Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051
held on May 23, 2023

In the matter of Trading Member M/s Alice Blue Financial Services Private Limited

CORAM

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

ALSO PRESENT

Ms. Priya Subbaraman	- Chief Regulatory Officer
Dr. Dinesh Kumar Soni	- Senior Vice President – Regulatory
Mr. Shailesh Adukia	- Vice President – Enforcement
Mr. Janardhan Gujaran	- Vice President – Enforcement
Ms. Renu Bhandari	- Vice President - Inspection

BACKGROUND

1. **M/s Alice Blue Financial Services Private Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("**NSEIL**"/"**Exchange**") and enabled for trading in the Capital Market ("**CM**") segment since October 2017, Futures and Options ("**F&O**") segment since October 2017 and Currency Derivatives (**"CD"**) since February 2019.

2. The Exchange appointed an external forensic auditor to conduct an audit of the Noticee's books and accounts. The period for review was November 01, 2019, to November 30, 2022. The Exchange further appointed an external auditor to conduct an audit with respect to cyber security and cyber resilience. The period for review was December 22, 2022, to February 13, 2023. The Exchange has also conducted a limited purpose inspection of the books and records of the Noticee. Post-inspection the Exchange issues a show cause notice dated March 23, 2023, for the observed non-compliances with the regulatory provisions. The Noticee replied to the show cause notice vide emails dated April 19, 2023, and May 30, 2023.

INSPECTION OBSERVATIONS/VIOLATIONS

3. The observations/violations alleged in the SCN are summarized hereunder:

3.1. Sharing of Clients' confidential information with third party

a. Hosting and operation of an online marketplace for trading products in the name of 'Tradestore'
b. Entering into an agreement with M/s Growth Avenue (GAA) a Tradestore vendor for hosting GAA's software i.e., "New Trade Lite and Neo Trade Pro" on the Tradestore
c. Sharing of clients' registration details with third-party vendor i.e., Growth Avenue without the consent of 205 clients
d. Grievance filed by the Client for infringement of its privacy
e. Sharing of API secret key to access all the client's data with third-party vendors viz."Unofficed" and "Howutrade"

3.2. Fixed/assured periodic fixed payment/mis-spelling of products were offered to the clients

3.3. Failure to implement two-factor authentication on or before September 30, 2022

3.4. Advisory services were provided without having appropriate license

3.5. Discrepancy in the know your client (KYC) documents

3.6. Non-reconciliation of securities available in the client beneficiary account with the back-office records involving a difference of Rs.10.50 lakhs in the securities payable and Rs.2.57 lakhs in the securities receivable as on November 30, 2022

3.7. Discrepancy in Cyber security and Cyber resilience audit report submitted for the period April 01, 2022, to September 30, 2022

3.8. Failure to submit surveillance alerts for quarter ending December 2022

3.9. Non-adherence to the Exchange's Code of Advertisement

REGULATORY PROVISIONS

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

4.1. **Clients' confidential information shared with third party**.

a. Schedule II B (3) of Code of Conduct for Stockbrokers if SEBI (Stockbroker) Regulation

"Breach of Trust: A stock-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship."

b. SEBI (Stockbroker and Sub-Broker) Regulations, 1992

Stockbroker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship

c. Exchange Circular No.NSE/INSP/2008/73 dated October 23, 2008

"XI. Other dealings with clients – … Maintain confidentiality of all client related information

4.2. **Offering fixed/assured periodic fixed payments/mis selling of products to the clients**

a) Schedule II of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992

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

b) Regulation 4.5.1 and 4.5.2 (b) of Part A of CM regulations of the Exchange and Regulation 4.5.1 and 4.5.2 (d) of FO regulations of the Exchange

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.

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.

c) Rule 3(d) of Chapter IV of NSEIL Rules

Misconduct

(3) A trading member shall be deemed guilty of misconduct for any of the following or similar acts or omissions namely:

(b) Violation: If it has violated provisions of any statute governing the activities, business and operations of the Exchange, trading members and securities business in general.

d) Rule 8(3)(f) of SCRR Rules, 1957

(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 7 [or commodity derivatives] except as a broker or agent not involving any personal financial liability

e) SEBI Circular No. SMD/POLICY/CIR-6/97 dated May 7, 1997

It has been opined that borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under Rule 8(1)(f) and 8(3)(f).

f) Exchange Circular No. NSE/COMP/50957 dated January 7, 2022

it is observed that members are engaged in businesses other than securities or commodity derivatives business like entering loan arrangement with clients/entities, collecting money in the form of deposit or otherwise by offering fixed/guaranteed/periodic returns orally or in writing, extending corporate guarantees etc. which is in contravention of Rule 8(3)(f) of SCRR.…

In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below…….

5. Engaging into activities/schemes of unauthorised collective investments/portfolio management, promising, or indicating fixed/guaranteed/regular returns/capital protection

g) Exchange Circular No. NSE/INSP/51770 dated March 25, 2022

Assured Return Schemes/ Unauthorised Portfolio Management Service: It has also come to the notice of the Exchange that certain members were engaging in activities/schemes of fixed / periodic payments, which are not permitted under the Byelaws, Rules & Regulations, and circulars of SEBI/Exchanges. It is reiterated that members are not permitted to undertake any business/activity that is not allowed under the Byelaws, Rules

& Regulations and circulars of SEBI/Exchanges including operating any schemes of unauthorised collective investments/portfolio management, promising indicative/ guaranteed/fixed returns/payments etc.

h) Exchange Circular NSE/INSP/51830 dated March 31, 2022,

Members shall not make part/periodic payments, that are not commensurate with the running account settlement guidelines. However, if the client specifically requests for a pay-out, the same shall be made and the evidence of such requests received from clients shall be maintained by the member. It is to be noted that for each such pay-out to the credit balance clients, a separate request received from clients, which could be, inter alia, in the form of writing, telephone recording, email from registered mail id, record of messages through registered mobile phones, log for internet requests shall be maintained by the members.

4.3. **Non-implementation of two factor authentication**

Exchange Circular No. NSE/COMP/52623 dated June 14, 2022

Member's attention is drawn to SEBI circular SEBI/HO/MIRSD/CIR/PB/2018/147 dated December 03, 2018, on Cyber Security & Cyber Resilience framework for Stockbrokers, wherein all Members were required to mandatorily implement two-factor authentication on application offered by Members to customers through Internet Based Trading (IBT) and Securities Trading through Wireless Technology (STWT).

In joint consultation with SEBI and Exchanges, it is hereby clarified that, in addition to user ID, Members shall preferably use biometric authentication as one of the authentication factors, along with any one of the below-mentioned factors:

1. Knowledge factor (something only the user knows): - for e.g., Password, PIN.

2. Possession factor (something only the user has): - for e.g., OTP, security token, authenticator apps on smartphones etc. In case of OTP, the same should be sent to clients through both email and SMS on their registered email ID and Mobile number.

In cases, where biometric authentication is not possible, Members shall use both the aforementioned factors (Knowledge factor and Possession factor), in addition to the user ID, for 2-factor authentication (2FA)

The above guidelines shall be implemented latest by September 30, 2022

4.4. **Providing advisory services without having appropriate license**

a. Rule 8(3)(f) of SCRR Rules, 1957

(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.

b. Securities and Exchange Board of India (Investment Advisers) Regulations, 2013,

On and from the commencement of these regulations, no person shall act as an investment adviser or hold itself out as an investment adviser unless he has obtained a certificate of registration from the Board under these regulations.

