[QJA/BS/MIRSD/MIRSD-SEC-6/32251/2025-26]

SECURITIES AND EXCHANGE BOARD OF INDIA

FINAL ORDER

UNDER SECTION 12 (3) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH REGULATION 27 OF SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008.

IN RESPECT OF:

NOTICEE	SEBI Registration No.	PAN
Streetgains Research Services - Research Analyst (Proprietor- Kumar Venkataramegowda Santhosh)	INH200003208	BPDPS6595F

In the matter of inspection of Streetgains Research Services – Research Analyst

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A. BACKGROUND

1. The present matter emanates from post enquiry show cause notice dated December 04, 2025 (hereinafter referred to as the "**Noticee**") issued to **Streetgains Research Services - Research Analyst (Proprietor - Kumar Venkataramegowda Santhosh)** (hereinafter referred to as "**Noticee**") under regulation 27 (1) of SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as "**Intermediaries Regulations**"). The Noticee was registered with Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") as a Research Analyst ("**RA**") with SEBI registration no. INH200003208.

2. SEBI conducted inspection of the Noticee on March 15, 2024 concerning various compliance requirements that need to be ensured by the Noticee with respect to the provisions of SEBI (Research Analyst) Regulations, 2014 (hereinafter referred to as "**RA Regulations**") and SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulations**"). The inspection was conducted for the period beginning April 01, 2022 to March 14, 2024 (hereinafter referred to as "**Inspection period/IP**").

3. SEBI's inspection, *inter alia*, observed that the Noticee had violated various provisions of RA Regulations and PFUTP Regulations.These findings/ observations of the inspection were communicated to the Noticee by SEBI vide letter dated April 05, 2024 and the Noticee submitted its response to the observations vide e-mails dated April11, 2014 and April 18, 2024.

B. PROCEEDINGS BEFORE DESIGNATED AUTHORITY

4. Pursuant to findings/observations made in the course of inspection, SEBI initiated Enquiry proceedings under Chapter V of the Intermediaries Regulations against the Noticee.

5. The DA issued a show cause notice dated November 05, 2024 (hereinafter referred to as "**pre-Enquiry SCN**") to the Noticee under regulation 25 (1) of the Intermediaries Regulations to show cause as to why appropriate recommendation should not be made against it in terms of Regulations 26 of the Intermediaries Regulations for the alleged violations.

6. In response to the pre-enquiry SCN issued by the DA, the Noticee filed its reply vide email dated November 25, 2024. On receipt of said reply, an opportunity of personal hearing was granted to the Noticee on December 17, 2024 and May 20, 2025 which was availed by the Noticee through its authorized representatives. Further, the Noticee filed additional submissions vide email dated May 26, 2025. Thereafter, based on the allegations levelled against the Noticee in the pre-Enquiry SCN, replies filed by the Noticee, submission made during the personal hearing and the material available on record, the DA concluded the Enquiry Proceedings and submitted the Enquiry Report ("**Enquiry Report**") dated August 04, 2025 in terms of regulation 26 of the Intermediaries Regulations.

7. The DA in his report has observed the following against the Noticee:

   7.1. The Noticee provided assurance of returns/loss recovery to its clients that misled/induced his clients to deal in securities, engaged in mis-selling and failed to exercise due diligence by not exercising any control over employees who were engaging with his clients.

   7.2. The Noticee advertised its past performance in respect of his research call on social media.

   7.3. The Noticee encouraged sale of products not suiting the risk profile of the clients through incentives given to its sales executives.

   7.4. The Noticee failed to digitally sign the research report maintained in electronic form.

8. Based on the aforesaid findings, the DA held that the violations pertaining to RA Regulations and PFUTP Regulations stood established against the Noticee. Accordingly, the DA recommended the following:

"In view of the above facts and circumstances of the case, the material available on record and the findings recorded as above, I, in terms of the provisions of the Intermediaries Regulations recommend the following:

(a) A "regulatory censure" may be issued to Noticee to be careful in future with respect to complying with the mandate of SEBI Act, PFUTP Regulations, RA Regulations and applicable SEBI Circulars as per regulation 26(1)(vii) of the Intermediaries Regulations.

(b) Noticee may be prohibited from taking up any new clients qua its activities as a RA for a period of one (1) month, as per regulation 26(1) (iv) of the Intermediaries Regulations."

C. SHOW CAUSE NOTICE, REPLY AND HEARING

9. Pursuant to the submission of the Enquiry Report, the SCN dated December 04, 2025 in the matter was issued to the Noticee. Vide the above-mentioned SCN, Noticee was called upon to show cause as to why action as recommended by the DA or any other directions as deemed fit should not be issued/imposed on it in terms of Intermediaries' regulation. The issued SCN enclosed therewith the Enquiry Report of the DA dated August 04, 2025 made with respect to the Noticee. Therefore, any reference in this Order to the allegations made in the SCN must also be read to include the conclusions arrived at in the Enquiry Report.

10. In response to the SCN, the Noticee submitted its reply *vide* e-mail dated January 05, 2026. Subsequently, the Noticee was granted an opportunity of personal hearing on January 28, 2026. On the said date, the authorized representative (**ARs**) of the Noticee appeared before me and reiterated the submissions made *vide* the Noticee's email dated January 05, 2026.

11. The submissions made by the Noticee (through its AR) during the personal hearing and vide its reply dated letter dated January 05, 2026 are summarised below:

<u>Submission pertaining to assured returns/recovery of loss</u>

11.1. The Noticee has submitted instance wise response which have been summarised below:

11.1.1. With respect to interaction pertaining to client Muthuram, the Noticee submitted that the interaction relied upon by the Designated Authority reflects that the client himself expressed interest in exploring better opportunities, and the employee merely informed him that such opportunities might be available through a higher plan. It contended that the allegation that associated risks were not disclosed during this interaction is incorrect, as all risk disclosures are mandatorily explained prior to onboarding, and every client is required to sign a User Agreement containing all necessary disclaimers before availing services.

11.1.2. Further, the Noticee submitted that the profits referred to by the DA were neither false nor fabricated; rather, they represented the factual, same-day performance of the very service the client had already availed. The Noticee argued that sharing actual performance data with an existing client cannot be construed as "luring," and that the conversation was a simple explanatory discussion regarding the availability of alternative plans, which has been wrongly interpreted as a regulatory violation.

11.1.3. With respect to interaction pertaining to client Veenashitya, the Noticee submitted that client's hesitation arose solely from a lack of clarity regarding the services offered. It contended that the employee's role was strictly limited to explaining the service features more clearly, including the four-year duration, the cost structure, and general expectations. The Noticee argued that there was no pressure, inducement, or assurance of returns exerted during this interaction and cannot be equated with mis-selling.

11.1.4. With respect to interaction pertaining to client Vaibhav Utap, the Noticee submitted that the expression “good returns” was utilized in a generic sense solely to convey confidence in the research process and the potential of the market, and was not intended as a promise of profit or a risk-free outcome. It is contended that at no point was any specific quantum of return, certainty, or guarantee communicated to the client. Consequently, the Noticee argues that such a statement cannot be construed as an assurance of returns and does not amount to a violation of the regulatory framework.

