

**SECURITIES AND EXCHANGE BOARD OF INDIA**

**ENQUIRY ORDER**

**Under Section 12(3) of Securities and Exchange Board of India Act, 1992 read with Regulation 23, Regulation 27 of Securities and Exchange Board of India (Intermediaries) Regulations, 2008.**

**IN RESPECT OF:**

NOTICEE	SEBI Registration No.	PAN
Raima Equities Private Limited	INZ000263832	AABCE2177Q

**In the matter of Raima Equities Private Limited**

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**Background:**

1. Raima Equities Private Limited (hereinafter referred to as the '**Noticee/REPL**') is registered as a Broker with the Securities and Exchange Board of India (hereinafter referred to as "**SEBI**"). The present proceeding is originating from the Enquiry Report dated June 28, 2024, submitted by the Designated Authority (hereinafter referred to as "**DA**"), in terms of the applicable provisions of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred as "**Intermediaries Regulations**").
  
2. SEBI had conducted an inspection of the Noticee, during August 21, 2023 to August 24, 2023 for the inspection period April 2022 to July, 2023 to examine the possible violation of the provisions of Securities and Exchange Board of India Act, 1992 (SEBI Act), Securities Contracts (Regulation) Rules, 1957 (SCR Rules) and NSE Circulars, etc.
  
3. During the inspection, SEBI observed that the Noticee had invested in group companies namely K B R Township Pvt Ltd. and Kanodia Finance Pvt Ltd. (group companies), amounting to Rs. 42,49,180 and Rs. 35,15,000, respectively, in the

year 2013, which were not in the nature of securities or commodity derivatives business as prescribed under Rule 8(3)(f) of the SCR Rules for a member of the stock exchange. The relevant details of the said investment of the Noticees are as under;

SL	Name of group Company	Nature of Business of Group Company	Amount invested (`)	Whether Client Y/N	UCC
1	K B R Township Pvt. Ltd.	NBFC	42,49,180.00	Y	KBR
2	Kanodia Finance Pvt. Ltd.	NBFC	35,15,000.00	Y	KF

4. The inspection findings lead to the alleged violation of the provisions of Rule 8(3)(f) of SCR Rules and NSE Circular No. NSE/COMP/50957, dated January 07, 2022.
5. Accordingly, a Designated Authority (DA) was appointed to inquire into the matter under the Intermediaries Regulations and submit a report pertaining to the aforesaid allegations. The DA issued a show-cause notice (hereinafter referred to as “**SCN**”) dated May 07, 2024 to the Noticee under Regulation 25(1) of the Intermediaries Regulations to show cause as to why appropriate recommendation should not be made against under Regulation 23 of Chapter V read with Regulation 26 of the Intermediaries Regulations read with Section 12(3) of SEBI Act for the alleged violations.
6. After considering the allegations levelled in the SCN, reply filed by the Noticee, providing an opportunity of personal hearing and considering the material available on record, the DA, submitted the aforesaid Enquiry Report dated June 28, 2024 and made the following recommendation:  
*“....having regard to orderly functioning of the securities market and protection of interest of investors, I recommend that the certificate of registration of Noticee i.e., Raima Equities Private Limited, SEBI Registration No: INZ000263832, be suspended for a period of one month in terms of Regulation 26 (1) (iii) of SEBI (Intermediaries) Regulations, 2008.”*

### **Post Enquiry Proceedings:**

7. Thereafter, a Post-Enquiry Show Cause Notice dated July 15, 2024 (hereinafter referred to as "**Post Enquiry SCN**") was issued by the Competent Authority to the Noticee enclosing a copy of the Enquiry Report dated June 28, 2024, while calling upon it to show cause in terms of Regulation 27 of the Intermediaries Regulations as to why actions as recommended by the DA should not be taken against the Noticee in terms of the said Regulations.
8. I note that the said Post Enquiry SCN was issued to the Noticee through SPAD and e-mail dated July 15, 2024, which were duly delivered. The Noticee confirmed the receipt of the e-mail vide its e-mail dated July 22, 2024. Thereafter, vide e-mail dated August 05, 2024, the Noticee had filed its reply in the matter to the Competent Authority. Subsequently, the Noticee was granted an opportunity of personal hearing on October 24, 2024 vide e-mail dated October 10, 2024. During the said personal hearing on October 24, 2024, the Noticee sought one week's time to file its post hearing reply in the matter. Accordingly, the Noticee was granted time to written submissions till October 30, 2024. Accordingly, the Noticee submitted its written submissions vide e-mail dated October 30, 2024. The summary of the replies dated August 05, 2024 and October 30, 2024 submitted by the Noticee are as under:
  - There is no violation of the SCR Rules as it was not engaged as "principal or Employee" nor as a Broker or agent.
  - NSE is not a competent authority to issue the Circular dated January 07, 2022.
  - Noticee further submitted that the NSE circular dated January 07, 2022 provides a clarification to Rule 8 (3) (f) of the SCR Rules and is not retrospective in nature and is only applicable to activities undertaken by members after the date of the circular. So, no violation occurs if the investment is prior to the period of January 07, 2022 and after the said date the Noticee complied with the circular. In this regard, the Noticee has relied upon the Supreme Court cases of CIT vs. Vatika Township (p.) Ltd. [2014] 49 taxmann.com249/227 Taxman 121, Govinddas vs.

