with effect from November 3, 2023 and the evidence thereof is annexed herewith and marked as Exhibit 7. Further we submit that the dealers at that office did not inform of the incident of Mr. Mahesh being jailed etc. We have reprimanded the dealers at the office to refrain from such a practice in future.”

18.3. In this regard, I note that in respect of Terminal ID 395002012332, the Noticee has admitted that on the date of inspection, i.e., December 19, 2024, Mr. Harsh Vora had

operated the terminal who was not an approved user for this terminal. The Noticee submitted that since Mr. Sureshkumar Sheth who was the approved user for this terminal was absent on that day, Mr. Harsh Vora had operated the terminal to manage the positions. However, the Noticee has not adduced any supporting documents/evidence to substantiate the exigency as claimed by the Noticee. The Noticee further submitted that Mr. Harsh Vora had necessary NISM certifications to operate the terminal and earlier Mr. Harsh Vora had operated the Terminal ID: 395002012331 during the period from August 10, 2023 to August 18, 2023. In this regard, from the material on record, I note that as on date of inspection, i.e., December 19, 2024, terminal with CTCL ID 395002012331 was assigned to Mr. Prakash Mansukhlal Sanghavi and not to Mr. Harsh Vora. Further, the Noticee has not submitted any document to show whether Mr. Harsh Vora was even an approved user for any of the terminals as on the date of inspection. In this context, I would like to refer to the provisions of Clause 2 of the NSE Circular dated August 29, 2002 which, *inter alia*, states as under:

“2. The persons who handle each CTCL terminal of the Trading Member are known as Approved Persons (refer to para (c) of the CTCL agreement). Necessary prior approval of the Exchange is required to be obtained before any CTCL terminal is entrusted to an Approved Person (refer point 1 of the CTCL agreement) failing which it shall be treated as a violation.”

18.4. In view of the above, it is noted that the NSE Circular has specifically mandated that CTCL terminal has to be entrusted only to the approved person, for whom, prior approval has been obtained from the exchange. The issue here is about whether the person who operated the terminal had prior approval of the exchange to operate that terminal. Whether the person who operated the specific terminal had the necessary qualifications or not is not an issue in the present proceeding. Hence, the submission of the Noticee in respect of terminal with CTCL ID 395002012332 is not relevant.

18.5. In respect of Terminal IDs 410210001416, 410210001012, and 410210001013, the Noticee submitted that these terminals were not logged in on the date of inspection, i.e., October 19, 2023. The Noticee has also submitted “confirmation letter” received from their vendor 63 Moons Technologies Limited stating that CTCL users were not logged into the CTCL system on October 19, 2023, and October 20, 2023, from these three terminals. However, from the confirmation letter of 63 moons technologies limited as submitted by the Noticee, I note that prior to October 19, 2023, terminal with CTCL ID 410210001416 was last logged in, on October 17, 2023, and terminals with CTCL IDs 410210001012, and 410210001013 were last logged in, on October 18, 2023. Hence, these terminals were in operation prior to October 19, 2023. Further, from the material on record, it is noted that Mr. Ramesh Saraogi, Mr. Hemang Shah, and Mr. Raghav Kedia, who were present at the time of inspection, *inter alia*, submitted as under in respect of these three terminals:

Table 4

Sr. No.	Login ID	CTCL ID	Name of the Approved user	Segment	Type	Remark
1	ASC013	410210001013	Mahesh Kumar Sharma	CM FO	Client	He is not available in office as he is in jail for Matrimonial case. He has not visited office since last 1.5 months and has asked not to contact him. This Terminal is used by Raghav Kedia to trade in name of client Navratri Share Trading Pvt. Ltd.
2	ASC630	410210001630	Hemang Shah	CM FO	Prop	He is working in office since Aug 2023

Sr. No.	Login ID	CTCL ID	Name of the Approved user	Segment	Type	Remark
3	ASC012	410210001012	Vinod Kumar Vyas	CM FO	Prop	He is absent since last 6 days due to his father death. His terminal is used by Hemang Shah in the absence of Vinod Vyas.
4	ASC416	410210001416	Sweta Vinod Vyas	CM FO	Prop	She has not traded from this terminal. Hemang Shah, Raghav Kedia or Vinod Vyas whoever is available at office trades in this terminal.

18.6. In this regard, the Noticee in its replies, *inter alia*, submitted as under:

“The primary basis of the allegation is the letter taken by inspecting officials on October 19, 2023 from Mr. Ramesh Sawalram Saragoi, Mr. Hemang Shah and Mr. Raghav Kedia, a copy of which is annexed as Annexure 6 to the SCN.

We got the access to the statement only after the same was forwarded with the letter of observation from SEBI dated December 20, 2023.