11.1.5. With respect to interaction pertaining to client with contact number 91XXXXXX200, the Noticee submitted that that the inquiry was initiated by the client, and thereafter, the employee merely explained how the packages work, the services provided, and how performance is generated. It contended that directly concluding that risk disclosures were not made merely based on such limited chats is incorrect. The Noticee submitted that every client necessarily goes through onboarding steps where disclosures are provided. Therefore, it argued that the DA’s conclusion is drawn by reading isolated chat messages without considering the complete onboarding framework.

11.1.6. With respect to interaction pertaining to client Farheen Amir, the Noticee submitted that the DA has interpreted a few isolated lines without proper context. It contended that even within those specific chats, the employee clearly used qualifying terms such as "we will try" and "you can expect," which serve only to indicate possibility and expectation rather than certainty. The Noticee argues that at no point 100% assurance or guarantee was conveyed to the client. Consequently, it submitted that these statements reflect a bona fide attempt to explain potential market outcomes and do not constitute an assurance of returns.

11.1.7. With respect to interaction pertaining to client Param Shivam, the Noticee submitted that the employee responded affirmatively only after personally observing the actual performance of the recommendations on that specific day. It contended that this factual observation does not imply that risks were not disclosed or that future returns were guaranteed. The Noticee submitted that the necessary risk disclosures had already been made at the onboarding stage, a crucial fact which the Designated Authority has failed to consider.

11.1.8. With respect to interaction pertaining to client Sasidhara Rao, the Noticee submitted that the phrase "can expect 10–15%" was used solely to reflect a possible range of market performance and cannot be treated as a guaranteed or assured return. It contended that the concepts of expectation and possibility are distinct and cannot be equated with certainty or assurance. The Noticee argues that providing such an indicative range fall within the scope of expressing market potential and does not amount to a regulatory violation.

11.1.9. With respect to interaction pertaining to client Amanaganti Srinivas, the Noticee submitted that that the results were shared solely upon the specific request of the client. It contended that the employee merely demonstrated that, based on the factual performance, the opportunity appeared favorable and that the client might perform well. The Noticee submitted that sharing factual performance data in response to a client's request does not amount to inducement or an assurance of returns.

11.1.10. With respect to interaction pertaining to client Kundan Kumar SG, the Noticee submitted that the discussion in question occurred in the context of a known market event, and providing an update based on the expected market reaction constitutes basic market knowledge rather than a promise of returns. It contended that the employee’s advice to maintain sufficient capital was given solely to ensure that recommendations could be executed properly and not missed due to a lack of funds. The Noticee submitted that the word "can" was consciously used to indicate possibility rather than certainty, and therefore, such communication cannot be construed as a promise of profit.

11.1.11. With respect to interaction pertaining to client Vinita Kassel, the Noticee submitted that the client was already conversant with market functioning and had specifically inquired as to which service would be more suitable. It contended that the employee merely shared his professional experience regarding the higher satisfaction levels observed among existing clients with a particular service. The Noticee argued that no service was forced upon the client, nor were any returns guaranteed; rather, the employee simply provided a responsive answer to the client's specific question regarding service options.

11.1.12. With respect to interaction pertaining to client Mayur P Kaku, the Noticee submitted that when the client inquired about the absence of loss making trades, the employee explicitly pointed out that a stop-loss had been triggered the previous day, which was visible in the shared screenshot. It is contended that this candid acknowledgment of loss demonstrates transparency and directly contradicts the allegation of selective disclosure.

11.2. The Noticee submitted that the allegation regarding the non-communication of risks, disclaimers, and disclosures to the clients is factually incorrect as it fails to account for the structured on boarding process followed by the Noticee. It contended that the client on boarding process is neither informal nor ad-hoc, but rather a rigorous procedure wherein every client is mandatorily required to execute a User Agreement or Client Acceptance Form prior to the commencement of any services.

11.3. The Noticee also submitted that these User Agreements expressly contain detailed disclosures regarding market risks, the absence of guaranteed returns, and other statutory disclaimers. Therefore, the Noticee has argued that risk awareness is effectively established at the very outset, ensuring that clients are fully apprised of the limitations of the Research Analyst services before any advice is rendered.

11.4. The Noticee submitted that the DA has erred in drawing adverse inferences based solely on a selective and literal reading of isolated WhatsApp excerpts, while disregarding the broader context of the client relationship. It argued that treating the absence of repetitive disclaimers in every line of informal communication as a violation imposes an impractical and unreasonable compliance standard that is neither contemplated under the Research Analyst Regulations nor supported by law.

11.5. The Noticee also submitted that terms such as "can," "expect," or "try," when used in these communications, are inherently indicative of market possibilities and expectations, and cannot be equated with definitive assurances or guarantees of profit. It argued that informal chat messages serve merely as a mode of facilitation and support and cannot override or negate the formal risk acknowledgments that have already been signed and accepted by the clients.

11.6. The Noticee submitted that the evidence on record must be examined holistically, rather than by isolating post-disclosure interactions from the prior risk acknowledgments. It submitted that the entire chain of events, beginning with the initial disclosure and acceptance of terms, followed by routine client engagement demonstrates that clients were not subjected to any threat, coercion, or undue influence.

11.7. The Noticee argues that the communications relied upon by the DA, when viewed in their proper sequence, reflect routine discussions with clients who had already knowingly accepted the inherent risks of the securities market. Therefore, the Noticee asserts that relying on isolated words without appreciating this established framework results in an incomplete and misleading assessment of the facts.

11.8. With respect to the allegations under the SEBI (PFUTP) Regulations, the Noticee has submitted that the definition of "dealing in securities" under Regulation 2(1) (b) cannot be applied mechanically in the absence of fraudulent, manipulative, or deceitful conduct. The Noticee argues that the provisions of the PFUTP

Regulations are intended to address grave offenses involving intentional deception, coercion, or the creation of artificial pressure on investors to vitiate their independent decision-making, all of which are absent in the present case.

11.9. The Noticee submitted that equating ordinary Research Analyst services or benign client communications with "dealing in securities" would amount to an unsustainable overextension of the statutory definition. The Noticee argues that without clear evidence of fraudulent intent or abusive conduct, the mere potential to influence an investor does not satisfy the high threshold required to attract the rigors of the PFUTP framework.

<u>Submissions pertaining to advertising past performance in respect of research call on social media</u>

11.10. The Noticee submitted that while he holds the requisite qualification, certification, and license as a Research Analyst, he is a layman in matters of interpretation of regulatory nuances and acted strictly based on his bona fide understanding at the relevant time.

11.11. The Noticee contended that the social media posts referred to by the DA were neither made with the intention of advertising services nor with the objective of luring, soliciting, or inducing investors. The Noticee argues that his understanding of "advertisement," in the ordinary and common sense, implies a communication that explicitly promotes oneself with a call to action, whereas the impugned posts contained no such promotional language. It submitted that the posts were merely informational content inspired by publicly available market data, such as "Top Gainers" published by the NSE, and were shared without any representation or invitation to investors.