ITO [1976] 103 ITR 123 and judgement of the Hon'ble SAT in the case of National Stock exchange vs. SEBI (Appeal no. 466 of 2020, dated 04.01.2022).

- Since the disinvestment was done on January 23, 2024 and January 27, 2024, with respect to the alleged investments no violation existed as on May 7, 2024, when the SCN was issued.
- Further, the Noticee submitted that in the past SEBI has initiated Adjudication Proceedings in certain similar cases where monetary penalty has been imposed instead of resorting to proceedings under Regulation 26 and Regulation 27 of the Intermediaries regulation. Therefore, consistent treatment has not been meted out to the Noticee. In this regard the Noticee has relied upon the case of Joy vs. Regional Transport Authority – 1998 (10) TMI 129 (HC), wherein the Hon'ble High Court of Kerala has held that judicial discipline demands consistency in rendering judgments. A judicial officer may hold different views on various aspects. A judicial Officer may err and pass contradictory orders inadvertently. But once it is brought to the knowledge of the Judicial Officer, he is duty bound to keep track of inconsistency.
- The Noticee submitted that the alleged violation was minor, technical and in compliance of law as on date. Therefore, the proposed suspension of registration is very harsh and not proportionate to alleged violation. In this regard, the Noticee has relied upon the cases of Brickwork Ratings India Pvt. Ltd. vs. SEBI dated June 06, 2023 and Satellite Corporate Services Pvt. Ltd. vs. SEBI.
- The Noticee submitted that there is an inordinate delay of 11 years in initiating this proceeding, which is prejudicial to its interest because despite having the knowledge of the investments made in the year 2013-14 and carrying out several inspections since then. In this regard the Noticee has referred to the case of Mahendra Lal Das vs. State of Bihar And Ors, 2001 Supp(4) SCR 157, dated October 12, 2001, wherein the Hon'ble Supreme Court has held that "Inordinate long delay can be taken as presenting proof of prejudice.", the case of Anil Finature Pvt. Ltd. vs. SEBI in its order dated 08.11.2023, Hon'ble SAT held that in that matter

there is an undue delay in the issuance of SCN which in itself causes prejudice and in the case of Ashlesh Gunvantbhai Shah vs. SEBI, in its order dated January 31, 2020 the Hon'ble Supreme Court has held that “.....on account of inordinate delay in the initiation of the proceedings by issuance of show cause notice, the quashing of the penalty order by the Hon'ble Securities Appellate Tribunal was not interfered with by the Supreme Court.”

9. Thereafter, pursuant to the change of the Competent Authority, another opportunity of hearing was granted to the Noticee on June 18, 2025 which the Noticee chose to attend virtually. During the said hearing, the Noticee sought for time till June 27, to file additional submissions in the matter, which was granted. Accordingly, the Noticee vide e-mail dated June 27, 2025 submitted its additional submissions dated June 25, 2025, in the matter. The summary of the said reply is as under;

- The Noticee submitted with respect to the investment made by it in equity shares of group Companies, it has already explained that it was not engaged in any other business by virtue of making such investment and has not used clients' funds.
- The Noticee also submitted the term 'any business' mentioned in rule 8(1)(f), 8 (3)(f) of SCR Rules was not clearly defined. This resulted in the issuing clarifications for their trading members, through circulars which gave an illustrative list of activities that are construed as non-compliance to rule 8(1)(f), 8 (3)(f) of SCR Rules. However, these circulars seem to have expanded the scope of the term 'any business' mentioned in rule 8(1)(f), 8 (3)(f) of SCR Rules. Therefore, a consultation paper was floated by the central government in this regard, requesting for public comments. Accordingly, pursuant to consideration of the comments of the stakeholders, the central government issued a notification dated 19.05.2025 amending rule 8(1)(f), 8 (3)(f) of SCR Rules.
- Then, the Noticee submitted that the said legislative changes clarify the meaning about what constitutes 'business' in terms of Rule 8 filling the

lacuna that exists and removes restrictions on normal investment and business activities of brokers. A clarificatory amendment of this nature will have retrospective effect.