4.5. **Discrepancy in KYC documents**

a. Exchange circular NSE/INSP/48624 dated June 16, 2021

"5.6 Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued."

b. Exchange circular No.NSE/INSP/44237 dated April 25, 2020

"…the SEBI registered intermediary shall continue to ensure to obtain the express consent of the investor before undertaking online KYC….

In order to enable the Online KYC process for establishing account-based relationship with the RI, Investor's KYC can be completed through online / App based KYC, in-person verification through video, online submission of Officially Valid Document (OVD) / other documents under eSign"

c. Exchange Circular No. NSE/INSP/32860 dated July 22, 2016

The registered intermediaries shall upload the KYC data with CKYCR, in respect of all individual accounts opened on or after August 1, 2016, wherever KYC is required to be carried out as per the circulars issued by SEBI from time to time and accordingly, shall take steps to prepare their systems for uploading the KYC data.

d. Exchange Circular No. NSE/INSP/18677 dated August 22, 2011

Index of documents giving details of various documents for client account opening process - Annexure-1.

SEBI has devised the uniform documentation to be followed by all the stockbrokers/trading members; a copy thereof to be provided by them to the clients. The details of such documents are listed below:

i. Index of documents giving details of various documents for client account opening process.
ii. Client Account Opening Form in two parts:

- Know Your Client (KYC) form capturing the basic information about the client and instruction/check list to fill up the form.
- Document capturing additional information about the client related to trading account.

iii. Document stating the Rights & Obligations of stockbroker, sub-broker and client for trading on exchanges (including additional rights & obligations in case of internet / wireless technology-based trading)
iv. Uniform Risk Disclosure Documents (for all segments / exchanges).
v. Guidance Note detailing Do's and Don'ts for trading on exchanges

4.6. **Non-reconciliation of securities available in the client beneficiary account with the back-office records**

a. Exchange Circular No. NSE/INSP/29096 dated March 11, 2015

The Members are advised to reconcile client beneficiary account/s and the register of securities on a quarterly basis and maintain a complete audit trail & documentation of such reconciliation.

b. Exchange Circular No. NSE/INSP/10605 dated April 21, 2008

The records should be periodically reconciled with the actual collateral deposited with the broker.

4.7. **Observation pertaining to cyber security and cyber resilience**

a. Exchange Circular No.NSE/INSP/53992 dated October 07, 2022

"the trading members to conduct cyber security and cyber resilience audit for the period April 01, 2022 to September 30, 2022 and submit the report to the Exchange as per the following timelines…

The procedure for submitting the report by member and auditor through ENIT module in the Member portal is provided in ***Annexure- A*** *and* ***Annexure-B*** *respectively."*

b. Exchange Circular No. NSE/INSP/52249 dated May 10, 2022

Stockbrokers/ Depository Participants shall deploy detection and alerting tools. Members shall create process to prevent, contain and respond to a data breach/ data leak.

Stockbrokers / Depository Participants should prepare detailed incident response plan and define roles and responsibilities of Chief Information Security Officer (CISO) and other senior personnel. Reporting and compliance requirements shall be clearly specified in the security policy. In addition, share the details of CISO with CERT-In through Email (info AT cert-in.org.in)

This Technology Committee should on a half yearly basis review the implementation of the Cyber Security and Cyber Resilience policy approved by their Board / Partners / Proprietor, and such review should include review of their current IT and Cyber Security and Cyber Resilience capabilities, set goals for a target level of Cyber Resilience, and establish plans to improve and strengthen Cyber Security and Cyber Resilience. The review shall be placed before the Board / Partners / Proprietor of the Stock Brokers / Depository Participants for appropriate action.

c. Exchange circular No.NSE/INSP/42422 dated October 16, 2019

"SEBI provided the clarification on the periodicity of the cyber security Audit and the qualification of the Auditor. The format for submitting the quarterly report on the cyber-attacks and threats has also been specified."

d. Exchange Circular No. NSE/ITRC/40081 dated January 30, 2019

1. *Since stockbrokers and depository participants perform significant functions in providing services to holders of securities, it is desirable that these entities have robust cyber security and cyber resilience framework in order to provide essential facilities and perform systemically critical functions relating to securities market.*

2. *Accordingly, after discussions with Exchanges, Depositories and Stockbrokers' and Depository Participants' associations, a framework on cyber security and cyber resilience has been designed, which is placed at Annexure 1. The framework would be required to be complied by all Stockbrokers and Depository Participants registered with SEBI.*

Annexure 1

3. The Cyber Security Policy should include the following process to identify, assess, and manage Cyber Security risk associated with processes, information, networks and systems:

   a. 'Identify' critical IT assets and risks associated with such assets.
   b. 'Protect' assets by deploying suitable controls, tools and measures.
   c. 'Detect' incidents, anomalies and attacks through appropriate monitoring tools/processes.
   d. 'Respond' by taking immediate steps after identification of the incident, anomaly or attack.
   e. 'Recover' from incident through incident management and other appropriate recovery mechanisms.

Alerts generated from monitoring and detection systems should be suitably investigated in order to determine activities that are to be performed to prevent expansion of such incident of cyber-attack or breach, mitigate its effect and eradicate the incident.

48. The response and recovery plan of the Stockbrokers / Depository Participants should have plans for the timely restoration of systems affected by incidents of cyber-attacks or breaches, for instance, offering alternate services or systems to Customers. Stockbrokers / Depository Participants should have the same Recovery Time Objective (RTO) and Recovery Point Objective (RPO) as specified by SEBI for Market Infrastructure Institutions vide SEBI circular CIR/MRD/DMS/17/20 dated June 22, 2012, as amended from time to time

51. The response plan should define responsibilities and actions to be performed by its employees and support / outsourced staff in the event of cyber-attacks or breach of Cyber Security mechanism.

4.8. **Failure to submit surveillance alerts for quarter ended December 2022**

a. Exchange Circular No. NSE/SURV/48818 dated July 1, 2021

"For effective monitoring, trading member shall frame a surveillance policy covering all such applicable business models/services they offer...

…The surveillance policy of the Trading member shall be approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be...

…The policy needs to be reviewed on a periodic basis to keep it in line with the market trends…

…It is reiterated that in addition to the transactional alerts downloaded by Exchanges, Trading members are also required to generate appropriate surveillance alerts at their end, to enable them to effectively monitor the trading activity of their clients at their end as per the laid down surveillance policy…

…Trading Members are also required to provide duly approved status of the alerts on a quarterly basis…

…Trading members may note that during investigation/inspection, if it is observed that the member has not fulfilled their surveillance obligations, then appropriate disciplinary action shall be initiated against the concerned trading member…"

b. Exchange Circular No. NSE/SURV/40148 dated February 5, 2019

"Trading members have responsibility of monitoring the trading activity of their clients. Accordingly, Trading Members are advised to step-up monitoring of the trading activity of their clients including intra-day activity and proactively report to the Exchange observations/findings, if any."

c. Exchange circular dated NSE/ITRC/40081 dated January 30, 2019

"The framework would be required to be complied by all Stockbrokers and Depository Participants registered with SEBI."

4.9. **Non-adherence to the exchange's Code of Advertisement**

Exchange Circular No. NSE/COMP/33643 dated November 16, 2016

1.1 Advertisement shall include all forms of communications issued by or on behalf of Stockbroker in publicly available media that may influence investment/sale decisions of any investor/prospective investors.

1.4 Advertisement/Material shall not contain:

f. *Any statement designed to exploit the lack of experience or knowledge of the investors.*

h. Any promise or guarantee of assured return to the general investors.

k. *Superlative terms, such as best, no. 1, one of the best, among market leaders, etc. unless such terms is provided by an entity independent of the*

Stock Broker and its affiliates, and whose services are not procured by the Stock Broker or any of its affiliates to assign the Stock Broker such term.