11.12. The Noticee submitted that it genuinely believed that such posts would not fall within the scope of "advertisement" as defined under the SEBI Circular dated April 05, 2023, and submits that the interpretation now placed on these posts is an extended construction which was not within his contemplation. The Noticee contended that in the absence of any mala fide intent, extended the benefit of doubt in this matter.

11.13. The Noticee has further submitted that regarding the observations on sharing performance details, recent circulars and guidelines issued by stock exchanges pursuant to SEBI's direction now expressly permit Research Analysts to disclose past performance subject to prescribed formats. It argued that this development demonstrates that there existed regulatory ambiguity and a lack of clarity on the subject during the relevant period.

11.14. The Noticee contends that only actual, factual performance data was shared with existing clients as a reference, without any assurance, guarantee, or embellishment. In light of the evolving regulatory position and the absence of clear prohibition at the time, the Noticee has requested that this aspect be viewed in a reasonable and pragmatic manner and that the benefit of doubt be extended to him.

<u>Submissions pertaining to maintaining an incentives structure for sales executives</u>

11.15. The Noticee submitted that the allegation herein proceeds on two distinct assumptions, namely that the Noticee encouraged the sale of products not suited to the risk profile of clients, and that the incentive structure provided to sales executives resulted in such alleged conduct. The Noticee reiterates that as a Research Analyst, he provides only generic research recommendations and does not render personalized investment advice. It contended that detailed risk profiling of clients in the manner applicable to Investment Advisers is neither mandated nor feasible under the Research Analyst regulatory framework. Accordingly, the Noticee submits that the allegation that products were pushed without assessing individual risk profiles is misconceived.

11.16. With respect to the incentive structure, the Noticee submitted that the incentives referred to were not designed or implemented to increase sales volumes or to push unsuitable products to clients. It argued that the primary purpose of the incentive structure was to ensure timely client servicing, proper follow-ups, and responsiveness to client queries, as it was observed that certain sales executives were not consistently engaging with clients for post-on boarding support.

11.17. The Noticee submits that the incentive mechanism was introduced purely as a performance-monitoring and service-quality tool, and that incentives were linked to qualitative parameters such as client satisfaction and service continuity, and not merely to sales generation.

11.18. Further, the Noticee has submitted that the reference made to the client Mr. Ramachandran has been viewed out of context. It asserted that the recommendations provided to him were generic in nature and were not tailored based on age, capital, income, or risk capacity, as the Noticee does not offer personalized advice. The Noticee contends that the services rendered to the said client were fully compliant with the Research Analyst regulations, without any pressure, coercion, or inducement, and that the incentive structure had no nexus whatsoever with the recommendations provided.

11.19. The Noticee submits that the incentive structure was client-centric and service-oriented, aimed at preventing client dissatisfaction due to lack of communication, and not sales-driven, and accordingly prays that the allegations not be sustained.

Submissions pertaining to maintaining proper rationales and failure to digitally sign the research reports maintained in electronic form

11.20. The Noticee has submitted that with respect to the allegation regarding failure to maintain proper rationale and failure to digitally sign research reports, the regulatory framework applicable at the relevant time under Regulation 25(1) of the SEBI (Research Analyst) Regulations, 2014, only required maintaining the rationale for arriving at research recommendations and did not mandate that every recommendation disseminated through electronic modes be backed by a detailed research report. It contended that the regulations did not define or prescribe any uniform format or standard for what constitutes a "proper" rationale, and consequently, the Noticee followed reasonable methodologies to record the basis of recommendations according to his bona fide understanding.

11.21. The Noticee argues that the allegation that the rationale was not "proper" is subjective and retrospective, as SEBI itself subsequently recognized the need for standardization by introducing enhanced requirements through the Securities and Exchange Board of India (Research Analysts) (Amendment) Regulations, 2024 and the SEBI Circular dated January 08, 2025. The Noticee submits that the introduction of these later amendments indicates that the prior regulatory position was not explicit.

11.22. Further, the Noticee also submitted that since no formal research reports were issued during the relevant period, the requirement under Regulation 25(2) to digitally sign such records does not arise. Accordingly, the Noticee prays that the allegations, which are based on standards introduced subsequently, not be sustained.

<u>Other Submissions</u>

11.23. The Noticee submitted that the proposed prohibition on onboarding new clients for a period of one month would cause severe and disproportionate hardship that is not warranted by the facts of the case. It contended that as a small-scale Research Analyst, any restriction on client acquisition would directly impact the Noticee's ability to meet fixed financial obligations, including staff salaries, rent, and infrastructure costs, thereby potentially jeopardizing the continuity of the business itself.

11.24. The Noticee argues that the allegations forming the basis of the enquiry are not of such a grave or egregious nature to justify business-restrictive action, as they primarily pertain to interpretational aspects of evolving regulations and subjective assessments of communications, rather than any deliberate, fraudulent, or mala fide conduct.

11.25. The Noticee submits that it has already taken corrective steps, strengthened internal controls and remains fully committed to strict compliance with the SEB Act, PFUTP Regulations, RA Regulations and applicable SEBI Circulars going forward.

11.26. The Noticee prayed for not imposing the proposed prohibition on taking up new clients and submitted that if at all any regulatory action is deemed necessary, it accepts the recommendation of regulatory censure as that would meet the ends of justice and would be proportionate without causing irreparable financial and operational hardship.

D. <u>CONSIDERATION OF ISSUES AND FINDINGS</u>

12. I have perused the Enquiry Report, SCN, replies of the Noticee and other material available on record. After considering the allegations levelled against the Noticee in the instant matter, the following issues arise for consideration:

Issue No. 1: Whether the Noticee provided assurances of returns/loss of recovery while dealing with its clients?

Issue No. 2: Whether the Noticee advertised his past performance in respect of research call on social media?

Issue No. 3: Whether the Noticee encouraged sale of products not suiting the risk profile of the clients through incentives given to his sales executives?

Issue No. 4: Whether the Noticee failed to maintain proper rationales for arriving at research recommendations and failed to digitally sign the research reports maintained in electronic form?

13. Before proceeding, I find it appropriate to reproduce below the relevant provisions of the regulations and circulars alleged to have been violated by the Noticee:

<u>SEBI Act, 1992</u>

Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

12A. *No person shall directly or indirectly—*

(a) *use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;*

(b) *employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;*

(c) *engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;*

SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

(a) *buy, sell or otherwise deal in securities in a fraudulent manner;*

(b)*use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;*

(c) *employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;*

(d) *engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.*

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) *Without prejudice to the provisions of regulation 3, no person shall indulge in a manipulative, fraudulent or an unfair trade practice in securities markets.*

Explanation.–For the removal of doubts, it is clarified that any act of diversion, misutilisation or siphoning off of assets or earnings of a company whose securities are listed or any concealment of such act or any device, scheme or artifice to manipulate the books of accounts or financial statement of such a company that would directly or indirectly manipulate the price of securities of that company shall be and shall always be deemed to have been considered as manipulative, fraudulent and an unfair trade practice in the securities market.