We immediately countered these persons and they explained to us as under:

a. The inspection started at 12 Noon and continued till 8:30 at night

b. It was very stressful and strenuous for them as the persons available at the office had never experienced such a surprise inspection.

c. The officials were very strict and so to say even harsh and therefore the team signed the statement as it is without much detailed reading or application of mind.

d. The signatures were obtained in a panic situation.

We once again attach the affidavits of Hemang Shah, Raghav Kedia and Ramesh Saraogi as Exhibit 4 where it is clear that they are denying the content of the statement signed by them along with reasons.

With regards to the terminal 410210001013 allotted to Mr. Mahesh Kumar Sharma we had deactivated the terminal with effect from November 3, 2023 and the evidence thereof is annexed herewith and marked as Exhibit 7. Further we submit that the dealers at that office did not inform of the incident of Mr. Mahesh being jailed etc. We have reprimanded the dealers at the office to refrain from such a practice in future.”

18.7. In this regard, it is noted that the common statement made by Hemang Shah, Raghav Kedia and Ramesh Saraogi during the inspection on October 19, 2023, have been retracted by them by filing an affidavit dated January 01, 2024. From the perusal of the affidavit, it is noted that they have claimed that during the recording of their statement, they were afraid, under severe tension, and did not read the statement. In this regard, it is noted that the common statement of Hemang Shah, Raghav Kedia and Ramesh Saraogi was recorded on October 19, 2023. However, they have retracted their statement only when the findings of the inspection were communicated to the Noticee vide letter dated December 20, 2023. It is further noted that in respect of Terminal ID 410210001013 (Approved user: Mahesh Kumar Sharma), the Noticee has submitted that the incident of Mahesh Sharma being jailed was not informed to the Noticee by its dealers. Hence, the Noticee doesn't seem to be even aware of who was operating the terminal. The Noticee in its replies remained silent regarding the person who was operating from the Terminal ID 410210001013 in the absence of Mahesh Sharma. Similarly, no explanation has been given by the Noticee in respect of operation of Terminal IDs 410210001416 and 410210001012 by unapproved user as submitted by Hemang Shah, Raghav Kedia and Ramesh Saraogi during in their statement dated October 19, 2023.

18.8. In view of the above, it is noted that no cogent evidence has been brought on record either by Mr. Hemang Shah, Raghav Kedia and Ramesh Saraogi or by the Noticee so as to indicate any factual inaccuracy in the original statement recorded during the inspection. In this regard, I would like to refer to the Judgment of Hon'ble Supreme Court in the matter of **Avadh Kishore Das vs Ram Gopal And Ors²**, wherein Hon'ble Supreme Court, *inter alia*, states as under:

*"It is true that evidentiary admissions are not conclusive proof of the facts admitted and may be explained or shown to be wrong, but they do raise an estoppel and **shift the burden of proof on to the person making them or his representative-in-interest. Unless shown or explained to be wrong, they are an efficacious proof of the facts admitted.**"* (Emphasis supplied)

18.9. In view of the above, it is noted that retraction from any previous statement given before any authority should be supported by evidence to suggest that the statement which was recorded earlier was factually incorrect. Hence, the attempt made by Hemang Shah, Raghav Kedia and Ramesh Saraogi to retract from their original statement without any supporting evidence and that too only when the findings of the inspection was communicated to the Noticee seems to be an afterthought.

18.10. The Noticee in its replies, *inter alia*, further submitted as under:

"Clause 2 requires prior approval to operate a CTCL terminal and in the current case the user Mr. Hemang Shah had necessary approval, extract of which from NSE ENIT portal is annexed herewith as Exhibit 8. Hence clause 2 is not violated as alleged or at all.

Clause 6 directs that terminals should not be allotted to unregistered intermediaries or clients and in the current case the records itself substantiate that the terminal was operated by a registered user. Hence clause 6 is not violated as alleged or at all."

² AIR 1979 SC 861

18.11. In this regard, from the perusal of exhibit 8 as submitted by the Noticee, it is noted that Mr. Hemang Shah was the approved user for the Terminal ID 410210001630 and not the terminal IDs aforementioned in Table 4. Hence, the submission of the Noticee in this regard is devoid of merit.

18.12. The Noticee in its replies, *inter alia*, further submitted as under:

“Para 4 of NSE Circular dated September 25, 2002 quotes "Henceforth, prior to allotment of any CTCL terminal by a Trading Member to an 'Approved Person' or the withdrawal of any existing CTCL terminal / 'Approved Person' status by a Trading Member shall be communicated to the Exchange in the same file format. Simultaneously, application in the physical format as prescribed in circular no. 282 should also be submitted.