- Investment made out of Clients' funds or securities is to be treated as business which will be in violation of Rule 8(3)(f) of SCR Rules.
- Therefore, there is no violation of Rule 8(3)(f) of the SCR Rules. Accordingly, proceedings may be closed.
- Noticee submitted that amendments of this nature are retrospective in operation. Accordingly, Noticee submitted case laws, i.e. CIT vs. Vatika Township P Ltd., Income Tax Officer Vs. Vikram Sujitkumar Bhatia, Zile Singh Vs. State of Haryana in support of its case.

### **Consideration and Findings:**

10. Considering the factual findings from the inspection, the allegations levelled against the Noticee in the SCN and the Post Enquiry SCN including the Enquiry Report dated June 28, 2024, based on such findings and the explanations offered by the Noticee through oral hearing and written replies in the matter, I find that the following issue requires consideration;

*Whether the Noticee has violated Rule 8(3)(f) of SCR Rules, given the amendment dated May 19, 2025 on the said provision of law?*

11. I note the Noticee, in essence submitted the following arguments relating to the Rule 8(3)(f) of the SCR Rules.

- a) The investments in question were made in the year 2013 in two group companies. The Noticee neither engaged as a "principal or employee" nor acted as a broker or agent in the said group companies where the investments were made. These investments did not give rise to any personal financial liability on the part of the Noticee.
- b) The investments were made exclusively from the Noticee's own surplus funds

and not from client funds or securities. The investment of surplus funds in NBFCs registered with the Reserve Bank of India (RBI) cannot be construed as the Noticee engaging in a principal business activity other than that of securities.

- c) National Stock Exchange (NSE) has no power to issue the impugned circular dated January 07, 2022. Even otherwise, the said NSE circular merely provides a clarification to Rule 8(3)(f) of the Securities Contracts (Regulation) Rules and applies prospectively to activities undertaken after its issuance. Since the investments in question were made in 2013, well before the circular's date, it has no retrospective applicability, and hence, no violation arises.
- d) Further, the disinvestment of the said investments was completed on January 23, 2024, and January 27, 2024. Accordingly, as on the date of issuance of the Show Cause Notice dated May 7, 2024, the Noticee was not holding any such investments, and therefore, no violation can be said to subsist.
- e) The term "principal business" is not defined. What constitutes "principal business" will depend on the facts and circumstances of each case. Memorandum, Articles of Association of the company, past history of the company, etc., will help in determining the principal business of a company.

12. Before dealing with the argument of the Noticee, it is important to bring out the interpretation of Rule 8(3)(f) of the SCR Rules as amended on May 19, 2025, limited to the relevant facts of this case. The analysis of the amended provision of the Rule 8(3)(f) of the SCR Rules brings out the following;

- a) In order to come within the preventive breach of the above rule, there should be an engagement by the Noticee either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability. As interpreted by the Hon'ble Madras High Court in The Madras Stock Exchange Limited vs S.S.R. Rajakumar, on 25th February 2003;

*"The first part prohibits the Member of the Exchange from being the principal*

*or employee of any business other than that of securities. The second part permits his functioning as a broker or agent in a business other than securities, provided he does not incur any personal financial liability by functioning as such broker or agent."*

- b) Rule 8(3) (f) of the SCR Rules also provides for categories of exception under Rule 8(3) (f) (i), (ii) and (iii).
- c) The amendment made a clarification on what cannot be construed as business stating that investments made by a member shall, at all times, not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker. The rule as amended is shown below,
  - " (8) The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that
  - ...
  - ...
  - (3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if—
  - ...
  - ...
  - (f) he engages either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability, provided that—
    - (i) the governing body may, for reasons, to be recorded in writing, permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry on business on the stock exchange either as an individual or as a partner in a firm,
    - (ii) in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of three years from the date of the grant of recognition shall be allowed for severing their connection with any such business,
    - (iii) nothing herein shall affect members of a recognised stock

exchange which are corporations, bodies corporate, companies or institutions referred to in items (a) to (n) of sub-rule (8)

Provided further that investments made by a member shall, at all times, not be construed as business except when such investments involve client funds or client securities, or relate to arrangements which are in the nature of creating a financial liability on the broker."