(2) *Dealing in securities shall be deemed to be a manipulative fraudulent or an unfair trade practice if it involves any of the following:—*

(a) *disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading in a reckless or careless manner and which is designed to, or likely to influence the decision of investors dealing in securities*

(b) *fraudulent inducement of any person by a market participant to deal in securities with the objective of enhancing his brokerage or commission or income;*

(c) *mis-selling of securities or services relating to securities market;*

<u>SECURITIES AND EXCHANGE BOARD OF INDIA (RESEARCH ANALYSTS) REGULATIONS, 2014</u>

<u>Definitions.</u>

2. (1) In these regulations, unless the context otherwise requires, the terms defined herein shall bear the meanings assigned to them below, and their cognate expressions shall be construed accordingly,–

…

(w) "*research report" means any written or electronic communication that includes research analysis or research recommendation or an opinion concerning securities or public offer, providing a basis for investment decision and does not include the following communications:-*

(i) comments on general trends in the securities market;

(ii) discussions on the broad-based indices;

(iii) commentaries on economic, political or market conditions;

(iv) periodic reports or other communications prepared for unit holders of mutual fund or alternative investment fund or clients of portfolio managers and investment advisers;

(v) internal communications that are not given to current or prospective clients;

(vi) communications that constitute offer documents or prospectus that are circulated as per regulations made by the Board;

(vii) statistical summaries of financial data of the companies; technical analysis relating to the demand and supply in a sector or the index;

(ix) any other communication which the Board may specify from time to time;

(wa) "research services" means the following services provided by research analyst:

i. preparation or publication of the research report or content of the research report; or

ii. providing or issuing research report or research analysis; or

iii. making 'buy/sell/hold' recommendation; or

iv. giving price target or stop loss target; or

v. offering an opinion concerning public offer, or

vi. recommending model portfolio; or

vii. providing trading calls; or

viii. any other service of similar nature or character, with respect to securities that are listed or proposed to be listed in a stock exchange, whether or not any such person has the job title of 'research analyst' to the clients or other persons or group of persons or general public;]

Disclosures in research reports.

19. *A research analyst or research entity shall disclose all material information about itself including its business activity, disciplinary history, the terms and conditions on which it offers research report, details of associates and such other information as is necessary to take an investment decision, including the following:*

(i) Research analyst or research entity shall disclose the following in research report and in public appearance with regard to ownership and material conflicts of interest:

(a) whether the research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest;

(b) whether the research analyst or research entity or its associates or relatives, have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;

(c) whether the research analyst or research entity or his associate or his relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance;

(ii) Research analyst or research entity shall disclose the following in research report with regard to receipt of compensation:

(a) whether it or its associates have received any compensation from the subject company in the past twelve months;

(b) whether it or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months;

(c) whether it or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months;

(d) whether it or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months;

(e) whether it or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report.

(iii) Research analyst or research entity shall disclose the following in public appearance with regard to receipt of compensation:

(a) whether it or its associates have received any compensation from the subject company in the past twelve months;

(b) whether the subject company is or was a client during twelve months preceding the date of distribution of the research report and the types of services provided:

Provided that research analyst or research entity shall not be required to make a disclosure as per sub-clauses (c), (d) and (e) of clause (ii) or sub-clauses (a) and (b) of clause (iii) to the extent such disclosure would reveal material non-public information regarding specific potential future investment banking or merchant banking or brokerage services transactions of the subject company.

(iv) whether the research analyst has served as an officer, director or employee of the subject company;

(v) whether the research analyst or research entity has been engaged in market making activity for the subject company;

***(vi)** Research analyst or research entity shall provide all other disclosures in research report and public appearance as specified by the Board under any other regulations.*

General responsibility.

24. *….*

(2) Research analyst or research entity shall abide by Code of Conduct as specified in Third Schedule.

Maintenance of records.

25. *(1) Research analyst or research entity shall maintain the following records:*

> ***…***
>
> *(ii) research recommendation provided;*
>
> *(iii) rationale for arriving at research recommendation;*
>
> *…*
>
> *(vii) records of communication including emails, call recordings etc. with all clients including prospective clients in such manner as may be specified;*

(2) All records shall be maintained either in physical or electronic form and preserved for a minimum period of five years:

Provided that where records are required to be duly signed and are maintained in electronic form, such records shall be digitally signed.

(3) Research analyst or research entity shall conduct annual audit in respect of compliance with these regulations from a member of Institute of Chartered Accountants of India or Institute of Company Secretaries of India 42[or Institute of Cost Accountants of India and submit the report of the same in such manner as may be specified by the Board].

THIRD SCHEDULE

CODE OF CONDUCT FOR RESEARCH ANALYST

1. Honesty and Good Faith

Research analyst or research entity shall act honestly and in good faith.

2. Diligence

Research analyst or research entity shall act with due skill, care and diligence and shall ensure that the research report is prepared after thorough analysis.

6. Professional Standard

Research analyst or research entity or its employees engaged in research analysis shall observe high professional standard while preparing research report.

7. Compliance

Research analyst or research entity shall comply with all regulatory requirements applicable to the conduct of its business activities.

SEBI Circular No. SEBI/HO/MIRSD/ MIRSD-PoD-2/P/CIR/2023/51 dated April 05, 2023 (SEBI Circular dated April 05, 2023)
https://www.sebi.gov.in/legal/circulars/apr-2023/advertisement-code-for-investment-advisers-ia-and-research-analysts-ra-_69798.html

SEBI Master Circular No. SEBI/HO/MIRSD-PoD-2/P/CIR/2023/90 dated June 15, 2023 (SEBI Master Circular dated June 15, 2023)
https://www.sebi.gov.in/legal/master-circulars/may-2024/master-circular-for-research-analysts_83487.html

SEBI Circular No. CIR/MIRSD/5/2013 dated August 27, 2013 (SEBI Circular dated August 27, 2013)
https://www.sebi.gov.in/legal/circulars/aug-2013/general-guidelines-for-dealing-with-conflicts-of-interest-of-intermediaries-recognised-stock-exchanges-recognised-clearing-corporations-depositories-and-their-associated-persons-in-securities-market_25256.html

14. I shall now proceed to deal with the violations alleged, basis the conclusions in the Enquiry report:

I. Whether the Noticee provided assurances of returns/loss of recovery while dealing with its clients?

15. The SCN alleged that Noticee violated the provisions of regulations 3(a), (b), (c), (d), 4(1), 4(2)(k), (o) and (s) of the PFUTP Regulations read with sections 12A(a), (b) and (c) of the SEBI Act, and clauses 1 and 7 of code of conduct as specified in

the Third Schedule read with regulation 24(2) of the RA Regulations because it assured return to its clients.