In the current case the terminal is neither allotted nor withdrawn and hence the clause is not applicable to the current case”

18.13. As discussed in preceding paragraphs, it is noted that the terminals with CTCL IDs were in operation and were operated by persons who were not approved by the exchange for those terminals. Hence, the violation of para 4 of NSE Circular dated September 25, 2002 stands established.

18.14. In view of the discussions in the preceding paragraphs, I note that no justifiable reason has been brought on record by the Noticee with regard to the violations alleged in the SCN. Hence, I conclude that the Noticee has violated the provisions of Clause 2 and 6 of NSE Circular dated August 29, 2002 and Para 4 of NSE Circular dated September 25, 2002 read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations.

19. **Issue III - Whether proprietary terminals were operated by non-employees and thereby the Noticee violated provisions of securities law?**

19.1. It was alleged in the SCN that the Noticee has given access of proprietary terminals to entities including clients, who were not employees, for bypassing the collection of margins separately from clients.

19.2. The aforementioned allegation was made based on the following observations:

19.2.1. The Noticee has collected deposits from proprietary terminal dealers which were placed with CC/CM as FD/Cash to fulfill margin requirement. Further, the Noticee has not returned the deposits of five proprietary dealers who have left.

19.2.2. The Noticee did not issue appointment letters or salary slips on a monthly basis to these proprietary terminal dealers.

19.2.3. One of the premises in which the terminals were located (Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai, Mumbai-410210) was neither in the name of the Noticee nor taken on lease by the Noticee. The said location was taken on lease by an entity named Navratri Share Trading Private Limited, which is a client of the Noticee.

19.2.4. Three persons operating the terminals at Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai, Mumbai-410210, viz. Mr. Hemang Shah, Ms. Sweta Vyas, and Mr. Vinod Vyas were stated to be taken on roll of the Noticee only from September 01, 2023 and there were no appointment letters issued to them. Even presuming that they were appointed from September 01, 2023, it is a fact that these terminals were operated by Mr. Hemang Shah, Ms. Sweta Vyas, and Mr. Vinod Vyas even prior to September, 2023, indicating that the terminals were operated by non-employees. It was also observed that Shri. Ramesh Saraogi, client of the Noticee and director of another client, viz. Navratri

Share Trading Private Limited, used to pay salary to the terminal operators before September 01, 2023.

19.2.5. In respect of the terminal located at Vikas Center, 1402, 14th Floor, C G Rd, Chembur (E), Mumbai – 400 074 (Terminal ID - 400074001456), it was observed that the terminal operator, Mr. Aditya Chandrasekhar Iyer, was appointed as an employee of the Noticee only with effect from October 15, 2023. However, there was huge trading volume from this terminal even prior to October 15, 2023, indicating that the terminal was available in the same location and operated by non-employees or someone who was not an employee, as no evidence was adduced by Noticee to prove that the terminal was operated by an employee of the Noticee.

19.2.6. The Noticee has paid incentives to Shri. Ramesh Saraogi, one of its clients, for supervising, advising and trading in proprietary terminals located at Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai – 410 210.

19.2.7. Eight proprietary terminal dealers were not on payroll of the Noticee and the Noticee had collected a cumulative deposit of Rs. 44.24 Lakhs from them.

19.3. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated:
“.....prior to issuance of the Circular dated May 22, 2023 all circulars including the ones issued in 2002, 2013 and 2017 permitted the following users to operate the terminals:

- *an employee of the Trading Member*
- *a registered Sub-broker*
- *an Approved User or*
- *an Authorised Person*

We had categorised many of our dealers as "Approved Users" which was in full compliance with the requirements of NSE.

For the first time on May 22, 2023, NSE issued a circular where it proposed to discontinue the category of "Approved User" and mandated that the relationship can be only with employees of broker, Authorised Persons or employees of Authorised Persons and the deadline to update the details as per the circular was August 31, 2023.

Vide circular dated August 30, 2023 the deadline of August 31, 2023 was extended to October 31, 2023.

Our inspection was carried out on October 19, 2023 when the relationship of "Approved User" was still valid and no fault can be found with it.

It is submitted that though the exchange circular quotes the word "reiterated" it has not mentioned where it mentioned earlier that Approved User is not a valid relationship and therefore though the word "reiterated" is used, only vide its circular dated May 22, 2023, NSE for the first time mentioned that users can only be employees and therefore "Approved User" automatically got dropped. All earlier circulars clearly record "Approved User" as an accepted Relationship and the software of NSE also allowed it as a valid entry for terminal reporting.

We therefore submit that the requirement of terminal being exclusively operated by "EMPLOYEES" only came into effect from October 31, 2023 and was non-existent earlier.

