

**Before the
Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051
held on May 23, 2023**

In the matter of the Trading Member: M/s. Angel One Limited

CORAM:

Ms. Mona Bhide	- Chairperson
Mr. K Narasimha Murthy	- Committee Member
Mr. S Ravindran	- Committee Member
Mr. Ranganayakulu Jagarlamudi	- Committee Member
Mr. Ashishkumar Chauhan	- Committee Member

PRESENT:

Dr. Dinesh Kumar Soni	- Senior Vice President - Regulatory
Mr. Shailesh Adukia	- Vice President – Enforcement
Mr. Janardhan Gujarani	- Vice President – Enforcement
Ms. Renu Bhandari	- Vice President – Inspection

BACKGROUND

1. **M/s. Angel One Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") segment since November 1994, and Futures & Options ("**F&O**") segment since June 2001, and Currency Derivatives ("**CD**") segment since August 2008 and Commodity Derivatives ("**COM**") since February 2021.
2. The Committee vide its order dated June 29, 2022, directed the Noticee to carry out an audit of the books and records of its top 3000 Authorized Persons ("**APs**") in terms of the number of active clients, to verify the maintenance of pre-order confirmation and provide an audit report to the Exchange within 3 months from the date of the aforesaid order. Pursuant to the Committee's order, the Noticee vide its email dated November 14, 2022, submitted its audit report on the inspection of its APs to the Exchange.
3. Upon scrutiny of the audit report on the inspection of APs furnished by the Noticee, the Exchange observed that the APs registered with the Noticee are non-compliant with various regulatory requirements prescribed by Securities Exchange Board of India

("SEBI") and the Exchange. Post scrutiny, the Exchange issued a show-cause notice dated May 2, 2023 ("SCN") to the Noticee seeking an explanation for the observed non-compliances with the regulatory provisions by the Noticee and its APs. The Noticee vide its emails dated May 13, 2023, May 23, 2023, and June 6, 2023, replied to the said SCN.

INSPECTION OBSERVATIONS/VIOLATIONS

4. The following are the inspection observations mentioned in the SCN:

4.1. Failure to monitor APs

REGULATORY PROVISIONS

5. At the outset, it is appropriate to refer to the relevant regulatory provisions alleged to have been violated by the Noticee; extracts whereof are reproduced below: -

5.1. Failure to monitor APs

a. Regulation 4.5 of NSEIL (CM and F&O) Regulations

4.5. Code Of Conduct for Trading Members

4.5.1 Adherence to SEBI Code of Conduct

The Trading Member shall at all times subscribe to the Code of Conduct as prescribed by the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992.

4. 5. 2 General Principles

(b) Adherence to Trading Practices: Trading Members shall adhere to the Rules, Regulations and Byelaws of the Exchange and shall comply with such operational parameters, rulings, notices, guidelines and instructions of the relevant authority as may be applicable from time to time.

(d) Capabilities: A Trading Member shall have and employ effectively the resources and procedures which are needed for the proper performance of his business activities.

- b. Exchange Circular No. NSE/MEM/13429 dated November 9, 2009

7. Obligations of Stock Broker

- a. The stock broker shall be responsible for all acts of omission and commission of his AP(s) and/or their employees, including liabilities arising there from.*
- a. Stock broker shall conduct periodic inspection of branches assigned to APs and records of the operations carried out by them.*
- g. On noticing irregularities, if any, in the operations of AP, stock broker shall seek withdrawal of approval, withhold all moneys due to AP till resolution of investor problems, alert investors in the location where authorised person operates, file a complaint with the police, and take all measures required to protect the interest of investors and market.*

- c. Exchange Circular No. NSE/COMP/48536 dated June 9, 2021

An AP can only act as a facilitator and provide administrative assistance to the clients of the Member in accessing the trading platform of the Stock Exchange, failing which the AP and its Directors/partners shall be liable for appropriate disciplinary actions including cancellation of their registration, debarment from the securities market etc.

Members are required to exercise adequate control and due diligence over the activities & transactions of their APs. Member shall conduct periodic inspection of their APs and records of the operations carried out by them in accordance with Exchange circular dated October 18, 2019 (Ref NSE/INSP/42448NSE/INSP/42448). On noticing irregularities, if any, Member shall take necessary measures as stipulated in the aforementioned SEBI circular, including cancellation of the AP registration through ENIT and selecting the reason as "Disciplinary action" along with providing the necessary details.