1.5 Compliance and Other Requirements:

a. *Prior approval for the advertisement/material to be obtained from the Stock Exchange before issue.*

g. *The Stockbroker shall not involve/engage in games/leagues/schemes/competitions etc. which may involve distribution of prize monies/medals/gifts, etc*

PRESENT PROCEEDINGS BEFORE MCSGFC

5. The Exchange, vide email dated May 19, 2023, granted the Noticee an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. A. Srisaradha: Designated Director, Mr. Sidhavelayutham M.: Director, Mr. Saravana: Compliance Officer on behalf of the Noticee, appeared for the personal hearing from their respective location(s).

6. The representatives of the Noticee made the following oral submissions before the Committee:

6.1. The Noticee website provides a trading platform to the clients as a discount broker. Third parties ancillary services are provided to the clients via Tradestore and the clients could alternatively avail of the services of Tradestore. the Noticee website did not host these services.

6.2. With respect to observation related to the client's confidential information, no such information was shared with the third party. The data was very basic, and before availing of the services, the clients provided their consent.

6.3. With respect to observations related to assured returns and misselling of products, the clients such as Ms.Joysree Sengupta (UCC: 486465) made pay-out requests of a specific amount as per their own requirement. These regular sized pay-outs are very rare and cannot be considered as assured returns. On Facebook, the information was provided by third parties and not belongs to the Noticee. The details mentioned in the webinars were mere information and no promise/assurance of returns was conveyed to the clients. Registrations of the authorised persons who failed to comply with SEBI and Exchange rules and regulations have been cancelled.

6.4. The Noticee only provides broking services. Other brands use the goodwill of the Noticee to increase their business due to its sheer size and brand value. On Facebook, the Tradestore information was provided by third parties and not by the Noticee.

6.5. The cyber security and cyber resilience auditor appointed by the Exchange in September 2022 as per another audit provided that all the systems of the Noticee related to cyber security and cyber resilience are updated and well maintained as of April 2023.

CONSIDERATION AND FINDINGS

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

7.1. Clients' confidential information shared with third party

7.1.1. a. Upon verification of the Noticee's website, it was observed that the Noticee is hosting and operating an online marketplace for trading products in the name of 'Tradestore'.

b. The Exchange verified the agreement dated April 01, 2022, executed between the Noticee and M/s Growth Avenue **("GAA")**, a Tradestore vendor for hosting GAA's software i.e., "Neo Trade Lite and Neo Trade Pro" on the Tradestore. A few clauses of the said agreement are reproduced herein below:

"*1. Alice Blue facilitates space on its marketplaces (mobile app and web app) to stockbrokers, commodity brokers, and other business houses to advertise and promote their brand (s) /product (s) through their online platform 'Tradestore'….*

1. ….Alice Blue consents to grant space on Alice Blue's online market place (Mobile app and Web app) called Trade Store ("Trade Store") for hosting, promoting, and selling GAA's software, NeoTrader Lite, and NeoTrader Pro.

4. GAA shall get registration details of their clients who wish to use or opt for free or paid subscription license, as the case may be, to use the trail or paid subscription respectively, hosted on Tradestore…."

c. Upon verification it was observed that Client registration details were shared with the third-party vendor i.e., "Growth Avenue" without the client's consent in the case of 205 clients.

d. Upon verification of an email dated July 28, 2022, received from the client namely Mr. Sunil Chaudhary addressed to the Noticee compliance email id viz. compliance@aliceblueindia.com, with the subject "Data sharing (illegal activity)", it is observed that the client

had filed a grievance with the Noticee with respect to the infringement of its privacy. The email content is reproduced herein below:

""I opened Account with Alice Blue 3 days ago. Immediately after opening the account, I started getting calls related to trading. And when I asked them where did you get my number, they said that sir you have opened a demat account somewhere and got it from there. I recently just opened an account with Alice Blue. If my number are shared on behalf of Alice Blue, then it is a privacy offense. Please look into this matter and inform me with immediate effect otherwise I will have to make a complaint to the government commission.

e. Upon verification of emails dated March 26, 2019, March 27, 2019, March 28, 2019, and April 03, 2019, it is observed that the Noticee had shared the API secret key to access all the client's data with the third-party vendors viz. "Unofficed" and "Howutrade". The relevant emails are reproduced herein below:

Email dated March 26, 2019 - Krishna Velu (krishnajvelu@gmail.com) (Team member of Amit Ghosh -Aeron 7) email to Alice Blue

"This was supposed to a master client secret. Means these client secrets should work with all accounts, but its not working with amit's account……
….i'm able to successfully place order using API, but i'm not able to modify the order……. "

Email dated March 27, 2019 - Krishnavelu (Team member of Amit Ghosh -Aeron 7) to Mr. Nagarjun employee of the Noticee

"I'm also using OAuth2.0. I'll just explain what I'm doing and where I'm facing problems in accessing other's account. Please guide me if I'm doing something wrong……
It was supposed to be a master client secret. Means with this client_secret 'hV3TaQ9NCLAKEy5QgJ7kAX6oEZeHYSUfUyZAHFWpYxEBxaR45wyOTlZXe13P0Y'. I should be able to access all accounts. Correct me if I'm wrong."

Email dated March 28, 2019 Krishnavelu (Team member of Amit Ghosh -Aeron 7) to Mr. Nagarjun employee of the Noticee

"how can I access multiple accounts with the given api_secret"

Email dated April 03, 2019 Mr. Nagarjun employee of the Noticee to Mr. Krishnavelu (Team member of Amit Ghosh -Aeron 7)

"Hi Krishna,
Kindly check with this client secret confirm it

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

a. The Noticee provides efficient and convenient stock broking services and facilities to the clients with the best available advanced technologies at minimal charges. Tradestore was one such facility. It was a product marketplace of web and application based trading products for the clients, for a more efficient trading experience as desired by the clients voluntarily. Tradestore functioned independently by one of the vendors viz. Evoque lnnovative Lab. Now, Tradestore has been disabled from the website.

b. Notably none of the products and operations of Tradestore were directly managed by the Noticee. However, the products and services were reviewed on a timely basis. Requisite changes were implemented as per the SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2022/117 dated September 02, 2022, in the context of performance/return claimed by the unregulated platforms offering algorithmic strategies for trading. Vendors were requested to comply with the changes.

c. The vendor Evoque lnnovative Lab complied with the requisite SEBI circulars. The Noticee has disassociated itself from such products and promised returns that fail to meet up the compliance requirements of the rules and regulations of SEBI and Exchange.

d. Inadvertently, at the relevant time the vendor missed out on some points. Pursuant to this all the products available on Tradestore were discontinued.

e. In past, Evoque lnnovative Lab approached to list Tradestore products on the Noticee's website/platform for the investors/clients to subscribe. The prices were decided and mentioned by the vendor based on strategies provided by them. The Noticee did not have any involvement in respect of the same since the agreement was made between the vendor and the investors/clients.

f. "Unofficed" and "Howutrade" were not the Noticee's vendors, and they were not related to the Noticee in any manner.