Without prejudice to the forgoing, admittedly it is recorded that all the relationships had to be modified till August 31, 2023. We had therefore taken all the dealers on our pay-roll from September 1, 2023 and the same is recorded in our reply

(please refer clause d on page 12 of the SCN). Please find attached the Salary Slip for September 2023, October 2023 and Form 16 of all the dealers mentioned in the SCN as Exhibit 11, which substantiates that the relationship other than of employer and employee was discontinued and employer employee relationship was established from September 1, 2023.”

19.4. The Noticee in its replies submitted that the requirement of terminal being exclusively operated by employee came into effect only from October 31, 2023, since the NSE vide Circular dated May 22, 2023, for the first time mandated that the user operating the terminal can only be employees of broker, Authorised Persons or employees of Authorised Persons and the deadline to update the details was extended until October 31, 2023. In this regard, it is noted that the NSE Circular dated May 22, 2023, *inter alia*, states as under:

“Exchange has in the recent past observed instances, that the terminals are being operated by users other than employees. In this regard, it is re-iterated that all trading terminals allotted by members, which are enabled/activated for trading shall be operated/accessed only through User Ids allotted to Approved Persons namely employees of trading member, partner/proprietor/director(s), registered authorized persons (AP) or employee of an AP. No other person shall operate or place orders from such trading terminals. Trading Members shall not entrust the CTCL/dealer terminals to their clients or to any unregistered intermediary other than Approved Persons.

Members are requested to ensure that all the user ids / CTCL ids are updated with correct relationships as mentioned above by August 31, 2023.”

19.5. Thereafter, the NSE vide Circular No. NSE/MSD/58166 dated August 30, 2023, *inter alia*, states as under:

“Vide aforesaid circular it was notified to update correct relationship for all user ids/ CTCL ids by August 31, 2023. The timeline to update the correct relationships for all the user ids / CTCL ids has been extended till October 30, 2023.”

19.6. In view of the above, it is noted that vide circular dated August 30, 2023, only the requirement to update correct relationship in the ENIT interface of NSE was extended until October 30, 2023, and no other mandate of the NSE Circular dated May 22, 2023, was extended. Hence, even if the submission of the Noticee was accepted that the requirement of terminal being exclusively operated by employee was mandated vide NSE Circular dated May 22, 2023, it was applicable since May 22, 2023, and not from October 30, 2023, as claimed by the Noticee. However, as submitted by the Noticee in its replies, it had taken all the dealers on their pay-roll only from September 1, 2023. Hence, the Noticee was not in compliant with the provisions of NSE Circular dated May 22, 2023. Further, to support its claim that all the dealers were taken on the payroll of the Noticee since September 01, 2023, the Noticee has provided a copy of Form 16 for the FY 2023-24, and salary slips for the month of September, 2023, and October, 2023, for only three dealers namely Harsh Vora, Hemang Shah, and Vinod Vyas. It is noted that neither the Form 16 nor the salary slips were digitally signed/authenticated. Moreover, any bank statement where salary paid to these dealers can be reflected had also not been submitted. Hence, even the claims of the Noticee that all the dealers were taken on payroll of the Noticee since September 01, 2023, have not been supported by any cogent evidence.

19.7. In view of the aforesaid discussions, the replies of the Noticee in this regard cannot be accepted.

19.8. In respect of the observation that one of the premises in which the terminals were located (Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai, Mumbai-410210) was neither in the name of the Noticee nor taken on lease by the Noticee but was leased by one of its client, Navratri Share Trading Private Limited, the Noticee, *inter alia*, states as under:

“We humbly submit that no law of SEBI or Exchange mandates that the premises where the terminals are located should be owned or leased by the Trading Member.

In fact the terminals were allotted at the location after due reporting to the Exchange and no document was ever asked by the Exchange regarding the ownership or lease of the premises.

It is therefore not within the purview of SEBI to come to any conclusion about our dealings basis the fact that the premises was not owned or leased by us.

Without prejudice to the forgoing, we humbly submit that our client Navratri Share Trading Private Limited had taken this premises on lease and allowed our dealers to operate from that location. This was done as while negotiating the terms with Navratri, we had offered them a brokerage rate of 0.05% (Delivery), 0.005%(Intraday and F&O) and the same was lower than many clients.”

19.9. In this regard, I would like to refer the provisions of NSE Circular dated April 13, 2017 which, *inter alia*, states as under:

“The location of the trading terminal is required to be only in the main/branch offices or in the office of the registered Sub-broker (only in CM segment) / approved Authorised Person (CM / FNO / CD Segment) of the trading member or at the co-location facility provided by the Exchange or at the Third party data centres/service providers site.”