Members should ensure that their APs are engaging only in permitted activities and are not undertaking any business which are disallowed under the Byelaws, Rules & Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorized collective investments/portfolio management, promising indicative/guaranteed/fixed returns etc. It is, hereby,

reiterated that all the acts of omission and commission of the AP and/or their Directors/Partners, employees etc., shall be deemed to be those of the Member and the Member shall be responsible for all such acts of its AP(s) and/or their Directors/Partners, employees etc., including liabilities arising there from.

PRESENT PROCEEDINGS

6. The Exchange vide an email dated May 18, 2023, granted the Noticee an opportunity of personal hearing before the Committee. On behalf of the Noticee, Mr. Mustafa Doctor (Advocate), Mr. Pulkit Sukhramani (Advocate), Ms. Vidhi Jhawar (Advocate), Mr. Ketan Shah (Designated Director), Mr. Pravin Bathe (Chief Legal and Compliance Officer), Mr. Dharendra Rautela (Head Channel Partner - Audit), Mr. Bhavin B Parekh (Head - Operations, Risk & Surveillance) and Mr. Hiren Thakkar (Compliance Officer - Head Channel Partner Audit) appeared before the Committee and made the following oral submissions:-
 - a. The Noticee observed and reported 1369 instances of non-compliance/violations pertaining to 759 APs in the Audit Report submitted to the Exchange on November 14, 2022.
 - b. The Noticee maintains an adequate system for monitoring the activities of its APs. The Noticee regularly inspects its APs as per audit parameters and ensures that prompt actions are initiated against the APs for non-compliance observed, if any. In the financial year 2022-23, the Noticee audited more than 50% of its APs.
 - c. The Noticee strictly adhered to the requirement of inspecting its APs as per guidelines prescribed by the SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 6, 2009, and Exchange Circular No. NSE/INSP/42448 dated October 18, 2019, even prior to issuance of the show-cause notice by the Exchange and has therefore, exercised due diligence and control over the activities of its APs.
 - d. The non-compliances were committed by the Noticee's APs while Noticee followed all due diligence and fulfilled the requirement of conducting inspections as prescribed in the Exchange circulars. Besides regular inspections, the Noticee also issued show-cause notice and imposing penalty on its APs. The Noticee regulated the APs similarly as the Exchange regulates its APs. Thus, the Noticee is liable for acts of its Noticee just like Exchange is not held liable for the acts of its Trading Members.

- e. The non-compliances/violations observed in the instant case are venial in nature and do not involve or affect the pecuniary interests of the investors. However, the Noticee withheld the commission payable to its APs and terminated 64 APs pursuant to the non-compliances observed.
- f. The Noticee installed a Fraud Detection and Support System and launched a mobile application for lodging complaints, as a part of its digital initiative for the protection of investors' interests.

CONSIDERATION AND FINDINGS

7. The observations/violations, reply of the Noticee and the findings of the Committee are as under:

7.1. Failure to monitor APs

- 7.1.1. Upon scrutiny of the audit report on inspection of AP filed by the Noticee, vide its email dated November 14, 2022, the Exchange observed that the acts of omission and commission of 1369 out of 3000 active APs inspected by the Noticee, are in violation of the Rules, Regulations, Byelaws, Circulars of SEBI/Exchange. The details are as under: -

Sr. No.	Observation	No. of AP(s)	Regulatory Provision Violated
1.	Bank statement not provided for verification	469	a. Exchange Circular No. NSE/MEM/13429 dated November 9, 2009
2.	Demat statement not provided for verification	69	b. NSE/INSP/42448 dated October 18, 2019
3.	Non-cooperation/Non-contactable APs	17	c. Exchange Circular No. NSE/COMP/48536 dated June 9, 2021
4.	Trade confirmation sheet not provided for verification	14	
5.	Trading terminal operated from a location different from the approved location	134	a. Exchange Circular No. NSE/MEM/3574 dated August 29, 2002
6.	Trading terminals operated by user(s) other than the approved user.	56	b. Exchange Circular No. NSE/MA/22732 dated February 13, 2013
7.	APs' office not available at the registered address	221	c. NSE/INSP/28434 dated December 24, 2014