Process of Subscription

g. Prior to the discontinuation, if the users were interested in availing the services of the products listed on the Tradestore, they were required to login to Tradestore website and choose the products for subscription based on their requirements. The product could be subscribed to and accessed once the product was purchased.

h. It is submitted that no client confidential data was shared without intimation and consent of the client. The clients, who voluntarily subscribed to the services of the products, agreed to share the information to experience efficient trading facilities. Prior to availing of services offered by the third party, the clients must provide consent on the pop-up, which was available as part of the user agreement. The client authorises to share information of their client code, email Id, mobile number etc to the product vendor to get access to the product.

i. With respect to Growth Avenues, it is submitted that Growth Avenues (GAA) was a third-party vendor for hosting Evoque Innovative Lab's services of Neo Trade Lite and Neo Trade Pro on the Tradestore platform. In fact, in the agreement executed with GAA, it was mentioned that

""GAA shall get registration details of their clients who wish to use or opt for free or paid subscription license, as the case may be, to use the Trial or the Paid subscription respectively, hosted on Trade store. It is clarified that each user may opt for the free trial option only once"

The clients agreed to avail services in lieu of the abovementioned data.

"Quick Algo+ Is A Web- grounded operation That Allows You To Do Alga Trading In The Indian Stock Market, You Can Connect Your Broker Or Exchange With Quick Alga+ And Do Alga Trading According To Your Trading Strategy. Then You Can Do Your Alga Trading with Top Leading Brokers Zerodha, Master Trust, Fyers Alice Blue, Angel one or 5paisa, MT4 Or Trading View. QUICK ALGO+ PVT. LTD. (SOFTWARE PROVIDER) is one of the stylish API islands to connect your D-MAT account with our advanced garcon providers in India that helps people to invest precisely in the Indian Market. we've developed strategies for

perpetration on colorful scripts so that you get the stylish support to secure plutocrat.

API Secret Key

j. The API system being stringent requires credentials to access certain functionality. Without proper login credentials, users cannot perform certain actions. To access the trading system, the users must provide details such as user ID, API key, user password, user DOY and call back URL.

k. In 2019, the API was accessible with a combination of client credentials (client ID, password, DOY). A user only with an API key would not be able to create sessions with other clients. The system since was improved with a login flow requiring 2FA TOTP or OTP authorization to create a session. Therefore, the alleged observation with respect to sharing of API keys cannot be considered valid because it cannot lead to any potential threats to any clients. It was pertinent to mention that based on the observations provided by the Exchange, email backups were taken in 2019.

l. The products are tested with a close group of clients before going live, and initial API keys were only given to the business associates and selected clients.

m. At the relevant point of time, the API portal was not live for all the associates and clients. The API key was only accessible for a particular client ID, the clients must enter the credentials to generate the sessions. The Noticee did not possess any master API from its end and the clients could generate the API key from its end, if needed. Confidential information of the clients was never shared with the third party without the client's approval.

7.1.3. The Committee finds as under:

a. The Noticee contended that it did not manage the products and operations of the Tradestore directly and only timely reviewed the products. The Noticee had provided a product marketplace, and the prices were decided by the vendor based on the strategies provided by them. While availing services by the clients offered by the third party, a pop-up appeared which was a part of the user agreement authorising the client to share the client code, email ID, and mobile number. The Noticee disabled Tradestore from its website during the inspection.

b. The Noticee accepted that the Tradestore is a facility provided by the Noticee, which is a marketplace of web and application-based trading products. Thus, the Noticee is responsible for all the products offered on the Tradestore platform, irrespective of whether the products are managed by the Noticee itself or products offered by third parties.

c. It is observed from the agreement dated April 01, 2022, executed between the Noticee and M/s Growth Avenue ("GAA"), the Noticee agreed to share the registration details of its clients who opted for a free or paid subscription of GAA, who is a third-party vendor. The Committee noted that the client registration details of 205 clients were shared by the Noticee to GAA under the said agreement. Thus, the violation persists.

d. The committee also took note of a complaint filed by a client of the Noticee namely Mr.Sunil Chaudhary related to the sharing of personal details illegally and the infringement of his privacy rights.

e. The Noticee's contention that a pop-up appeared which was a part of the user agreement authorising a client to share the client code, email ID, and mobile number is not acceptable as the pop-up was for sharing client details with the third party through its Tradestore platform.

f. The committee also observed that the Noticee withdrew the abovementioned arrangement of Tradestore from its website. However, post inspection compliance does not absorb the Noticee for the violations already committed.

g. SEBI (Stockbroker and Sub-Broker) Regulations, 1992, Members shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which the Trading Members comes to know in its business relationship. Therefore, the violation persists.

h. Exchange Circular NSE/MEM/3587 dated September 04, 2002, trading member hereby undertakes to maintain the details of the client as mentioned in the client registration form or any other information pertaining to the client, in confidence and that it shall not disclose the same to any person/ entity except as required under the law.

7.1.4. Given the findings as above the Committee decided to levy a monetary penalty of Rs.2,00,000 for the observed violations.

7.2. <u>Offering fixed/assured periodic fixed payments/misselling of products to the clients</u>

7.2.1. a. Upon verification of the Facebook page of the Noticee in the name of Tradestore, it was observed that the Noticee along with its third-party vendor's application viz. MiBot, Neo Trader, and Trade School were offering assured returns/mis-selling the products. The Exchange observed the following statements published on social media:

i. *Proven way to earn 4-5% average monthly returns.*
ii. *Back tested strategy to earn 4-5% average monthly income.*
iii. *Profitable Trading with Neo Trader*
iv. *How to make consistent monthly income in option*
v. *Earn daily profits from intraday trading with Neo Trader*
vi. *How to make consistent profit in option trading*

b. Upon further verification of the emails sent by the Noticee to its clients, it is observed that the Noticee was offering assured returns/mis-selling the products hosted on Tradestore (Facebook page) via email. The sample emails are as under:

Email date	Email particulars
February 11, 2022	Invitation for live session for NeoTrader regarding 'Learn How you can pick the right sector every time and profit from ...'
February 12, 2022	Invitation for MI Bots regarding 'Proven way to earn 4-5% avg monthly return'
September 01, 2022	E-mail titled 'Tradestore – Product of the Day' stating 'this is a stress-free trading system that may give a steady monthly income'. Sent to a mailing group
July 23, 2022	Invitation for a webinar on 'earn consistent returns and get free lifetime access to Algo trading platform'
August 24, 2022	Invitation for a webinar on 'Learn how to make consistent returns through powerful options strategy along with algo trading'
October 27, 2022	Invitation for a webinar on 'learn how to make consistent returns from the stock market
September 04, 2022	Invitation for a webinar on 'is it possible to make consistent profits through Trading Bots!'

c. In addition to the above emails, the Exchange observed 23 additional emails offering assured returns/mis-selling of the products hosted on Tradestore.

d. The Exchange received an email dated August 18, 2022, from one client, Mr. Paras Shah addressed to the investor service cell of the Exchange. Upon verification of the email, the Exchange observed that the client is claiming for the assured return offered by the Noticee's vendor "Star Algo" wherein Star Algo was offering 2% to 3% return on capital every day using algo software. The excerpts from the client email are as under:

"A. I have been approached by the company named as "START ALGO" for trading in the share market through their Algo Softwares for which i had made them payment of Rs. 50,000 dated 31/07/2021 [Invoice has been attached with this mail for reference].

B. This company via its executive Mr. Saurabh had given me assurance of earning 2-3% return on my capital everyday using Algo Softwares.

C. I had told them that I have my demat account with Ventura Securities Ltd but they compelled me to open a demat account with "Alice Blue Fin Services Pvt Ltd" as this company has done tie up with Start Algo Company. Basically, a mutual agreement is there between Start Algo & Alice Blue Fin Ser Pvt Ltd Wherein Start Algo compels their clients to open Demat Account with Alice Blue only.

D. So I opened an account with Alice Blue. After opening the account, I had made a total payment of Rs 2,00,000.00/- in my demat account [Ledger is attached with this mail along with UPI / NEFT Ref number].