19.10. In view of the above, it is noted that as per exchange circular, trading terminal is required to be only in the main/branch offices of the Noticee or in the office of the registered Sub-broker/approved Authorised Person. However, in the instant case, proprietary terminals of the Noticee were located in the premises which was taken on lease by its client who is neither a registered Sub-broker nor an approved Authorised Person as per available records. Moreover, the arrangement between the Noticee and its client, Navratri Share Trading Private Limited, as claimed by the Noticee has not been supported by any documentary evidence. Hence, the submissions of the Noticee in this regard cannot be accepted.

19.11. Moreover, the issue is not about lease/ownership. The NSE Circular clearly specifies where the trading terminals are required to be located. Therefore, it is well within the purview of SEBI of see whether the location of terminals is as per prescribed norms or not. The Noticee challenging the jurisdiction of SEBI cannot absolve its responsibilities. It is very evident that the terminal was being operated in a premises which was not the office of the Noticee or its sub-broker/Authorised person as mandated in the NSE Circular.

19.12. In respect of the observation that the Noticee has collected the deposits from proprietary terminal dealers which were placed with CC/CM to fulfill margin requirement and the deposits of five proprietary dealers who have left was not returned, the Noticee, in its replies has, *inter alia*, stated that:

“Proprietary Trading is a complex business and requires the dealers to execute trades strictly in line with the strategies and the risk management framework of the Trading Member.

To prevent such kind of a situation and to ensure that all the dealers work as per the strategy of the broker, the broker take deposits from the dealers.

Clause 6.3.4.2 regarding not returning deposits to 5 dealers:

a. The evidence of having returned the deposit of Mr. Gada Shantilal is annexed herewith and marked as Exhibit 9.

b. With regards the 4 other instances it is reiterated that in case of Mr. Chirag Damani and Mr. Tejas Vora, they had discontinued offering services to us without completing formalities and therefore the deposits were not returned to them at the relevant time. Further with regards to the pending amounts of Brijesh Jayendra Shah and Mr. Krunal Shah, the amounts were on hold due to pending discussion on performance. Above all after the resolution of the issues, we have released the amounts to the employees and screenshots from the bank website are annexed herewith and marked as Exhibit 10.”

19.13. In this regard, it is noted that the Noticee in its replies submitted that the deposits of five dealers was returned to them. The Noticee has enclosed the screenshot of bank statement reflecting the payment made to these dealers. However, any acknowledgement of final settlement from these five dealers was not submitted along with the replies. Further, the Noticee in its replies claimed that they have taken the deposits from their dealers to ensure that they execute trades in line with the strategies of the Noticee. However, the Noticee has not submitted any supporting document to substantiate its claims. Hence, the submission of the Noticee in this regard cannot be accepted.

19.14. It is pertinent to note that SEBI Circular dated July 20, 2020 has mandated stock brokers to collect upfront margin from clients. Prior to this Circular, margin reporting was happening only on EOD basis, due to which brokerage firms allowed their customers to take intraday positions with margins far lesser than requirement. From the material on record, it is noted that post implementation of SEBI Circular dated July 20, 2020 which came into effect from December 01, 2020, number of proprietary terminals and proprietary turnover of the Noticee have increased 2.78 times (from 472 as on March 31, 2020 to 1,313 as on October 30, 2023) and 4.18 times (from Rs. 28,691.23 Crores in 2019-20 to Rs.1,20,002.84 Crores in 2022-23) respectively. Deposits, so taken from the proprietary dealers have also increased 16.66 times (from Rs.1.71 Crores as on March 31, 2020 to Rs. 28.50 Crores as on October 20, 2023). The Noticee has not disputed these facts in its replies. Hence, considering the huge rise in the proprietary trades of the Noticee and that too after the implementation of SEBI Circular dated July 20, 2020 coupled with the observations aforementioned in Para 19.2., it can be concluded that the Noticee has given access of proprietary terminals to entities including clients, who were not employees, for bypassing the collection of margins separately from clients and thereby, violated the provisions of Clauses 2 and 6 of NSE Circular dated August 29, 2002, Para 4 of NSE Circular dated September 25, 2002, Clause b. of "Trading terminals" and Clauses a. and b. of "Trading Member" of "Applicable Observances" of NSE Circular dated April 13, 2017

and Para 3 of NSE Circular dated May 22, 2023 read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations.

20. **Issue IV - Whether incentives were paid to the client in cash and thereby the Noticee violated provisions of securities law?**

20.1. It was noted that during the inspection, common statement of Hemang Shah, Raghav Kedia, and Ramesh Saraogi was recorded on October 19, 2023, wherein they have, *inter alia*, stated that, “.....incentives is paid in cash by member Arham Share Pvt Ltd to Ramesh Saraogi for supervising, advising and trading in proprietary terminal”. Hence, it was alleged in the SCN that one of the clients of the Noticee, Mr. Ramesh Saraogi, has received incentives from the Noticee in cash for supervising, advising and trading in proprietary terminals.