16. Regulation 24(2) mandates all RAs to abide by the Code of Conduct as specified in Third Schedule of RA Regulations. Clause 1 of the code mandates the RAs to act honestly and in good faith and clause 7 of the code requires compliance with all regulatory requirements by the RAs. Regulation 3 (a) of PFUTP regulations prohibits dealing in securities in a fraudulent manner. Regulation 4 of PFUTP Regulations further prohibits manipulative, fraudulent or unfair trade practices in securities markets. Further, as per regulations 4(2)(k), 4(2)(o) and 4(2)(s), dealing in securities is deemed to be manipulative, fraudulent or unfair trade practice if any misleading information or advice is disseminated in a reckless manner that is likely to influence the decision of investors dealing in securities, if any person is fraudulently induced by a market participant to deal in securities with the objective of enhancing income or if there is mis-selling of services related to securities market by making false or misleading statements.

a. *Whether the Noticee guaranteed returns/loss recovery to its clients and violated the RA Regulations?*

17. The inspection report had observed eleven (11) instances based on which it was alleged that the Noticee had violated RA regulations while dealing with its clients. I have noted certain instance which have been detailed below where the employees of the Noticees have made assurance of profit.

Instance 1: WhatsApp chat with client Muthuram

18. The inspection report had observed that the Noticee had shared screenshots of day's profit with the clients and had written to the client specifically that '*he is missing good returns and if he trades with premium plan he will get good returns'*.

The DA after analysing the WhatsApp Chat observed that the chat in question only highlights the potential reward without disclosing any associated risk, nor does it explains the basis of such 'good returns' expectations. Further, screenshots of that day's profit were shared with the client by the Noticee's employee to reinforce the potential benefits. Accordingly, the DA concluded that employee's statements convey an assurance of return.

19. The submissions of the Noticee in this regard have been summarised at para 11 above. I note that the interaction was not due to interest expressed by the clients but initiated by the employee with an objective to make the client subscribe to its premium services. The phrase *'you will get good returns'*, along with the screenshots indicates that the Noticee through its employee was encouraging the client to trade in order to earn fees. Hence, I agree with the conclusion of the DA that the Noticee had assured returns to the clients.

Instance 2: WhatsApp chat with client Farheen Amir

20. The inspection report observed that an employee of the Noticee had *inter-alia* messaged the client had messaged the client that she can expect Rs. 20,000 /- to Rs. 30,000/- daily. Further the staff also mentioned that loss would be recovered on the same date. The DA after analysing the messages sent to the client observed that quantification of returns, assurance of recovery of losses, and the definitive tone of such statements clearly indicate a promise of return. The concluded that the Noticee had clearly provided assurance of profit/loss recovery.

21. The submission of the Noticee have been summarized at paragraphs 11.4 above. I note from the chat transcripts that the employee of the Noticee very clearly used the phrase "*Daily you can expect 20K to 30K return",* and later stated, *"Loss also we will recover on that day itself", "you will miss good profits that much I can assure you "and "u pay 40k today mam, you will get profit of 50k tomorrow trade.."* The chat transcript makes it clear that the Noticee was inducing the said client by

dangling the prospect of large gains in order to earn fees. Hence, I agree with the conclusion of the DA that the Noticee had assured returns to the clients.

Instance 3: WhatsApp chat with client Param Shivam

22. The inspection report observed that the client had, based on the performance of that day, inquired whether the returns of 22% can be made, for which the employee had replied affirmatively. The DA after analysing the chat transcript observed that the affirmative statements made by the employee in response to queries about a minimum 15% return irrespective of capital lead to the conclusion that the Noticee was assuring profits.

23. I note that the client had enquired whether return percent would be 22% for intraday and whether 15% return can be guaranteed every day. In response to the said queries, the employee replied "*Yes… sometimes more return you will get sir" and* "*ya sure sir*". Such affirmative statement clearly gives the impression of profit assurance to the clients and the screenshot of research calls attached by the employee without any disclosure of risks which shows that huge return are made further misleads them to believe that huge returns are to be made. Hence, I agree with the conclusion of the DA that the Noticee had assured returns to the clients.

24. The main defence put forth by the Noticee was that the words "can" and "try" used in the message denoted possibility and not certainty. I note that the word 'can' used in the message has to be seen in the context of whole messages exchanged. statements such as "*if u traded with premium trades u ll get good returns sir*", "*Loss also we ll recover on that day itself", "U ll miss good profits that much I can assure U", "U can expect min on and average 10 to 15% return", "I will provide you the trade for recovery"* had been used in various communications with the clients which clearly show that assurance of returns and loss recovery was given. Hence, even in this instance, I find that the Noticee through its employee induced its client to trade with the prospect of high returns in order to earn fees, did not deal with its client with

honesty and diligence and failed to maintain professional standards in violation of the code of conduct specified in the third schedule of RA regulations.

Instance 4: WhatsApp chat with client Amanaganti Srinivas

25. The inspection report observed that the sales executive had shared screenshots of research recommendation provided by the Noticee on that day. The employee further stated "*you have good opportunity sir make good returns*." The DA after analysing the chat transcript concluded that the promotional and persuasive tone, of the employee suggests an assurance of return by the Noticee to its clients.

26. The Noticee has contended that results were shared only upon the client's request and the employee merely demonstrated that the opportunity appeared favourable for earning returns and sharing of factual performance on request cannot be equated with certainty or assurance.

27. I note that the employee of the Noticee had shared a research recommendation along with a screenshot of profit made for the day. The phrase "yes sir you will get good return" when seen along with the images shared with the client suggests that the employee was trying to persuade the client to make an investment. However, this statement alone without anything more to show that some kind of profit was assured to them does not adequately prove on a preponderance of probability that the employee was trying to lure the client on the basis of assured returns. Therefore, I am not inclined to agree with the findings of the DA, with respect to this instance.

Instance 5: WhatsApp chat with client Sasidhara Rao

28. The inspection report observed that the employee of Noticee in response to a query from client regarding how much return can be earned, replied that on a minimum 10 to 15 % return can be generated. The DA observed that the use of word

"*minimum*" implies a baseline assurance of return, which goes beyond general expectation and conveys certainty. The Noticee has submitted that the phrase "*can expect 10-15%*" only reflects a possible range and cannot be treated as a guaranteed or assured return.

29. I note that the phrase "*U can expect minimum on an average 10 to 15% return*" which was used by the employee of the Noticee, appears to give the client a degree of certainty and not mere possibility of returns. The words "*minimum on and average*" gives the impression that the return is assured. Therefore, on a pre-penetrance of probability and based on the material available on record, I agree with the findings of the DA that there was assurance of return in this instance.

Instance 6: WhatsApp chat with client Kundan Kumar SG

30. The inspection report observed that the employee of Noticee had messaged one of the clients that he should arrange money for booking good returns owing to the announcement of budget next day. The DA had observed that the client was encouraged to invest more capital with the expectation of assured profits during a highly volatile market event (i.e., budget day) and the inherent risks of trading on such days were not disclosed.