E. As i transferred the amount to my demat account Mr. Saurabh called me & informed me that now he will manage my demat account wherein everyday he will make a profit of 2-3% on my capital. So, I shared my user id & password with him."

e. Further, the Exchange verified the financial ledgers of the Noticee. Upon analysis, the Exchange observed that during the period April 01, 2021, to November 30, 2022, funds pay-outs were released to 2,56,430 clients. In the case of 416 clients out of 2,56,430 clients, a pattern of fixed payment/payments as a constant percentage of the

previous day is released to clients at a regular frequency involving Rs.583.94 lakhs.

f. Upon further analysis of the financial ledger of 2 sample clients out of 416 clients, Ms. Joysree Sengupta (UCC: 486465), and Ms. Vijayalaxmi Khande (UCC: 441498), it is observed that the pattern of fixed payments/payment as a constant percentage of the previous day is released to clients at a regular frequency as under:

g. A client namely Ms. Joysree Sengupta (UCC: 486465)

- A client received a monthly fixed funds pay-out of Rs.14,000/- for the period of 9 months.

- Upon further review of the closing balances, it is observed that the closing balance is in the range of Rs.2.95 lakhs, to Rs.3.32 lakhs, for the monthly fixed payments of Rs.0.14 lakh.

- The said fixed funds pay-out of Rs.0.14 lakh is in the range of 4.05% to 4.53% of the previous day closing balance.

h. A client namely Ms. Vijayalaxmi Khande (UCC: 441498)

- Upon further review of the closing balances on the pay-out dates, it is observed that the closing balance is in the range of Rs.2.46 lakhs, to Rs.3.60 lakhs, for the monthly fixed payments in the range of Rs.11,500 to Rs.16,000.

- A client received payments in the range of Rs.11,500 to Rs.16,000 which is in the range of 4.20% to 5.93% of the previous day's closing balance.

i. Upon further analysis it is observed that 211 clients out of 416 clients belong to one Authorised Person (AP) namely Ms. Vijayalaxmi Navadgere (TM AP Code: KA46) and the remaining 205 clients are direct clients of the Noticee. Fund released to 211 clients mapped under the said AP was Rs.298.56 lakhs and for 205 clients was Rs.285.38 lakhs.

j. Upon analysis of IP addresses for 364 fund pay-outs released in the month of October 2022, the IP addresses were found in the case of 299 payment entries. For dated October 28, 2022, upon analysis of IP addresses for 43 payment entries pertaining to 43 clients it is observed that instead of originating funds pay-out requests from 43 different IP addresses, the funds' pay-out request was observed to

be initiated from 5 IP addresses. The similar pattern was noted for other days of October 2022.

7.2.2. In reply to the SCN, Noticee submitted as under:

Reply dated May 19, 2023

a. Webinars as mentioned under paragraph no.4.2.1 of the SCN, all webinars as mentioned in the annexures were conducted purely for educational purposes to help our client in understanding the stock market to have a better trading experience. Further, no promise/assured return was conveyed to the clients in any manner.

b. Exchange Circular NSE/COMP/53555 on the subject matter of performance/return claimed by unregulated platforms offering algorithmic strategies for trading read with SEBI circular SEBI/HO/MIRSD/DOP/P/CIR/2022/117 dated September 02, 2022, there were certain guidelines issued with respect to restriction of services relating to algorithmic trading by stockbrokers to prevent instance of mis-selling to protect the interest of the investors in the securities market.

c. The said circulars mentioned that the stockbrokers shall refrain from referring to any past or expected future return/performance of the algorithm and not be associated with any platform providing such references.

d. Appropriate actions were taken to disassociate the products which displayed the analysis of past performance reports, promised returns and such activity which did not adhere to the circular. Only 2 products were continued which possessed the Exchange approval.

e. Email dated February 12, 2022, and February 11, 2022, are articulated with the purpose to provide education and better learning to the clients.

f. Further emails dated September 01, 2022, July 23, 2022, August 24, 2022, October 27, 2022, and September 04, 2022, are merely internal communication between the employee of the Company.

g. The client registered a complaint with the Exchange about the product “Start Algo”. In the given instance, the grievance redressal committee observed that the client paid a good amount to the third-party platform with the intention to earn a profit and maximum benefits. The client himself availed of the facility.

Periodic fixed payments

h. 416 clients as alleged for fixed pay-out were not associated with Tradestore. The Exchange observed that the funds pay-out was provided to 2,56,430 clients and discrepancies were observed in the case of 416 clients which were mere 0.16 % of the total clients to whom pay-outs were made.

i. Clients did possess an option to initiate the pay-out request from the BOT application against which the back-office platform provided complete details of the financial transactions that would include margins, positions, holdings, ledgers, reports, and others. When the request was generated from the BOT application by the clients the pay-out gets processed.

j. The Noticee is in the process of verifying and analysing the said fund payout of the 416 clients and IP addresses and requests to provide additional time to make submissions.

k. Out of 416 clients for whom the alleged period fixed payment was observed, 211 clients belong to one authorized person namely Ms. Vijayalaxmi Navadgere (TM AP Code: KA46) and her AP registration was cancelled in the month of August 2022.

Reply dated May 30, 2023

l. Notably, the Facebook page as mentioned under Para No.4.2.1 of SCN does not belong to us. The Noticee's name is only mentioned at the top and bottom of the Facebook page. The Noticee has no role to play in the content as displayed on the Facebook page as the same does not belong to the Noticee.

m. Besides the content displayed on the Facebook page is only a webinar conducted, purely for educational purposes to help clients in understanding the stock market to have necessary and need based knowledge.

n. With respect to periodic fixed payment, the Noticee has a robust system in place wherein clients log-in to the application for pay-in and payout. The client has the option to initiate a payout request from the BOT application, which is a back-office platform. Thus, when the request is generated from the BOT application by the clients, the pay-outs get auto processed. All the payouts were punched by the clients via trading applications.

7.2.3. The Committee finds as under:

a. The Noticee contended that every content of webinars mentioned was purely educational and intended to create awareness of the options markets and there were no promotional/advisory contents. Further, the webinars were merely informative, and no promise/assurance of returns was conveyed to the clients. The Noticee in its reply dated May 30, 2023, contended that the Facebook page does not belong to the Noticee and the name of the Noticee is merely used to generate interest. Besides the content of the Facebook page is only webinar conducted for educational purposes. However, the contention of the Noticee is not acceptable as the Noticee should act responsibly before publishing any information on its social media platforms.

b. The observations pertaining to statements published on social media and emails viz, *a* proven way to earn 4-5% average monthly returns, back-tested strategy to earn 4-5% average monthly income, profitable Trading with Neo Trader, how to make consistent monthly income in option, earn daily profits from intraday trading with Neo Trader and how to make consistent profit in option trading. The Committee observed that the Noticee was mis-selling the products referring to past performance. However, as mandated under SEBI circular No.SEBI/HO/MIRSD/DOP/P/CIR/2022/117 dated September 02, 2022, the Noticee disassociated itself from such platforms referring to the past and expected return/performance.

c. With respect to the complaint of Mr. Paras Shah, the Committee noted that the complaint was placed before the Grievance Redressal Committee (GRC) of the Exchange. On the basis of the written and oral submission of the parties, the GRC vide its order dated September 07, 2022, rejected the claim of the complainant.

d. With respect to 416 clients, a pattern of fixed payments was observed and the funds' payout requests for 43 clients originated from the 5 IP addresses instead of 43 different IP addresses.