Sr. No.	Observation	No. of AP(s)	Regulatory Provision Violated
8.	Trading terminal of another Trading Member found within the APs' premises.	12	d. NSE/INSP/42448 dated October 18, 2019
9.	Non-display of the APs' registration certificate	168	a. Exchange Circular No. NSE/MEM/6706 dated September 28, 2005 b. NSE/INSP/42448 dated October 18, 2019
10.	Investor Grievance Register/Board not maintained	124	a. Regulation 6.1.15 of the NSEIL (CM) Regulations b. NSE/MEM/6706 dated September 28, 2005 c. NSE/INSP/42448 dated October 18, 2019
11.	Voice call recording system not maintained	56	a. Regulation 3.2.1 of NSEIL Regulations (CM Segment), Regulation 3.4.1 of NSEIL Regulations (F&O Segment) b. Exchange Circular No. NSE/INSP/37301 dated March 26, 2018
12.	Unapproved marketing material and websites found at the APs' office	29	a. Exchange Circular No. NSE/COMP/33643 dated November 16, 2016 b. Exchange Circular No. NSE/COMP/43373 dated January 30, 2020 c. NSE/INSP/42448 dated October 18, 2019

7.1.2. The reply to the SCN, the Noticee submitted as under: -

- a. The Noticee regularly carries out inspections of its APs and takes disciplinary actions against the non-compliant APs in accordance with regulatory requirements. The Noticee exercises adequate control and diligence over the activities and transactions of its APs to ensure compliance. Thus, the violation set out in the SCN is not established against the Noticee.
- b. Furthermore, all the non-compliances identified in the audit report dated November 14, 2022, are rectified. The Noticee took prompt and appropriate action against the APs who failed to rectify the non-

compliances/violations observed during the audit. The Noticee is duly compliant with the requirement of overseeing and monitoring the conduct of its APs as per law. Thus, the violation set out in the SCN is not established against the Noticee.

- c. While the Committee directed the Noticee to audit the books and records of 3000 APs to verify the maintenance of pre-order confirmation, the Noticee conducted an exhaustive inspection of the APs as per the scope of the audit to ensure that they operate in accordance with the extant regulations and submitted a detailed report to the Exchange. The Noticee obtained a duly signed undertaking from its APs affirming that they are neither involved in any activity which is illegal/illegitimate nor engaged in any business that is disallowed under the Rules, Regulations, Byelaws and Circulars of SEBI/Exchange.
- d. The Noticee inspects its APs in accordance with the Exchange Circular No. NSE/INSP/42448 dated October 18, 2019. The Noticee selects its APs for inspection based on the following factors: - (i) more order sheets than voice recording logs; (ii) sudden increase in revenue; (iii) Fraud Detection Support alerts; (iv) internal alerts raised by the Noticee's departments for daily profit and loss, year to date profit and loss, brokerage generated, orders placed in demat accounts etc.
- e. The Noticee dedicated a team of 8 employees comprising of assistant managers, managers, and senior managers with audit experience of 4-12 years, for inspection and routine monitoring of its APs.
- f. In the year 2022-23, the Noticee inspected approximately 7,500 APs (over 50% of active APs) which is much beyond the regulatory requirement. The Noticee took appropriate action with respect to 3,800 APs including the issuance of warning letters, imposition of penalty and termination of the relationship. The Noticee terminated its relationship with 86 APs on account of the Fraud Detection Support alerts/complaints received against the APs. Thus, the Noticee duly monitored its APs and acted against the non-compliant APs, as necessitated.