31. I note that the employee of the Noticee had recommended the client to deploy more capital in order to trade in the market. In the chat transcripts available on record, there is no mention of any assurance or promise of profit. The mere use of phrase "good return" cannot be construed to mean that the Noticee was assuring returns. The suggestion by the sales executive to trade on a volatile day (*budget day*) cannot be equated with assurance from the side of the Noticee and the expectation of client that profit will be earned cannot be attributed to the Noticee on the basis of materials available on record. Therefore, on preponderance of probability, I do not agree with the conclusion of the DA with respect to the said instance.

Instance 7: WhatsApp chat with client Vinita Kassel

32. The inspection report had observed that employee of Noticee had encouraged the client to opt for future options by stating there will be good return. The DA after analysing the chat transcript has observed that the message of the employee directly links the type of service to the assurance of good return, without mentioning associated risks of derivative trading. He also noted that employees of Noticee are not expected to express personal opinion.

33. The Noticee has contended that the employee had merely stated his experience that future options will give better returns and was merely answering to the client's query.

34. I note that the client was enquiring about service provided by the Noticee pertaining to future options and stock options. The message of the employee that future option will get 'good returns' appears to have been made in that context. The employee's statement appears to have been made in reply to enquiries made by the client. From the chat transcript available on record, I note that the context in which the word 'good return' has been used does not by itself, on a preponderance of probability lead to the conclusion that the Noticee or his employees were assuring profits to the client. Therefore, I do not agree with the conclusion of the DA that the Noticee was assuring returns in this alleged instance.

Instance 8: WhatsApp chat with client Mayur P Kaku

35. The inspection report observed that *the client had pointed out that loss trades are not shown in the performance chart and the Noticee in reply had told that he will provide the trade for recovery.* The DA after analysing the chat transcripts observed that the Noticee when confronted with a client query as to why loss trades were not shown, admitted that only profitable trades were being shared and attempted to reassure the client of a recovery through future trades, which effectively constitutes an assurance of return.

36. From the chat transcript available on record, the replies of the Noticee indicate that he was being deceptive while dealing with the grievances of the particular client. However, the allegation against the Noticee is with respect to assurance of profit or loss recovery and the materials available on record, does not sufficiently indicate that. The words “I will provide the trade for recovery” merely alleviated the concern of the client and did not provide any sort of guarantee or assurance.

37. Therefore, on a preponderance of probability, I am not inclined to agree with the findings of the DA. On the basis of materials available on record, I find that there was no assurance of return in the present instance.

Instance 9: WhatsApp chat with client Veena Shitya

38. The inspection report had observed that the client was told that she will get monthly returns as well as some good profit in long term investment. The DA after analysing the said transcript observed that the client expressed hesitation to enrol for the subscription and the employee repeatedly emphasized on “*earning good returns*” without parallel disclosure of risks which constitutes an attempt to lure the client with profit expectations.

39. The Noticee contended that the employee was merely explaining its services and was explaining the subscription package to the Noticee. He submitted that there was no pressure or inducement or assurance given to the client.

40. I note that from the entire chat transcript that the client was initially hesitant and had specifically asked if the subscribing to its services will be profitable. In response to the said query and during the whole conversation, the employee of the Noticee had multiple time stated that there will be good returns. The employee further added that there will be monthly returns and good profits from the investments thereby luring the client to subscribe to the Noticee’s services.

Therefore, on the basis of material available on record, I agree with the findings of the DA that the Noticee had lured the client with profit expectations in the present instance.

Instance 10: WhatsApp chat with client Vaibhav Ultap

41. The inspection report had noted that the client was assured good return. The DA observed that the context in which the statement were made by the Noticee's employee especially after the client had suffered prior loss indicates that such a statement likely instilled confidence of future gains which amounts to an assurance of returns.

42. I note that the client had enquired whether there is guarantee of profit. In response to the said query, the employee had replied that there will be good returns. Further, the repeated reassurance to the client that there will be good returns daily only reinforce the fact that the client was being assured returns. Therefore, on the basis of material available on record, I agree with the findings of the DA that the Noticee had assured returns in the present instance.

Instance 11: WhatsApp chat with client No. 91XXXXXX200

43. The inspection report had observed that employees of Noticee had, *inter alia*, stated to potential client that, *"….take subscription u ll get good returns*". Further, the employees of Noticee had also shared the screenshot of that day's profit in the index option.

44. I note that the chat transcripts on record do not show anything with respect to assurance of returns. The employee had merely shared the screenshot and requested the client to subscribe to its services. Therefore, on the basis of material available on record, I am not inclined to agree with the conclusion of the DA and find that there was no assurance of return in this instance.

45. In view of the conclusions w.r.t the 11 instances described above, I find that the allegation that Noticee had violated code of conduct as specified in the RA regulations by *inter-alia* by providing assurance of profit and inducing its clients to trade stands established on a preponderance of probability, in 6 instances.

b. *Whether as a result of inducing its client to trade, the Noticee has violated Regulations 3(a), 4(1), 4(2)(k), 4(2)(o), and 4(2)(s) of the PFUTP Regulations?*

46. The DA has observed that the Noticee misled its client by inducing him to trade with the prospect of high returns and this misrepresentation influenced the client's decision-making and the client traded based on such misrepresentation. Therefore, the DA concluded that the Noticee violated regulations 3(a), 4(1), 4(2) (k), 4(2) (o), and 4(2) (s) of PFUTP Regulations.

47. Regulation 2 (c) of PFUTP regulations defines fraud to include "any act, expression, omission or concealment committed … or by his agent … while dealing in securities in order to induce another person … to deal in securities …", Further, sub clause (ii) of the above definition of "dealing in securities" of PFUTP Regulations which *inter-alia* includes "such acts which may be knowingly designed to influence the decision of investors in securities.

48. I note from instances mentioned above that the Noticee in order to earn fees misled its clients by assuring high returns without providing appropriate risk disclosure, thereby inducing them to trade.

49. In this regard, I find it relevant to refer to the order of Hon'ble SAT in ***24 Carat Financial Services vs. SEBI*** *(Appeal no. 59 of 2023 decided on January 18, 2023)* wherein the following was noted:

"7. …The action of promising guaranteed returns is patently against the principles of the securities market and not only manipulative but also fraudulent and violative of Regulations 3 and 4 of the PFUTP Regulations."

50. Therefore, I agree with the conclusion of the DA that Noticee has violated regulations 3(a), (b), (c), (d), 4(1), 4(2)(k), (o) and (s) of the PFUTP Regulations read with sections 12A(a), (b) and (c) of the SEBI Act, and clauses 1 and 7 of code of conduct as specified in the Third Schedule read with regulation 24(2) of the RA Regulations.

II. Whether the Noticee advertised his past performance in respect of research call on social media and thereby violated SEBI Circular dated April 05, 2023 read with SEBI Master Circular dated May 21, 2024?

51. The SCN alleged that the Noticee has violated provisions of clause 1(c) (xii) of SEBI Circular dated April 05, 2023 read with clause 8.1(c) (xii) of the SEBI Master Circular dated May 21, 2024 because the Noticee advertised his past performance in respect of his research calls on social media.