e. The Noticee contended that the Noticee has a robust system in place wherein the client login to its BOT application and requests fund payouts. All the fund payouts were punched by the clients via trading applications. In this regard as directed by the Committee, the Exchange conducted a limited purpose inspection of the Noticee's books and accounts covering the period from December 01, 2022, to June 15, 2023, to verify the pattern of fixed funds payout and fixed percentage in funds payout. During the inspection, the Exchange observed fixed fund payouts in the case of 37 instances pertaining

to 8 clients. However, upon verification of the log for the fund payout request submitted by the Noticee, it is observed that all the funds' payouts were initiated basis the request from the clients.

f. The Committee noted that out of observed instances, 211 clients were mapped to one Authorised Person namely Ms.Vijayalaxmi Navadgere. The Noticee submitted that it has cancelled the Authorised Person registration of Ms. Vijayalaxmi Navadgere's in the month of August 2022. However, the Noticee has failed to initiate all necessary action including the filing of a police complaint as stipulated under SEBI circular No. MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009, which states that "*On noticing irregularities, if any, in the operations of authorised person, stock broker shall seek withdrawal of approval, withhold all moneys due to authorised person 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*."

g. The Committee observed that out of the total observed instances, 211 clients are mapped to one AP namely Ms.Vijayalaxmi Navadgere and the Noticee terminated an AP registration of Ms. Vijayalaxmi Navadgere. The Noticee holds accountability towards all the clients mapped with the APs and is fully liable for the acts of its APs. By failing to exercise adequate control over the activities of its AP, the Noticee has failed to discharge its duty towards the clients and has grossly failed in the conduct of its business. The actions of Noticee and its AP have raised an immense risk to the existing investors. The same reflects that the activities of Noticee are not within the ambit of the regulatory provisions.

h. SEBI has put in place a framework for Market Access through APs pursuant to the recommendations made by the Secondary Market Advisory Committee of SEBI. The said framework is notified by SEBI vide its circular No. MIRSD/ DR-1/ Cir- 16 /09 dated November 06, 2009. The said framework casts a regulatory obligation on the Trading Members, and the Trading Member shall be responsible for all acts of omission and commission of its Authorized Person(s) and/or employees, including liabilities arising therefrom. The same is reproduced hereinbelow:

7. Obligations of Stock Broker

a) The stock broker shall be responsible for all acts of omission and commission of his authorised person(s) and/or their employees, including liabilities arising there from.

g) *On noticing irregularities, if any, in the operations of authorised person, stock broker shall seek withdrawal of approval, withhold all moneys due to authorised person 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.*

7.2.4. Given the findings mentioned above, the Committee decides as under.

a. The Noticee is prohibited from onboarding new Authorised Persons for three months from the date of this order.

b. The Noticee shall take all actions as advised by SEBI in terms of SEBI Circular No. MIRSD/ DR-1/Cir-l6/09 dated November 6, 2009, including the filing of a police complaint against Ms.Vijayalaxmi Navadgere.

c. The Noticee is to conduct a detailed examination of all its APs, including the activities of directors of its APs, and take immediate actions against them if required. The Noticee shall report the same to the Exchange within three months from the date of the order.

d. The Noticee shall collect a written undertaking from all its clients at the time of onboarding new clients stating that the member has not offered any assured return schemes, the client shall agree not to demand any such assured return from the member, and that the member has explained the risk involved in trading in the securities market.

e. The Noticee is to issue weekly SMSs and emails to all its registered clients stating that it does not offer any assured/fixed return scheme for the next six months from the date of the order.

f. Conduct a concurrent audit and submit a fortnightly certificate to certify that the clients are not being offered assured/fixed returns for the next six months.

7.3. <u>Non-implementation of two factor authentication</u>

7.3.1. Upon verification of the Noticee's email dated January 28, 2023, it is observed that the Noticee has not implemented the 2-factor authentication on or before September 30, 2022, for its clients.

7.3.2. In reply to the Noticee, Noticee submitted as under:

As mandated by the Exchange Circular No. NSE/COMP/52623 dated June 14, 2022, the 2-factor authentication was implemented and the same was available on the portal with effect from October 01, 2022. The delay occurred due to a technical issue in the 2-factor authentication implementation therefore both the new login and the existing login options for the clients were enabled.

A new login flow was provided to the clients to make the login process smooth and to prevent any technical issues. A parallel login mechanism was provided as per the client's feasibility and interest.

The existing option for all the clients was removed and the OTP/TOTP option was implemented with effect from October 28, 2022, for all the clients.

7.3.3. The committee finds as under:

a. The Noticee contended that it had implemented the Two Factor Authentication by October 01, 2022, but due to technical issues with 2-factor authentication it kept both new and old options open to the clients to avoid unwanted technical glitches is not acceptable as the Exchange has issued circular on June 14, 2022, and requested all the Trading Members to implement the said guideline by September 30, 2022.

b. The Noticee submitted that it has now removed the existing option for all the clients and effectively implemented the OTP/TOTP option on October 28, 2022.

c. Exchange Circular No. NSE/COMP/52623 dated June 14, 2022, provides wherein all Members were required to mandatorily implement two-factor authentication on application offered by Members to customers through Internet Based Trading (IBT) and Securities Trading through Wireless Technology (STWT) by September 30, 2022.

7.3.4. Given the findings mentioned above, the Committee decided to warn Noticee to ensure non-recurrence of the observed violation.

7.4. <u>Providing advisory services without having appropriate licence</u>

7.4.1. Upon verification of the website of the Noticee, it is observed that the Noticee is offering intraday tips and advisory services without having appropriate license.

7.4.2. In reply to the SCN, Noticee submitted as under:

The advisory services were provided to the clients through the Noticee's platform only by SEBI registered intermediaries/entities/advisors. The services were only provided to the clients who demanded to subscribe/avail of the services. The said services were not provided to all the clients.

Following SEBI registered intermediaries/entities/advisors provide services through the Noticee's platform:

a. Smallcase technology private limited: SEBI Registration No. INH200006895.
b. Pickright technologies private limited: SEBI Registration No. INA200015635.
c. Tavaga advisory services private limited: SEBI Registration No. INA000013457

7.4.3. The Committee finds as under:

a. The Noticee contented that the advisory services provided to the clients through its platform by SEBI registered intermediaries/entities/advisors are not acceptable as the advisory services were provided by the Noticee via its platform and thus acted as an Investment Adviser. Further, the Noticee has not informed its clients that such advisory services were provided by third parties. Thus, the violation persists.

b. Securities and Exchange Board of India (Investment Advisers) Regulations, 2013, stipulates that, no person shall act as an investment adviser or hold itself out as an investment adviser unless he has obtained a certificate of registration from the Board under these regulations.

7.4.4. Given the findings mentioned above, the Committee decided to warn Noticee to ensure non-recurrence of the observed violation.

7.5. <u>Discrepancy in Know Your Client (KYC) documents</u>

7.5.1. Upon verification of KYC documents of the 20 clients selected for sample scrutiny, in all 20 clients, the following discrepancies were observed:

a. Affixed client's signature on all the segments despite not having client confirmation.

b. Contradictory clause in the KYC documents - Running Account authorization allows the Noticee to retain Rs.10,000 as a part of running account settlement.

c. Not collected the mandatory details of the client as part of KYC documentation (Like past actions, dealing with other brokers etc.,)

d. Mentioned the research service, wealth creation process in the KYC documents of the client despite having not registered for the same.