- g. The methodology for inspection of APs is as under: (i) a list of APs is created as per the criterion specified and the audit data is allocated to the audit team based on region; (ii) if non-compliance/violations are identified, a show-cause notice is issued to the AP; (iii) if the AP fails to address or rectify the observation, penalty is imposed as per the penalty matrix; (iv) if the observation/non-compliance is not rectified even after the imposition of penalty, a pay-out blockade is imposed on the AP; (v) APs are inspected as per the audit checklist prepared by the Noticee in accordance with the Exchange Circular No. NSE/INSP/42448 dated October 18, 2019, which includes checks for order recording systems maintained by the APs, suspicious movement of funds/securities between clients and APs /branch officials for settlement of trades on the stock exchanges, cash dealings at the APs /branch offices, acceptance of deposits/ offering assured returns; (vi) inspection report along with the subsequent action taken on the AP, is submitted to the stock exchanges on a quarterly basis in terms of the Exchange Circular No. NSE/INSP/50030 dated October 21, 2021. Thus, the Noticee exercised due diligence in the inspection and monitoring of its APs.
- h. In the instant SCN, the Audit Report identified 1369 instances of non-compliance/violations pertaining to 759 APs. Out of 759 APs, 323 APs have terminals ("Terminal APs ") whereas 436 APs do not have terminals ("Non-terminal APs "). Non-terminal APs are APs that do not deal with clients with respect to the execution of trades and are involved only in account opening and KYC of clients.
- i. The actions taken by the Noticee against its APs for the non-compliances/violations observed in the SCN is as under: -

Sr. No.	Observation	No. of AP(s)	Disciplinary Action Taken by the Noticee
1.	Bank statement not provided for verification	469	a. The Noticee took action against all the APs by issuing show-cause notices, imposing penalty, withholding the pay-outs and seeking compliance. b. 443 out of 469 APs submitted their bank statements and no infirmities were observed in these bank statements.

Sr. No.	Observation	No. of AP(s)	Disciplinary Action Taken by the Noticee
			c. The Noticee terminated its relationship with the remaining 26 APs who failed to provide the bank statements.
2.	Demat statement not provided for verification	69	a. The Noticee took action against all the APs by issuing show-cause notices, imposing penalty, withholding the pay-outs and seeking compliance. b. 66 out of 69 APs submitted their demat statements and no infirmities were observed in these demat statements. c. The Noticee terminated its relationship with the remaining 3 APs who failed to provide the demat statements for verification.
3.	Non-cooperation/Non-contactable APs	17	The Noticee terminated its relationship with all the 17 APs as the APs failed to respond to the Noticee.
4.	Trade confirmation sheet not provided for verification	14	a. The Noticee took action against all the APs by issuing show-cause notices, imposing penalty, withholding the pay-outs and seeking compliance. b. All the 14 APs subsequently submitted the trade confirmation sheets to the Noticee.
5.	Trading terminal operated from a location different from the approved location	134	a. The Noticee took action against all the APs by issuing show-cause notices, imposing penalty, withholding the pay-outs and seeking compliance. b. 123 out of 134 APs requested for a change in address and duly provided their revised addresses. Accordingly, their addresses were modified. The same was intimated to the Exchange and the records were updated. c. 14 APs failed to respond to the Noticee. Thus, the Noticee initiated the process of terminating the terminals of these APs.
6.	Trading terminals operated by user(s) other than the approved user.	56	a. The Noticee took action against all the APs by issuing show-cause notices, imposing penalty, withholding the pay-outs and seeking compliance. b. During the re-audit, 34 out of 56 APs duly complied with the requirements. c. 22 APs failed to respond to the Noticee. Thus, the Noticee initiated the process of terminating the terminals of these APs.

Sr. No.	Observation	No. of AP(s)	Disciplinary Action Taken by the Noticee
7.	APs' office not available at the registered address	221	a. Out of 221 APs, 215 APs are Non-Terminal APs and 6 are Terminal APs. Usually, the Non-Terminal APs are on the move to expand their business. b. The Noticee took action against all the APs by issuing show-cause notices, imposing penalty, withholding the pay-outs and seeking compliance. c. 176 out of 221 APs confirmed a change in their addresses. The Noticee either intimated the change to the Exchange or is in the process of intimating the change in address to the Exchange. d. 45 APs failed to provide any confirmation pertaining to change in address. Thus, the Noticee terminated its relationship with these APs.
8.	Trading terminal of another Trading Member found within the APs' premises.	12	a. Out of 12 APs, 9 APs are Non-Terminal APs b. Upon re-audit, the Noticee observed that none of the 12 APs have trading terminal of any other Trading Member at their registered premises. c. The audit team of the Noticee incorrectly labelled 12 APs under the head "trading terminals of other Trading Member found within the premises of the APs". d. The APs' friends/family members were operating franchise of other Trading Member for the APs' premises without adequate segregation. e. The Noticee sent show-cause notice to these 12 APs and penalized them for "failure to maintain appropriate segregation and demarcation at the APs' office in case the terminal of a different Trading Member is operated or any permissible activity other than the broking business is carried out at the APs' office."
9.	Non-display of the APs' registration certificate	168	a. The Noticee took action against all the APs by issuing show-cause notices, imposing penalty, withholding the pay-outs and seeking compliance. b. Subsequently, all the 168 APs confirmed with the requirement of displaying the