52. As per Regulation 24(2) of the RA Regulations read with clause 7 of the Code of Conduct as specified in the Third Schedule, the Noticee is required to comply with all regulatory requirements. SEBI Circular dated April 05, 2023 *inter-alia* mandates an advertisement code to be followed by the RAs. Clause 1(c) (xii) of SEBI Circular dated April 05, 2023 prohibits any advertisement having reference to the past performance of the RAs.

53. The DA has observed that the social media post by the Noticee i.e. '*Top 5 Research Calls of the Day*' falls within the ambit of "advertisement" under the SEBI Circular dated April 05, 2023. The DA concluded that the said advertisement was clearly an advertisement of his past performance and therefore violative of SEBI

Circulars. The Noticee has argued that social media post is not an advertisement but is similar to publications made on the website. The Noticee has further argued that the recent guidelines issued by stock exchanges which permit RAs to showcase performance points to the fact that posts similar to the one pointed out in inspection is not violative of any regulatory requirement.

54. The DA has referred to SEBI Master Circular dated May 21, 2024 while deciding on the allegations. However, I note that the Master Circular for Research Analyst dated June 15, 2023 was in force during the IP. Since the Master Circular is essentially a compilation of all SEBI Circulars and the SEBI Circular dated April 05, 2023 which contains the core obligation had also been subsumed at Clause 7.C (xii) in the Master Circular for Research Analyst dated June 15, 2023, mere mentioning of SEBI Master Circular dated May 21, 2024 instead of SEBI Master Circular dated June 15, 2023 does not vitiate the present proceedings.

55. With respect to the contention of the Noticee that the social media post cannot be considered as an advertisement, I draw reference to the definition of "advertisement" as provided in SEBI Circular dated April 05, 2023:

> *"Advertisement shall include all forms of communications, issued by or on behalf of IA/RA that may influence investment decisions of any investor or prospective investor.*
>
> *The forms of communications, to which the advertisement code shall be applicable, shall include pamphlets, circulars, brochures, notices, research reports or any other literature, document, information or material published, or designed for use in any publication or displays (such as newspaper, magazine, sign boards/hoardings at any location), in any electronic, wired or wireless communication (such as electronic mail, text messaging, messaging platforms social media platforms, radio, telephone, or in any other form over the internet) or over any other audio-visual form of communication (such as television, tape recording, video tape recordings, motion pictures) or in any other manner whatsoever."*

56. Noticee's social media post, made from his official handle "@streetgains" on the social media platform "X", clearly qualifies as a form of communication "issued on

behalf of the RA" and is published on a social media platform, which is explicitly covered under the definition. Further, by showcasing only profitable research calls, the post is designed to highlight the success of Noticee's services, which could reasonably influence the investment decisions or perceptions of current or prospective investors. Hence, the post squarely falls within the ambit of "advertisement" under the provisions of SEBI Circular dated April 05, 2023.

57. The Noticee has argued that its social media post highlighting "Top 5 Research Calls of the Day" was inspired from the "Top Gainers" posts being displayed on the website of National Stock Exchange of India Limited (NSE). In this regard, I note that the "Top Gainers" list by NSE is market data which is displayed independently and not attributable to any particular advisory or research source. The said data is not attributable to NSE, as the exchange does not play any part in deciding the price of the shares and the same does not serve any ulterior purpose. Further, the said post of the Noticee deliberately promotes only the top calls and is conveniently silent on the bottom 5 Research Calls which were made during the day and where his clients may have lost money. Hence, the Noticee's analogy drawn with 'NSE Top Gainers' is inaccurate and cannot be accepted.

58. In view of above, I agree with the conclusion of the DA that Noticee advertised his past performance in respect of his research call on social media and thereby violated the provisions of clause 1(c) (xii) of SEBI Circular dated April 05, 2023 read with clause 7.C (xii) in the Master Circular for Research Analyst dated June 15, 2023.

III. <u>Whether the Noticee violated RA regulations by maintaining an incentive structure for his sales executives?</u>

59. The SCN had alleged that the Noticee had violated the provisions of clause 4(xi) of the SEBI Circular dated August 27, 2013 read with clause 12.4(xi) of the SEBI Master Circular dated May 21, 2024 by maintaining an incentive structure for his

sales executive which resulted in encouraging sale of products not suiting the risk profile of their clients.

60. Regulation 24(2) of the RA Regulations read with clause 7 of the Code of Conduct as specified in the Third Schedule requires RAs to comply with all regulatory requirements applicable to its conduct of business. Clause 4 (xi) of SEBI Circular dated August 27, 2013 mandates all intermediaries to not have an incentive structure which encourages sale of products not suited to the risk profile of their clients.

61. The DA has referred to SEBI Master Circular dated May 21, 2024 while deciding on the allegations. However, I note that the Master Circular was not in force during the IP. I also note that the SEBI Circular dated August 27, 2013 which contains the core obligation had also been subsumed at Clause 11.4 (k) in the SEBI Master Circular for Research Analyst dated June 15, 2023, which was in force during the IP. Since the core requirements were not altered and the alleged violations are essentially the same regardless of the specific circular cited, I find that mere mentioning of SEBI Master Circular dated May 21, 2024 instead of SEBI Master Circular dated June 15, 2023 does not vitiate the present proceedings.

62. The DA had observed that Noticee was maintaining an incentive structure wherein Sales Executives (SE) were provided incentives based on the sales achieved by them and a minimum sales target of INR 2 lakh was required to qualify for receiving a monthly salary. The DA concluded that such incentive structure encourages sale of products not suiting the risk profile of clients which is explicitly prohibited under SEBI circular dated August 27, 2013.

63. The Noticee's primary argument was that he is not mandated to conduct risk profiling before giving investment advice to any client, because he is a registered RA and not an IA. The Noticee has further contended that the incentive structure was customer centric and introduced with a view to ensure timely servicing of clients and not to push volumes/sales.

64. I note that the basis of allegation in the present proceedings is not that Noticee failed to conduct client risk profiling (an obligation applicable specifically to IAs) but rather that Noticee had adopted an incentive structure which promoted the sale of unsuitable products to its clients. The rationale behind including such a requirement in the RA regulations was not to mandate client risk profiling but to avoid situations/arrangement which would lead to such situation encouraging sale of unsuitable products not suiting the risk profile of clients. Such conduct, compromising investor suitability, is not limited to IAs and is impermissible for all registered intermediaries.

65. Further, the argument of the Noticee that the said structure was customer centric is without merit because the volume of sales/amount of business brought has nothing to do with the servicing of clients. The fact that the sole criteria for incentivising and deciding staff salary was linked to the volume of sale, inevitably leads to the high possibility of undue pressure on sales executives to push products without regard to their suitability for clients.