7.5.2. In reply to the SCN, Noticee submitted as under:

a. There were certain discrepancies observed with respect to the KYC documents of 20 clients. Corrective measures in this regard were already taken.

b. With respect to the signatures related discrepancy at the time of the account opening, it is submitted that the corrective steps were taken and as on the date the link for opening an account is as https://aliceblueonline.com/how-to-videos/how-toopen-a-trading-account-through-ekyc-in-e

c. With respect to the reference of the research services, the wealth creation process in the KYC form, it is submitted that the forensic audit report pertained to potential anomalies noted in the client registration form that was opined *"The above-mentioned clause was not Found in client registration form executed after 06 November 2022, i.e., following clients from our sample list."*

7.5.3. The Committee finds as under:

a. Noticee accepted the inspection observation and submitted that it has now taken corrective measures. However, post-inspection compliance does not absolve the Trading Member of its liability for the violations already committed. Thus, the violation persists.

b. Exchange circular NSE/INSP/48624 dated June 16, 2021, stipulates that the retention of any amount towards administrative/operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued. Thus, by retaining the clause in running account authorization, the Noticee violated the said circular.

c. Exchange circular No.NSE/INSP/44237 dated April 25, 2020, require the Trading Members to ensure to obtain the express consent of the investor before undertaking online KYC. Thus, by affixing the client's signature on all the segments despite not having client confirmation, the Noticee has violated the said circular.

7.5.4. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.3,10,000 in terms of Exchange Circular No.NSE/INSP/53530 dated September 02, 2022.

(Monetary Penalty of Rs.3,00,000/- for violation pertaining to Discrepancy in Know Your Client (KYC) documents in case of 20 clients where the prescribed penalty to be levied is Rs.15,000 per client + Monetary Penalty of Rs.10,000/- for violation pertaining to inclusion of contravening clauses/omission of material details)

7.6. <u>Non-reconciliation of securities available in the client beneficiary account with the back-office records</u>

7.6.1. Upon verification of the Registrar of Securities ("**ROS**") vis-à-vis the demat account holdings as on November 30, 2022, it is observed that the Noticee failed to reconcile securities available in the client beneficiary account with the back-office records involving differences of Rs.10.50 lakhs in the securities payable, and Rs.2.57 lakhs in the securities receivable.

7.6.2. In reply to the SCN, Noticee submitted as under:

a. During the course of forensic audit given clarification for more than 4 lakhs clients on a prioritized value basis.

b. As of date, the Noticee has reconciled the entire data, and no mismatch was found. A summary of the clients who allegedly reconciled differences, along with the remarks is provided.

7.6.3. The Committee finds as under:

a. The Noticee accepted the inspection violation and submitted that as on the date of filing of reply, it had reconciled the entire data is not acceptable, since post-inspection compliance does not absorb the Noticee for the violation already committed. Thus, the violation persists.

b. The Committee noted that as per Exchange Circular Reference no. NSE/INSP/10605 dated April 21, 2008, and NSE/INSP/29096

dated March 11, 2015, the members are required to periodically reconcile client beneficiary account/s and the register of securities and maintain a complete audit trail and documentation of such reconciliation.

7.6.4. Given the finding mentioned above, the Committee decided to levy a monetary penalty of Rs.37,500/- [Rs.25,000 (prescribed penalty) + Rs.12,500 (escalated penalty @ 50% for repeat violation)] for the observed violation in terms Exchange Circular No. NSE/INSP/53530 dated September 02, 2022.

7.7. <u>Observation with respect to Cyber Security and Cyber Resilience Audit conducted by an external auditor</u>

7.7.1. Upon verification of the Cyber Security and Cyber Resilience audit report submitted by the Noticee for the period April 01, 2022, to September 30, 2022, it is observed that the Noticee has submitted 1 observation with the status “work in progress”. However, upon verification of books and records of the Noticee by the Exchange appointed external auditor, it is observed 40 non-compliances and 4 suggestions.

7.7.2. In reply to the SCN, Noticee submitted as under:

a. SEBI circulars and Exchange circulars compliances provided by NSE, BSE, MCX were adhered to. A cyber security expert was appointed in the position of information security officer, to add value to the information security and to contribute to the growth of the company. A copy of the agreement with the security expert viz Securitybulls Intelligence India private limited was provided to the Exchange.

b. The information security protocols were followed by the Noticee since 2019 and the cyber audit report has been submitted to the Exchange and approved as well. M/s Shah Kapadia & Associates verified the information security audit. It was pertinent to mention that M/s Shah Kapadia & Associates was also an empanelled auditor of the Exchange.

c. Two versions of the policy and procedure documents were prepared with the latest update issued in August 2022. Although the auditor’s expectations were not met with respect to the latest meeting, suggestions were taken to improve and organize properly.

d. An email was received by the Noticee from Ms. Ajita Gawai of QSEAP infotech private limited, which mentioned that after submitting all the evidence, all the points were closed, and a closure report would be sent. The details of the email were provided to the Exchange.

e. As per the audit report of QSEAP Infotech Private Limited of Noticee took all corrective actions on the identified observations and closed all the high, medium and low observation within prescribed timelines. All the systems off the Noticee related to cyber security and cyber resilience are updated and well maintained as of April 2023

f. The technical glitches in stockbrokers electronic trading system were effective from April 01, 2023. All the Exchange circular compliance with respect to the Exchange circular NSE/COMP/54703 dated December 02, 2022, are adhered to.

7.7.3. The Committee finds as under:

a. Noticee concurred with the inspection observation and stated that it initiated the process of rectifying the issues related to cyber security and cyber resilience. Thus, the violation persists.

b. The Noticee also stated that the cyber security and cyber resilience auditor M/s Shah Kapadia & Associates appointed by the Exchange in September 2022 is an empanelled auditor of the Exchange. Furthermore, it mentioned that as per another audit, reported by QSEAP Infotech Private Limited, the Noticee took all corrective actions on the identified observations and closed all the high, medium and low observation within prescribed timelines. All the systems off the Noticee related to cyber security and cyber resilience are updated and well maintained as of April 2023.

c. The Trading Members perform significant functions in providing services to holders of securities. Therefore, it is desirable that they possess a robust cyber security and cyber resilience framework. Furthermore, the Trading Members are mandated to conduct a comprehensive cyber audit at least once in a financial year ensuring compliance with all SEBI circulars and advisories related to cyber security from time to time, along with the cyber audit report. Thus, Noticee violated the regulatory provisions of Exchange Circular No. NSE/ITRC/40081 dated January 30, 2019, and Exchange Circular No. NSE/INSP/52605 dated June

10, 2022, by failing to comply with the framework for cyber security and cyber resilience.

7.7.4. Given the findings mentioned above, the Committee decided to warn Noticee to ensure non-recurrence of the observed violation.

7.8. <u>Failure to submit surveillance alerts for the quarter ending December 2022</u>

7.8.1. Upon verification it is observed that the various clients of the Noticee had executed multiple synchronized/matched trades and these trades were reversed at prices, significantly above or below the prices (which were far away from the last traded price/ theoretical price) during the period October 2022 to November 2022. However, the Noticee has failed to submit any alert details generated at its end and submitted a 'NIL' report for the quarter ending December 2022.

7.8.2. In reply to the SCN, Noticee submitted as under:

a. In the previous parameters of the monitoring mechanism, internal alerts were not generated and therefore NIL alerts were reported in the last quarter.

b. The Exchange already generated the alerts and sent emails against the suspicious transactions. Post-inspection and on the advice of the officials, the policies and parameters of the surveillance obligations were remodelled and revised. Another additional monitoring system was also implemented in the back-office. The process to acquire robust TPV services is undergoing.

c. In order to further improve the surveillance mechanism with respect to the generation of alerts, the Noticee tied up with TrackWizz AML Multiple Solutions Module of TSS Consultancy Pvt Ltd and purchased two softwares viz. Track -cloud Solution and TrackWizz.