Sr. No.	Observation	No. of AP(s)	Disciplinary Action Taken by the Noticee
			registration certificates at their premises, as mandated.
10.	Investor Grievance Register/Board not maintained	124	a. The Noticee took action against all the APs by issuing show-cause notices, imposing penalty, withholding the pay-outs and seeking compliance. b. Subsequently all the 124 APs confirmed with the requirement of maintaining an investor grievance register/board, as mandated.
11.	Voice call recording system not maintained	56	a. The Noticee took action against all the APs by issuing show-cause notices, imposing penalty, withholding the pay-outs and seeking compliance. b. Subsequently all the 56 APs complied with the requirement of installing a voice order recording system, as mandated.
12.	Unapproved marketing material and websites found at the APs' office	29	a. The Noticee took action against all the APs by issuing show-cause notices, imposing penalty, withholding the pay-outs and seeking compliance. b. The Noticee advised all its APs that marketing materials cannot be used without the confirmation of the Noticee.

7.1.3. The Committee finds as under: -

- a. The Noticee contended that the observations/violations set out in the SCN are not established against the Noticee. In view of the inspections conducted by the Noticee regularly, show cause notices issued, penalty levied, and terminations effected wherever required, it is not liable for the acts of its APs, just as Exchange is not liable for the non-compliances of its Trading Members
 - i. The Committee noted that several violations were committed by the Noticee's APs including trading terminals operated from a location other than approved locations, trading terminals operated by other than approved users, trading terminals of other Trading Members found at the APs' premises, non-display of AP registration certificates, non-availability of investor grievance register/ board, non-maintenance of voice call recording system,

publication of unapproved marketing material, AP office not available at the registered address, failure to provide bank, Demat statements, and trade confirmation sheet for verification during the inspection, and non-contactable/non co-operative APs.

- ii. As per SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 6, 2009, Exchange Circular Nos. NSE/MEM/13429 dated November 9, 2009, it is the obligation of the Trading Members that the Trading Members shall be responsible for all acts of omission and commission of its APs and/or their employees, including liabilities arising therefrom.
 - iii. As per Exchange Circular No. NSE/COMP/50030 dated October 21, 2021, it is the responsibility of the Trading Members to ensure that all APs registered with them are complying with the regulatory requirements and do not undertake any non-permitted activities. Further, Trading Members shall be liable for all such acts of its APs and/or their Directors/Partners, employees etc., including liabilities arising therefrom.
 - iv. The Noticee is responsible for all the acts of omission and commission of its APs for the observations/violations reported under the Noticee's audit report dated November 14, 2022, which are in violation of regulatory provisions mentioned under paragraph nos. 4 and 5 of the SCN.
 - v. Thus, the Noticee's contention that the observations/violations mentioned in the SCN are not established against it, is not tenable.
- b. The Noticee contended that it exercised adequate due diligence and was duly compliant with the requirement of overseeing and monitoring the conduct of its APs as per law.
- i. As per SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 6, 2009, Exchange Circular Nos. NSE/MEM/13429 dated November 9, 2009, and NSE/COMP/48536 dated June 9, 2021, a Trading Member is permitted to provide market access to clients through APs on the pre-condition that the Trading

Member shall be responsible for all acts of omission and commission of its APs.

- ii. Exchange Circular No. NSE/COMP/50030 dated October 21, 2021, reiterates that it is the responsibility of the Trading Members to ensure that all APs registered with them comply with the regulatory requirements and do not undertake any non-permitted activities.
- iii. Further, Exchange Circular No. NSE/INSP/42448 dated October 18, 2019, mandates structured periodic inspections of all APs and outlines an indicative scope of inspection of APs with the purpose of ensuring systemic risk-based supervision. The circular unequivocally intends to establish a system to monitor and review the trading activities of APs including periodic inspection of branches assigned to APs and records of the operations carried out by them. The same does not negate and/or dilute the responsibility of a Trading Member for the acts of omission and commission of its APs. Therefore, the Noticee cannot be exonerated of its liability and responsibility for the actions of its APs merely by complying with the requirement of inspecting at least 30% of its total APs in one calendar year and all APs once in three years.
- iv. Upon examining the details of annual AP inspections carried out by the Noticee in compliance with the provisions of the Exchange circulars, the percentage of non-compliances observed is as under: -