- d) Therefore, the amendment clarifies that if investments made by the Member satisfies both the following conditions, such investments are out of the prohibitive ambit of Rule 8(3) (f) of the SCR Rules, because such investments won't be construed as business.
  - i. Such investments do not involve client's funds and securities or
  - ii. Such investments do not relate to arrangements which are in the nature of creating a financial liability on the Member
- e) The investment made by the member would still fall within the preventive sweep of Rule 8(3) (f) of the SCR Rules if such investment does not satisfy any one of the above two conditions. Further, the clarification is limited only to the investments made by the member and does not cover any other business if such business is not by virtue of investments made by the member.
- f) In view of the clarification on what won't be construed as business under Rule 8(3) (f) of the SCR Rules, investment in the group companies by Noticee will fall outside the ambit of business, if the activities are investments and such investments do not involve client's funds and securities and such investments do not relate to arrangements which are in the nature of creating a financial liability on the Noticee. Therefore, if notices investments are to fall outside the scope of "business", the investment in group companies should satisfy the above mentioned two conditions.

13. The essence of the findings of DA as inferred from the report dated June 28, 2024 is that there was investment by the Noticee in the group companies in the year 2013 as alleged and such investment was not incidental to securities or

Commodity Derivatives. Therefore, the DA report concludes that said investments are in contravention of the provision of Rule 8(3)(f) of SCR Rules and the Circular NSE/COMP/50957 dated January 07, 2022. Accordingly, the DA recommended that the certificate of registration of Noticee be suspended for a period of one month.

14. In the instant case, I note that whether the impugned investment is from client's funds or securities or such investment relates to an arrangement in the nature of creating a financial liability is not part of inspection findings. Further there is no allegation that the Noticee's investments in the two group companies involve client's funds and securities or that the investments in the group companies relate to arrangements which are in the nature of creating a financial liability. Needless to say, since there was no such case, the DA Report dated June 28, 2024, also does not have any findings with respect to it.
15. In order to sustain the instant proceedings before me given the clarifying amendment dated May 19, 2025, on Rule 8(3) (f) of the SCR Rules, existence of the allegations and an adverse finding on two conditions in the DA report is prerequisite. As stated earlier, the same is not the case. However, post the amendment, SEBI has conducted an examination and found that the two conditions mentioned in para 12(d) are satisfied. i.e. (a) investments do not involve client's funds and securities and the source of funds for investment being the accumulated reserves and (b) investments do not relate to arrangements which are in the nature of creating a financial liability on the Member. I also note that the Noticee has submitted that the funds in the instant case of investment was from their own funds and does not involve client's funds and securities.
16. In view of the above discussion, the investment of the Noticee cannot be construed as business. Consequently, the allegation of violation of Rule 8(3) (f) of the SCR Rules against the Noticee cannot be sustained. I also note that NSE has issued circular dated June 10, 2025 post the amendment dated May 19, 2025 with the following clause "In view of the above amendment, Point No. 10 of Exchange Circular Ref No. NSE/COMP/50957 dated January 07, 2022 and

clarification thereof provided in Exchange Circular Ref No. NSE/COMP/53802 dated September 22, 2022 stands deleted."

17. Since no adverse finding on Rule 8(3) (f) of the SCR Rules has been given in this order against the Noticee, the other aspects raised by the Noticee in the instant proceedings in his reply do not require separate consideration.

**Directions:**

18. In view of the foregoing, in exercise of the powers conferred upon me in terms of Section 19 of SEBI Act, 1992 read with Regulation 27 of the Intermediaries Regulations, I, hereby dispose the proceedings against Raima Equities Private Limited, having SEBI Registration Number – INZ000263832 without any adverse action.

19. This order comes into force with immediate effect.

20. A copy of this order shall be forwarded to the Noticee.

**DATE: July 22, 2025**

**N. MURUGAN**

**PLACE: MUMBAI**

**CHIEF GENERAL MANAGER**

**SECURITIES AND EXCHANGE BOARD OF INDIA**