20.2. In response to the above allegations, the Noticee in its replies has, *inter alia*, stated: “At the outset we deny having paid any cash incentive to Mr. Ramesh Saragoi as alleged or at all. Mr. Ramesh Saragoi has denied the statement given to the SEBI officials by way of an affidavit which is on records.”

20.3. In this regard, as discussed in paragraphs 18.8. to 18.9., it is noted that Hemang Shah, Raghav Kedia and Ramesh Saraogi retracted their original statement without any supporting evidence and that too only when the findings of the inspection was communicated to the Noticee. Hence, it seems to be an afterthought.

20.4. The Noticee in its replies has, *inter alia*, further stated as under:

“Without prejudice to the submission made hereinabove, it is submitted that the circular prohibits dealings in cash for securities market obligations and not for other general transactions, which is not in the purview of SEBI. It is alleged that incentive for managing dealers was paid in cash, so it is a management fee and not obligation of the client from securities transactions. Therefore assuming for a moment but not

accepting that the incentive was paid in cash as alleged, it is still not a violation of SEBI circulars as alleged or at all.”

20.5. In this regard, it is important to note the relationship between Ramesh Saraogi and the Noticee. From the materials available on record, it is noted that Mr. Ramesh Saraogi was one of the clients of the Noticee. This fact has also been admitted by the Noticee. Further, I would like to refer to the provisions of Clause 3 of SEBI Circular dated July 12, 2018 read with Clause 27.2 of SEBI Circular dated May 17, 2023 which, *inter alia*, states as under:

“All payments shall be received / made by the stock brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through electronic fund transfer, or any other mode permitted by the Reserve Bank of India. The stock brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions. Stock Brokers shall not accept cash from their clients either directly or by way of cash deposit to the bank account of stock broker.”

20.6. From the perusal of the aforementioned circulars, it is noted that the circulars specifically mention the manner in which all payments need to be done between broker and its clients. The circulars do not grant any exemption for any of the transaction as claimed by the Noticee. Hence, the submission of the Noticee in this regard cannot be accepted.

20.7. In view of the aforesaid discussion, I conclude that the Noticee has violated the provisions of Clause 3 of SEBI Circular dated July 12, 2018 read with Clause 27.2 of SEBI Circular dated May 17, 2023.

21. **Issue V - Whether there were irregularities in the supervision of branch and thereby the Noticee violated provisions of securities law?**

21.1. It was alleged in the SCN that the branch office of the Noticee at Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai – 410 210, where the proprietary terminals of the Noticee were located was managed by one of the clients of the Noticee, Mr. Ramesh Saraogi.

21.2. In response to the above allegations, the Noticee, in its replies has, *inter alia*, stated:

“The allegation is merely based on the statement of Mr. Ramesh Saragoi and no evidence thereof has been provided except for the statement.

Further vide his Affidavit Mr. Ramesh Saragoi has denied the content of his statement and the same is on records.

We humbly submit that Mr. Ramesh Saragoi is our client and has no other relationship with us.”

21.3. In this regard, as discussed in paragraphs 18.8. to 18.9., it is noted that Hemang Shah, Raghav Kedia and Ramesh Saraogi retracted their original statement without any supporting evidence and that too only when the findings of the inspection was communicated to the Noticee. Hence, it seems to be an afterthought and devoid of any merit.

21.4. The Noticee in its replies has, *inter alia*, further stated as under:

“The premises Flat no 403, Deu Bonanza Paradise, Sector 35H, Kharghar, Navi Mumbai - 410 210 was leased to our client Navratri Share Trading Pvt. Ltd. and our terminals were being operated from the said location.

Clause 6 of NSE Circular dated August 29, 2022 quotes "Trading Members shall not entrust the CTCL terminals to their clients or to any unregistered intermediary (refer points 1 and 5 of Circular 163) other than Approved Persons. Approved Person may

be an employee of the Trading Member, a registered sub-broker, an Approved User or an Authorised Person who has been approved by the Exchange.

Admittedly Mr. Ramesh Saragoi was not operating any terminal and there is no such charge in the SCN and therefore this clause does not apply”

21.5. In this regard, it is noted that during the inspection, common statement of Hemang Shah, Raghav Kedia, and Ramesh Saraogi was recorded on October 19, 2023, wherein they have, *inter alia*, stated that, “*All prop trades for Arham share Pvt Ltd are placed from this location under guidance from Member’s head office and sometimes on the advice of Mr. Ramesh Saraogi and incentives is paid in cash by member Arham Share Pvt Ltd to Ramesh Saraogi for supervising, advising and trading in proprietary terminal.*”

21.6. In view of the above, it is noted that Mr. Ramesh Saraogi was a client of the Noticee. Mr Ramesh Saraogi was also not an approved user for the proprietary terminals as submitted by the Noticee. However, the trades were executed under his guidance and he was also managing the branch in which the proprietary terminals of the Noticee were located which is in violation of Clause 6 of NSE Circular dated August 29, 2022. Hence, the submission of the Noticee in this regard cannot be accepted.