Year of Inspection	Number of APs inspected	Number of non-compliant APs	Percentage of non-compliant APs to total APs inspected
2019-20	1482	704	47.50%
2020-21	2105	146	6.94%
2021-22	4705	1563	33.22%
2022-23	7522	3802	50.55%

From the table above, it is observed that the Noticee has reported non-compliance in the case of 47.50%, 6.94%, 33.22%, and 50.55% of the total APs inspected by the Noticee in the years 2019-20, 2020-21, 2021-22 and 2022-23 respectively based on

manner of sampling and scope of inspection prescribed under Exchange Circular No. NSE/INSP/42448 dated October 18, 2019.

- v. The Committee vide its order dated June 29, 2022, directed the Noticee to audit the books and records of its top 3000 APs in terms of the number of active clients. Upon examining the audit report submitted by the Noticee to the Exchange, it is observed that even in the top 3000 APs of the Noticee (based on number of active clients), 25.3% of the APs inspected are non-compliant with regulatory provisions enumerated under paragraphs 4 and 5 of the SCN.
 - vi. Such large number of non-compliant APs as reported by the Noticee every year, indicates lack of control, failure by the Noticee to take effective corrective measures to establish control and ensure compliance. Therefore, the Noticee failed to conduct its business with proper due control and due diligence over the activities and transactions of its APs. Further, the Noticee failed to adhere to the trading practices, employ proper resources and follow adequate procedures for the performance of its AP's businesses.
 - vii. Thus, the Noticee's contentions that it exercised adequate control, due diligence and was duly compliant with the requirement of overseeing and monitoring the conduct of its APs are not tenable.
- c. The Noticee contended that it took prompt and appropriate action against the non-compliances/violations identified against its APs during the inspection.
- i. Post-inspection of the APs as per Committee's order dated June 29, 2022, the Noticee (i) issued show-cause notices to its non-compliant APs; (ii) imposed penalty; (iii) blocked pay-outs; (iv) apprised its APs that they cannot use any marketing material without confirming the same with the Noticee (v) terminated 17 out of the 759 of the non-compliant APs. However, post-inspection compliance does not absolve the Noticee of its liability for the violations committed prior to it.

- ii. It is the responsibility of the Noticee to ensure that all APs registered with it are compliant with the regulatory requirements and do not undertake any non-permitted activities. Trading Members must exercise adequate control and due diligence over the activities and transactions of its APs, as a part of continued compliance with the regulatory provisions. On the other hand, conducting regular inspections and initiating suitable actions against its non-compliant APs is a part of the Trading Member's supervisory framework established to ensure the non-recurrence of any irregularities in future.
 - iii. The Noticee's APs undertook non-permissible activities as recorded under paragraph nos. 4 and 5 of the SCN. The Noticee failed to exercise adequate control, and due diligence over the activities and transactions of its APs to ensure that its APs are compliant with the regulatory provisions as mentioned in paragraph no. 4 of the SCN.
 - iv. Therefore, the Noticee's contention that it took prompt and appropriate action against the non-compliances/violations identified against its APs is not tenable.
- d. The Noticee contended that the observations are venial and technical in nature. No harm or injury was caused to the pecuniary interest of the clients on account of the same.
- i. Several violations are observed against the Noticee and its APs including trading terminals operated from a location other than approved locations, trading terminals operated by other than approved users, trading terminals of other Trading Members found at the APs' premises, non-maintenance of voice call recording system, publication of unapproved marketing material, AP office not available at the registered address, failure to provide bank, demat statements, and trade confirmation sheet for verification during the inspection, and non-contactable/non co-operative APs. Such violations are severe in nature and may have financial implications on the interest of the investors and the smooth functioning of the securities market.