7.8.3. The Committee finds as under:

a. The Noticee concurred with the inspection observation and stated that in the previous parameters of the monitoring mechanism internal alerts were not generated and therefore reported 'Nil' alerts for the quarter ending December 2022. Thus, the violation persists.

b. The Noticee has now remodeled and revised the existing policies and parameters. Further tied up with TrackWizz AML to improve the surveillance mechanism. However, post inspection compliance does not absorb the Noticee for the violation already committed.

c. Exchange Circular No. NSE/SURV/48818 dated July 1, 2021, reiterated that in addition to the transactional alerts downloaded by Exchanges, Trading members are also required to generate appropriate surveillance alerts at their end, to enable them to effectively monitor the trading activity of their clients at their end as per the laid down surveillance policy. Further the Trading Members are required to exercise their independent judgement and formulate their own alerts and take appropriate actions thereof. Trading Members are also required to provide duly approved status of the alerts on a quarterly basis.

d. Exchange Circular No. NSE/SURV/40148 dated February 5, 2019, Trading members have responsibility of monitoring the trading activity of their clients. Accordingly, Trading Members are advised to step-up monitoring of the trading activity of their clients including intra-day activity and proactively report to the Exchange observations/findings, if any.

e. Thus, by non-reporting an alerts the Noticee has violated above stated circulars.

7.8.4. Given the findings mentioned above, the Committee decided to warn Noticee to ensure non-recurrence of the observed violation.

7.9. <u>Non-adherence to the Exchange's Code of Advertisement</u>

7.9.1. Upon verification of 76 products published on the Noticee's website tradestore.aliceblueonline.com, it is observed that the Noticee has not obtained advertisement approval for promotion and selling of 76 products, which were hosted on its website. Out of 76 products, 41 products are offering algo trading to its clients.

Upon verification of the Noticee's website, it is observed as under:

a) offering cash back and freebies to clients.
b) Advertisements posted in website without having prior approval.
c) Superlative terms used by the Noticee such as "Best Trading App."

d) Offering gifts such as free learning courses, free lifetime equity trades.

7.9.2. In reply to the SCN, Noticee submitted as under:

a. After receiving the observation from the Exchange, all the products were removed from Tradestore and have duly discontinued the platform of Tradestore.

b. With respect to the inferences drawn in respect of offering cash back and freebies to the client, the cash back-offer was revoked. the Noticee was unaware of its nature and therefore, non-compliance occurred. All the content and the webinars mentioned were purely for education purposes and therefore approval of Exchange was not taken. The free courses were available for both new and existing clients. The compliances with respect to the Exchange advertisement code were adhered to.

c. The MCSGFC by orders dated October 10, 2021, and July 01, 2022, imposed penalties of Rs. 15 lakhs and Rs.25.5 lakhs respectively. The penalties were imposed for the issuance of a total 114 business communications not adhering to the code of Advertisement.

d. As with respect to non-compliance of Exchange's code of advertisement penalties have already been levied, it is pleaded that no further adverse inference be levied.

7.9.3. The Committee finds as under:

a. With respect to 76 products posted on the Noticee's website, the Noticee concurred with the inspection observation to the Exchange' code of advertisement and stated that it has removed all the products and have duly discontinued the platform of Tradestore. The Noticee failed to take prior approval of the Exchange for advertisement. Therefore, violation persists.

b. Upon perusal of the Noticee's website it is observed that The Noticee used superlative terms such as best trading app in its advertisement. Superlative terms, such as best no. 1, one of the best, among market leaders, etc. unless such terms are provided by an entity independent of the Stockbroker and its affiliates and whose services are not procured by the Stockbroker or any of its affiliates to assign the Stockbroker such term. Therefore, the violation persists.

c. The Noticee with respect to cashback scheme concurred with the inspection observation and stated that it was unaware of the nature of non-compliance. The Stockbroker shall not involve/engage in games/leagues/schemes/competitions etc. which may involve distribution of prize monies/medals/gifts, etc. The advertisement shall not contain any promise or guarantee of assured return to the general investors. Therefore, violation persists.

d. The Noticee has revoked the cash-back scheme.

e. Exchange Circular NSE/COMP/33643 dated November 16, 2016, prior approval for the advertisement/material is required to be obtained from the Stock Exchange before issuance. Trading members are instructed to submit an undertaking along with every advertisement submitted for approval.

7.9.4. Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs.1,00,000/- for the observed violation in terms of the Exchange Circular No. NSE/INSP/53530 dated September 02, 2022.

DECISION

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

Sr. No.	Committee's Findings	Penalty prescribed as per Exchange Circular NSE/INSP/53530 dated September 02, 2022.	Penalty Levied
a	Sharing of clients' confidential information with third party.	No Prescribed Penalty	Rs.2,00,000/-
b	Offering fixed/assured periodic fixed	No prescribed Penalty	As per paragraph No.11

	payments/misselling of products of the clients		
c	Non-implementation of two factor authentication	No prescribed Penalty	Warning
d	Provided advisory services without having appropriate license	No prescribed penalty	Warning
e	i. Discrepancy in the Know Your Client (KYC) documents. ii. Inclusion of contravening clauses / omission of material details	i. Rs.15,000 per client x 20 clients ii. Rs.10,000/-	Rs.3,10,000/-
f	Non-reconciliation of securities available in the client beneficiary account with the back-office records	Rs.37,500/- (50% escalation @ Rs.25,000/-)	Rs.37,500/-
g	Violations pertaining to cyber security and cyber resilience audit conducted by an external auditor	No prescribed penalty	Warning
h	Failure to submit surveillance alerts for quarter ended December 2022	No prescribed penalty	Warning
i	Non-adherence to the Exchange's Code of Advertisement	Rs.1,00,000/-	Rs.1,00,000/-
TOTAL			**Rs.6,47,500/-**

9. Noticee shall pay a monetary penalty of Rs.6,47,500/- (Rupees Six Lakhs Forty- Seven Thousand Five Hundred only).

10. Noticee shall note the non-monetary penalties mentioned above and ensure the non-recurrence of the observed violations.

11. The Noticee was directed to comply with the following requirements:

a) The Noticee is to stop onboarding new Authorised Persons for three months from the date of this order.

b) The Noticee shall take all actions as advised by SEBI in terms of SEBI Circular No. MIRSD/ DR-1/Cir-l6/09 dated November 6, 2009, including the filing of a police complaint against Ms.Vijayalaxmi Navadgere.

c) The Noticee is to conduct a detailed examination of all its APs, including the activities of directors of its APs, and take immediate actions against them if required. The Noticee shall report the same to the Exchange within three months from the date of the order.

d) The Noticee shall collect a written undertaking from all its clients at the time of onboarding new clients stating that the member has not offered any assured return schemes, the client shall agree not to demand any such assured return from the member, and that the member has explained the risk involved in trading in the securities market.

e) The Noticee is to issue weekly SMSs and emails to all its registered clients stating that it does not offer any assured/fixed return scheme for the next six months from the date of the order.

f) Conduct a concurrent audit and submit a fortnightly certificate to certify that the clients are not being offered assured/fixed returns for the next six months.

Sd/-	Sd-	Sd-
Mona Bhide	K Narasimha Murthy	S. Ravindran
(Chairperson)	(Committee Member)	(Committee Member)

Sd-	Sd-
Ranganayakulu Jagarlamudi	Ashishkumar Chauhan
(Committee Member)	(Committee Member)

Date: September 21, 2023