21.7. In view of the aforesaid discussions, I hereby conclude that the Noticee has violated the provisions of Clause 6 of NSE Circular dated August 29, 2002 read with Regulation 9(b) and Clause A(5) of Code of Conduct for Stock Brokers under Schedule II of the Brokers Regulations.

22. Issue VI - Whether pre-order confirmations were not kept by the Noticee and thereby the Noticee violated provisions of securities law?

22.1. It is noted that the pre order confirmations for trades placed in the month of October 2023 by the Noticee for the client Navratri Share Trading Private Limited were sought by the inspection team during their visit to the branch offices of the Noticee.

However, the same was not provided to the inspection team. Hence, it was alleged that the Noticee has not maintained pre order confirmation.

22.2. In response to the above allegations, the Noticee, in its replies has, *inter alia*, stated:

“Navratri Share Trading Pvt Ltd. has authorised Mr. Ramesh Saragoi, its director, to place orders and a internet trading terminal has been allotted to our client Navratri Share Trading Pvt Ltd. which is operated by Mr. Ramesh Saragoi.

As per the circular the voice recording logs are required for orders received over phone and not for orders received over internet.

For clients carrying out internet trading we are required to maintain order logs and a copy of the same is annexed herewith and marked as Exhibit 12. (The last column reflects the terminal code as 11111111111111 which stands for internet trading.)”

22.3. In this regard, it is noted that the Noticee in its replies claimed that the client Navratri Share Trading Private Limited placed order through internet trading terminal and therefore they are required to maintain order log. The Noticee has submitted the order log of the said client for October 19, 2023, and October 20, 2023 in the form of excel sheets. From the perusal of the excel sheets submitted by the Noticee, it is noted that there is no header for the data in the said excel sheets and hence the data in the said excel sheets cannot be conclusively interpreted. Moreover, the data captured in the said excel sheets are not authenticated. Hence, it is noted that the Noticee has not submitted any cogent evidence in support of its claims.

22.4. It is further noted that during the course of inspection, and also when the findings of the inspection were communicated to the Noticee, it had not submitted any log for internet transaction to the inspection team. In fact, in response to the findings of inspection, Noticee vide its e-mail dated January 09, 2024, informed the inspection team that since trades were carried out using ODIN Diet internet trading terminal, the evidence of order instruction is not required. Hence, at this juncture, submissions of the Noticee in this regard seems to be an afterthought.

22.5. In view of the above, I conclude that the Noticee has violated the provisions of Clauses III of SEBI Circular dated March 22, 2018.

22.6. As per Clause IV of the SEBI Circular dated March 22, 2018, if the order instructions are received from clients through the telephone, then the broker is required to record the instructions and maintain telephone recordings. In this case, it is not proved whether the client has given any instructions over telephone to the Noticee. Hence, the violation of Clause IV of SEBI Circular dated March 22, 2018, does not stand conclusively established.

Issue VII - Does the violation, if any, on the part of the Noticee attract a monetary penalty under Section 15HB of the SEBI Act?

23. As discussed in the preceding paragraphs, it has been established that the Noticee has violated the provisions of the law as alleged in the SCN except Clause IV of SEBI Circular dated March 22, 2018. Accordingly, the question that now arises for consideration is whether the Noticee is liable for payment of a monetary penalty in terms of Section 15HB of the SEBI Act.

24. The Noticee, in its replies has, *inter alia*, stated:

“.....even if a few still remain those are of technical and venial nature and have not caused any prejudice to the clients or markets at large. We are committed to complying with the law and request that the procedural lapses be seen in the context of our overall scale of operations handled and the various compliance measures adopted by us.”

25. In this regard, I note that the Noticee, in its replies, has also placed reliance on the orders of the Hon'ble SAT in the matter of Chona Financial Services Pvt. Ltd. vs. SEBI (Appeal No. 95 of 2003), Religare Securities Ltd. vs. SEBI (Appeal No. 23 of 2011), UPSE Securities Ltd. vs. SEBI (Appeal No. 109 of 2011), and also the SEBI order passed in the matter of Indiabulls Mutual Fund.