- ii. The violations observed in the instant case are not procedural in nature and potentially involve the risk of unauthorized trades, non-redressal of investor complaints, and misrepresentation through advertisement and marketing material. The acts of the Noticee and its APs are violative of the regulatory provisions, involve consequential risk to clients' funds and securities and therefore attract disciplinary actions as under: -

Sr. No.	Observation	Regulatory Provision Violated	Disciplinary Action
1.	Trading terminal operated from a location different from the approved location	As per Exchange Circular Nos. NSE/MEM/3574 dated August 29, 2002, and NSE/MA/22732 dated February 13, 2013, 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 AP (CM/FNO/CD segments) of the Trading Member or at the co-location facility provided by the Exchange or at the third-party data centers/service provider's site. By operating the trading terminal from a location other than the approved location, the Noticee violated the regulatory provisions mentioned above.	The prescribed penalty for the observed violation is Rs.1,00,000/- per location in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021. Since the same is observed in the case of 134 APs, the total monetary penalty amounts to Rs.1,34,00,000/-.
2.	Trading terminals operated by user(s) other than the approved user.	As per Exchange Circular Nos. NSE/MEM/3574 dated August 29, 2002, and NSE/MA/22732 dated February 13, 2013, Trading Members shall entrust CTCL terminals only to the Approved Person and not to any unregistered intermediary or clients. The approved Person may be an employee of the Trading Member, a registered	The prescribed penalty for the observed violation is Rs 1,500/- per terminal in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021. Since the same is observed in the case of 56 APs, the total monetary penalty amounts to Rs.84,000/-

Sr. No.	Observation	Regulatory Provision Violated	Disciplinary Action
		Sub-broker, an Approved User or an Authorized Person who has been approved by the Exchange. By entrusting the trading terminal to persons other than the Approved Users, the Noticee violated the regulatory provisions mentioned above.	
3.	Non-display of the APs' registration certificate	As per Exchange Circular No. NSE/MEM/6706 dated September 28, 2005, the notice board at the office of a registered AP of the Trading Member shall display the AP registration number of the AP. By failing to display the AP registration number at the registered offices of the Noticee's APs, the Noticee violated the regulatory provisions mentioned above.	The prescribed penalty for the observed violation is Rs.10,000/- per location in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021. Since the same is observed in the case of 168 APs, the total monetary penalty amounts to Rs.16,80,000/-
4.	Investor Grievance Register/Board not maintained	As per Regulation 6.1.15 of the NSEIL Regulations, Trading Members shall keep and preserve a record of all written complaints of its constituents showing the reference number of a constituent, date, constituent's name, particulars of the complaints, action taken by the Trading Member and, if the matter is referred to arbitration to the Exchange, then the particulars thereof. By failing to maintain the investor grievance register/board, the Noticee violated the regulatory provisions mentioned above.	The prescribed penalty for the observed violation is Rs.50,000/- per book in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021. Thus, the monetary penalty amounts to Rs.50,000/-.

Sr. No.	Observation	Regulatory Provision Violated	Disciplinary Action
5.	Voice call recording system not maintained	As per Regulations 3.2.1 and 3.4.1 of NSEIL Regulations (CM and F&O Segments) and Exchange Circular No. NSE/INSP/35929 dated September 27, 2017, requires the Trading Members to ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the system and to keep relevant records or documents of the same and the completion or otherwise of these orders thereof. Exchange Circular NSE/INSP/37301, dated March 26, 2018, requires the Trading Members to execute clients' trades only after keeping evidence of the client placing such an order, which could be, inter alia, in the form of a physical record written and signed by the client, telephone recording, email from authorized email id, log for internet transactions, the record of messages through mobile phones, and any other legally verifiable record. By failing to maintain a record of the pre-order confirmation of trades, the Noticee violated the regulatory provisions mentioned above.	The prescribed penalty for the observed violation is Rs. 25,000/- per book in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021. Thus, the monetary penalty amounts to Rs.25,000/-
6.	Unapproved marketing material and websites found at the APs' office	As per Exchange Circular No. NSE/COMP/33643 dated November 16, 2016, prior approval of the Exchange is required before issuance of any advertisement/ marketing material.	The prescribed penalty for the observed violation is Rs.50,000/- per book in terms of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021. Since

Sr. No.	Observation	Regulatory Provision Violated	Disciplinary Action
		By failing to obtain the approval of the Exchange before issuance/publication of the unapproved advertisement/ marketing material.	the same is observed in the case of 29 APs, the total monetary penalty amounts to Rs.14,50,000/-.

iii. Thus, the Noticee's contention that the observations are venial and technical in nature and no harm or injury was caused to the pecuniary interest of the clients is not tenable.

