

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA

SETTLEMENT ORDER

On the Application No. **2930/2015**

filed by

Karvy Stock Broking Ltd (PAN – AABCK5190K)

Settlement Order No: CFD/EAD-6/AO/AK/63 /2017

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') conducted an inspection of books of accounts and other records of Karvy Stock Broking Limited (hereinafter referred to as '**KSBL**'). The inspection was carried out to look into the various compliance requirements including the Know Your Client (KYC) due diligence carried out by KSBL during the period April 01, 2011 to November 30, 2012.

2. Based on analysis of samples and test checking of various books of accounts and other records as well as written/oral submissions of KSBL & its staff provided to the inspection team, the following lapses/ deficiencies were alleged: KSBL managed the funds in a manner which partakes character of a Mutual Fund; KSBL have not taken into account client needs while managing the client portfolio; KSBL used the term '*scheme*' in various places, including in the agreement and disclosure document; KYC of certain clients were found to be incomplete; KSBL, have not clearly provided the actual amount of fees payable by the client and frozen the client's accounts and not managed the funds of the client, hence KSBL did not act in a fiduciary capacity with regard to the client's funds, has not observed high standards of integrity and fairness in conduct of business and has not rendered high standards of service; KSBL have not uploaded the existing KYCs with the KRA; KSBL, imposed a lock-in on the client's funds and not allowed the clients to withdraw their assets by voluntarily terminating the agreement; KSBL have not disclosed various actions initiated / taken by SEBI against KSBL/ its associates in the Disclosure Document and disclosed those products which are not being offered to the client and KSBL, misled the clients on performance of the portfolios by making exaggerated statements.

3. In view of the above, SEBI initiated adjudication proceedings against KSBL and the undersigned was appointed as the Adjudicating Officer vide Order dated July 25, 2014 under section 15I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act**') to inquire into and adjudge under section 15HB of the SEBI Act, the alleged violation of the provisions of Regulation 13 read with clause (1) and (3) of Schedule III, Regulation 14(2)(a) read with clause (4) of "Model Disclosure Document" as specified in Schedule V, Regulation 15(1), Regulation 15(2), Regulation 13 read with clause 9(b) of Schedule III, Regulation 16(2) (a), Regulation 13 read with clause 5 of the Code of Conduct of SEBI (Portfolio Managers) Regulations, 1993, SEBI circular No. Cir/IMD/DF/16/2010 dated November 02, 2010, SEBI Circular No. MIRSD/Cir-5/2012 dated April 13, 2012 and SEBI circular No. Cir. /IMD/DF/13/2010 dated October 5, 2010.
4. Accordingly, a Show Cause Notice bearing no. EAD-6/AK/RSL/33232/2014 (hereinafter referred to as the '**SCN**') dated November 24, 2014 was issued to KSBL under Rule 4 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 advising to show cause as to why an inquiry should not be held in respect of the aforesaid violations alleged to have been committed by KSBL.
5. While the adjudication proceeding pursuant to the said SCN was in progress, KSBL, vide application dated March 02, 2015 in terms of the SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 (hereinafter referred to as '**Settlement Regulations**') proposed to settle, through a consent order, the aforementioned adjudication proceedings as per the SCN dated November 24, 2014.
6. With respect to its consent application, the representatives of the applicant appeared before the Internal Committee of SEBI where the terms of settlement were deliberated upon. Thereafter, the applicant vide letter dated January 12, 2017 proposed the revised consent terms to settle the aforesaid adjudication proceedings by offering to pay a sum of Rs. 6,80,000/- (Rupees Six Lakhs and Eighty Thousand only) towards settlement charges.

7. The High Powered Advisory Committee (hereinafter referred to as "HPAC") considered the settlement terms proposed by the applicant, KSBL, and recommended the case for settlement upon payment of Rs. 6,80,000/- (Rupees Six Lakhs and Eighty Thousand only) towards settlement charges. The Panel of Whole Time Members of SEBI accepted the said recommendations of the HPAC and the same was communicated to the applicant vide an e-mail dated August 16, 2017.
8. Accordingly, KSBL, vide its letter dated August 22, 2017 submitted a Demand Draft/ Manager's Cheque bearing No. 110672 dated August 21, 2017, drawn on HDFC Bank for an amount of Rs. 6,80,000/- (Rupees Six Lakhs and Eighty Thousand only) towards the settlement of actions in the case.
9. Now, in view of the acceptance of the settlement terms as proposed by KSBL, and upon receipt of aforesaid Demand Draft by SEBI, the pending adjudication proceedings initiated against KSBL, under the aforesaid SCN dated November 24, 2014, is hereby disposed of in terms of regulation 15(1) of the Settlement Regulations. It is hereby ordered that:
 - i. this Settlement Order disposes of the said pending Adjudication Proceedings in respect of KSBL as mentioned above and;
 - ii. passing of this Order is without prejudice to the right of SEBI to take enforcement actions including commencing / reopening of the pending proceedings against KSBL, if SEBI finds that:
 - a. any representations made by the Applicant in the consent proceedings are subsequently discovered to be untrue;
 - b. KSBL has breached any of the clauses / conditions of undertakings / waivers filed during the current consent proceedings.
10. This consent order is passed on this Eleventh day of September, 2017 and shall come into force with immediate effect.
11. In terms of Regulation 17 of Settlement Regulations, copies of this order are being sent to the applicant and shall also be published on the website of SEBI.

Place: Mumbai

Anita Kenkare

Adjudicating Officer