26. In this regard, it is noted that in the present case, violations established against the Noticee, *inter alia*, includes granting access of proprietary terminals to entities including clients, who were not employees, for bypassing the collection of margins separately from clients. Margin requirements are mandated to reduce systemic risk. Bypassing margin requirement breaches these mandate. It also obscures the true identity and intentions of the trading party, which is critical for market surveillance. Hence, it is a serious lapse by the Noticee and cannot be dismissed as a casual aberration. In this context, I would like to take note of the order of the Hon'ble SAT in the matter of ***Religare Securities Ltd. vs. SEBI (Appeal No. 23 of 2011)***, which has been referred to by the Noticee in its replies. The relevant extract of the said order is reproduced below:

"... This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent..."

27. I further note that the judgment and orders relied on by the Noticee emanate from different factual matrix and hence, cannot be applied to facts of the present matter. Moreover, the Noticee has also not been able to demonstrate as to how the cited orders were applicable in the instant matter. Therefore, the reliance by the Noticee on the aforementioned cases is misplaced.

28. In view of the aforesaid discussions, it is established that the Noticee is liable for payment of a monetary penalty in terms of Section 15HB of the SEBI Act.

29. The text of the above said Section 15HB of the SEBI Act is reproduced 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 VIII - If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act?

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

“Factors to be taken into account while adjudging quantum of penalty.

15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or 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.”

Factors Considered While Imposing Penalty

31. The material available on record has neither quantified the amount of disproportionate gain or unfair advantage, if any, made by the Noticee nor the amount of loss, if any, caused to an investor/clients as a result of the default of the Noticee. As regard the repetitive nature of the default, I take note of the fact that SEBI had previously imposed penalty on the Noticee in the matter of Illiquid Stock Options at BSE.

32. It is a fact that the Noticee has not followed the stipulated procedures with respect to the following allegations, as established in the preceding paragraphs:

32.1. Two proprietary terminals were not available at the location reported by the Noticee to the Stock Exchanges and these two terminals were operated from unspecified/unapproved location.

- 32.2. Four terminals were operated by persons who were not the approved users.
- 32.3. Proprietary terminals were operated by the entities including clients who were not the employees of the Noticee.
- 32.4. The Noticee has paid incentives to the client in cash.
- 32.5. One of the branch offices of the Noticee was managed by its client.
- 32.6. The Noticee has not kept the pre order confirmations in respect of the orders placed by its client.
33. The Noticee, being a registered intermediary, was under a statutory obligation to comply with the mandate of the Broker Regulations and the relevant Circulars in letter and spirit. The non-adherence on the part of the Noticee to the extant Regulations, Circulars, etc. as brought out in the preceding paragraphs, clearly shows that the Noticee has failed to act with skill, care, and diligence in conducting its business as a stock broker.
34. It is necessary that registered intermediaries follow the various procedures and practices prescribed for the smooth and transparent functioning of the securities market. I note that the Regulations and Circulars, etc., have laid down the specific procedural requirements that must be adhered to, especially by a SEBI registered intermediary. As a registered intermediary, Noticee is required to maintain a high standard of professionalism in the way it conducts its business and to take statutory compliance very seriously.
35. It is noted from the replies of the Noticee that the trading terminal which was not operated from the erstwhile location was deactivated. The Noticee has enclosed a copy of screenshot from NSE portal reflecting that terminal was deactivated from the old address. The Noticee in its replies further submitted that it had taken all the dealers on its payroll since September 01, 2023. However, as discussed in the preceding paragraphs, no cogent evidence has been submitted by the Noticee in support of its claim in this regard. Hence, no inference can be made in favor of the Noticee for this.

36. From the submissions of the Noticee, it is noted that the Noticee has denied each of the alleged violations. Inspection needs to be taken as an effort to correct violations, if any. The attitude of the Noticee in trying to justify its violations doesn't behove of a registered intermediary. Stock brokers are an important link between the investors and the securities market. Investors repose their trust on the brokers. Protection of interests of investors is an important mandate for SEBI. Therefore, such violations by a registered intermediary especially by a registered stock broker cannot be let off unnoticed. It needs to be taken cognizance and dealt with in accordance with the law.
37. The aforementioned factors have been taken into consideration while adjudging the penalty.

E. ORDER

38. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in the preceding paragraphs, and in the exercise of powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules, I hereby impose a monetary penalty on the Noticee as given in the table below:

Table 5

Penal Provision	Penalty Amount
Section 15HB of SEBI Act	Rs. 7,00,000/- (Rupees Seven Lakhs Only)

39. I am of the view that the said penalty is commensurate with the lapses/omissions on part of the Noticee.
40. 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.

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

Date: February 20, 2025
Place: Mumbai

N HARIHARAN
CHIEF GENERAL MANAGER
AND ADJUDICATING OFFICER