- e. As per the record of the Exchange a total 22,293 APs are registered with the Noticee as of June 20, 2023. Upon inspecting the top 3000 APs, in terms of the number of active clients, non-compliances were observed pertaining to 759 APs i.e., 25.30% of the total APs inspected. Further the Noticee in its reply admitted that violations were observed and reported to the Exchange pertaining to 47.50%, 6.94%, 33.22%, and 50.55% of the total APs inspected during the years 2019-20, 2020-21, 2021-22, and 2022-23 respectively.
- f. The large number/percentage of non-compliant APs out of the total APs inspected every year indicates the lack of control of the Noticee over the activities and transactions of its APs. For the purpose of compliance with regulatory provisions *qua* the Exchange, the Noticee and its APs are the same. Therefore, every non-compliance committed by the Noticee's AP(s) shall directly be attributed to the Noticee. Conversely, it is the responsibility of the Noticee to comply and/or employ resources and procedures to ensure that its APs comply with the regulatory requirements prescribed by SEBI and the Exchange from time to time.

7.1.4. Given the findings above, the Committee decided to levy a monetary penalty of Rs.1,66,89,000/- on the Noticee for the observed violations in terms of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021. The Committee further directed that (a) the Noticee is prohibited from onboarding new APs for 6 months from the date of the order (b) the Noticee to conduct an inspection of all its APs and submit a report thereof

to the satisfaction of the Exchange within 6 months from the date of the order.

DECISION

8. In view of the above, the Committee levies the following penalties as indicated against each of the violations mentioned below:

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular No. NSE/INSP/47457 dated February 25, 2021	Penalty
1.	The Noticee failed to monitor APs: -		
	a. Bank statement not provided for verification (469 APs)	No prescribed penalty	-
	b. Demat statement not provided for verification (69 APs)	No prescribed penalty	-
	c. Non-cooperation/Non-contactable APs (17 APs)	No prescribed penalty	-
	d. Trade confirmation sheet not provided for verification (14 APs)	No prescribed penalty	-
	e. Trading terminal operated from a location different from the approved location (134 APs)	Rs.1,00,000/- per location	Rs.1,34,00,000/-
		Rs 1,500/- per terminal	Rs.84,000/-

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular No. NSE/INSP/47457 dated February 25, 2021	Penalty
	f. Trading terminals operated by user(s) other than the approved user. (56 APs)	No prescribed penalty	Warning
	g. APs' office not available at the registered address (221 APs)	No prescribed penalty	-
	h. Trading terminal of another Trading Member found within the Authorized APs' premises. (12 APs)	Rs.10,000/- per location	Rs.16,80,000/-
	i. Non-display of the APs' registration certificate (168 APs)	Rs.50,000/- per book	Rs.50,000/-
	j. Investor Grievance Register/Board not maintained (124 APs)	Rs. 25,000/-	Rs.25,000/-
	k. Voice call recording system not maintained (56 APs)	Rs.50,000/-	Rs.14,50,000/-
	l. Unapproved marketing material and websites found at the APs' office (29 APs)		
TOTAL			Rs.1,66,89,000/-

9. The Noticee shall pay a monetary penalty of Rs.1,66,89,000/- (Rupees One Crore Sixty-Six Lakhs Eighty-Nine Thousand Only) as indicated above.
10. The Noticee is prohibited from onboarding new APs for 6 months from the date of the order.
11. The Noticee shall conduct an inspection of all its APs and submit a report thereof to the satisfaction of the Exchange within 6 months from the date of the order.
12. The Noticee shall submit a detailed report on its investors' grievance redressal mechanism. The said report shall include (i) total investor complaints and arbitration matters registered against the Noticee and its APs in the past one year from the date of the order, including those pertaining to assured returns and unauthorized trading (ii) total investor complaints and arbitration matter redressed/resolved in the past one year from the date of the order and the timelines for the same; and (iii) total pending investor complaints and arbitration matters.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
K Narasimha Murthy
(Committee Member)

Sd/-
S Ravindran
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Sd/-
Ashishkumar Chauhan
(Committee Member)

Date: July 14, 2023