66. From one of the WhatsApp communications between the sales executive (**SE**) of Noticee and one of its clients, Mr. Ramachandran, it is observed that the SE had recommended an Index Option plan to an elderly individual. The said instance further reinforces the possibility that the existence of such an incentive structure encourages the sales executives to push products without regard to their suitability for clients.

67. In view of the above, I agree with the conclusion of the DA that the Noticee had violated the provisions of clause 4(xi) of the SEBI Circular dated August 27, 2013 read with Clause 11.4 (k) of the SEBI Master Circular for Research Analyst dated June 15, 2023 read with clause 7 of the Code of Conduct as specified in the Third Schedule and regulation 24(2) of the RA Regulations.

IV. **Whether the Noticee failed to maintain rationales for arriving at research recommendations and failed to digitally sign the research reports maintained in electronic form?**

Maintaining rationale in research reports

68. The pre- enquiry SCN had alleged that the Noticee failed to maintain proper rationale for arriving at research recommendations and also failed to digitally sign the research report maintained in electronic form and thereby violated the provisions of regulations 25(1) (i) and (iii) read with 25(2), and clauses 1, 2, 6, and 7 of the code of conduct as specified in the Third Schedule read with regulation 24(2) of the RA Regulations. The pre-enquiry SCN had also observed that an administrative warning had earlier been issued to Noticee for violation of regulation 25 of the RA Regulations pertaining to the inspection conducted for the period April 01, 2020 to March 31, 2021.

69. The DA observed that the rationale provided by Noticee for his recommendations were not clearly defined, but gave benefit of doubt to Noticee by concluding that the Noticee had recorded some rationale for his recommendations. The DA also noted that the research reports which were maintained in electronic form were not digitally singed, as required under the RA Regulations.

70. The Noticee's primary contention is that he provides research recommendations, which is different from research reports. His contention is that since his recommendations do not constitute "research reports", the mandate under regulation 25 to maintain digitally signed electronic records does not apply to him and that he is only required to maintain the rationale. The Noticee has submitted that the requirement to support every research service with a detailed report was proposed only in 2024 and there was no such requirement during the IP. He has further contended that in absence of any prescribed format of rationale, his own

reasonable methodology to record the basis on which recommendation were formulated, cannot be considered as violative of the RA regulations.

71. In this regard, reference may be drawn to the definition of "research report" as provided under regulation 2 (1) (w) of the RA regulations which *inter-alia*, states as under:

> *"(w) "research report" means any written or electronic communication that includes research analysis or research recommendation or an opinion concerning securities or public offer, providing a basis for investment decision…"*

72. The Noticee by his own admission provides research recommendations to its clients. As is evident from the regulation above, research recommendations provided by the Noticee which is sent through his applications/SMS/WhatsApp is clearly covered under the definition of research report.

73. I also note that regulation 25 of RA Regulations *inter-alia* mandate the following:

"Maintenance of records.

25. (1) Research analyst or research entity shall maintain the following records:

(i) research report duly signed and dated;

(ii) research recommendation provided;

(iii) <u>rationale for arriving at research recommendation</u>;(underline supplied)

…

(2) All records shall be maintained either in physical or electronic form and preserved for a minimum period of five years:

Provided that where <u>records are required to be duly signed and are maintained in electronic form, such records shall be digitally signed</u>." (Underline supplied)

74. I note that the aforesaid definition of “research report” in RA regulation which includes “research recommendation” was already in force during the IP. Further, regulation 25 of RA regulation which mandates maintenance of rationale in respect of research reports as well as maintenance of digitally signed electronic records was also applicable to the research recommendations provided by the Noticee during the IP. Thus, the research recommendations provided by Noticee have to necessary comply with all the requirements provided under regulation 25 of the RA regulations.

75. The inspection report had alleged that Noticee had created a template of 4 reasons for recommendations, i.e. *the call is generated on the basis of either of the following technical conditions: (a) The stock is either open low or price is above previous day high, (b) Intraday pivot levels broken on 5 minutes or 15 minutes candle, (c) Stock has seen a price volume action on the buy side and (d) Stock is in the news for a reason*. The particular instance pointed out during the inspection mentions the reason for call as “*intraday price volume breakout*”.

76. I note that the Noticee instead of giving specific and clear reasoning in his research recommendations, has been using a generic template listing multiple possible conditions under which a call might be made. As per the sample research report which is on record, the Noticee has recorded a reason i.e. *intraday price volume breakout* under the section “*why this call*”. The Noticee has recorded some reason/rationale, notwithstanding it being terse and cryptic. Therefore, I agree with the DA that benefit of doubt may be given to the Noticee since some rationale for his recommendations was maintained. Hence, the said allegation is not established against the Noticee.

<u>Failure to digitally sign the research reports maintained in electronic form</u>

77. The Noticee has not disputed the fact that the research recommendations which are maintained in electronic form were not digitally signed. It had contended that it provides research recommendations, which is different from research reports,

hence, the mandate under regulation 25 to maintain digitally signed electronic records do not apply to the research recommendations maintained in the electronic form.

78. I note that it has already been established above that the research recommendations provided by the Noticee are covered under the definition of 'research reports' and under regulation 25 of RA regulations, the research recommendations maintained in electronic form have to be digitally signed.

79. The Inspection Report had observed that the Noticee remained in non-compliance of regulation 25 of the RA Regulations for not maintaining records pertaining to research analyst services, despite an earlier administrative warning being issued to him on January 27, 2023 (*pertaining to the inspection period April 01, 2020 to March 31, 2021*) *inter-alia* for not maintaining records pertaining to analyst services including rationale for research recommendations. The Noticee had denied receiving any such warning from SEBI. The DA has observed that the said warning was not served on the Noticee because no concrete proof of delivery has been made available on record. I note that there is no recorded evidence of service. Nonetheless, the fact that the earlier inspection report has also observed failure to maintain records as per provisions of regulation 25, suggests recidivism and non-compliance with applicable laws for a long period of time, on part of the Noticee.

80. In view of all the above, I agree with the conclusion of the DA that the Noticee had failed to digitally sign the research reports and thus violated the provisions of regulations 25(1) (i) read with 25(2), and clause 7 of the Code of Conduct as specified in the Third Schedule read with regulation 24(2) of the RA Regulations.

E. CONCLUSION

81. For the reasons mentioned in the preceding paragraphs, I find that that the Noticee has violated the following provisions:

a. Assured returns/loss recovery to his clients that misled/induced his clients to deal in securities, engaged in mis-selling and failed to exercise due diligence by not exercising any control over employees who were engaging with his clients- Regulations 3(a), (b), (c), (d), 4(1), 4(2)(k), (o) and (s) of the PFUTP Regulations read with sections 12A(a), (b), and (c) of the SEBI Act, and clauses 1 and 7 of code of conduct as specified in the Third Schedule read with regulation 24(2) of the RA Regulations.

b. Advertised past performance in respect of research calls on social media - Clause 1(c) (xii) of SEBI Circular dated April 05, 2023 read with clause 8.1(c) (xii) of the SEBI Master Circular dated May 21, 2024.

c. Encouraged sale of products not suiting the risk profile of the clients through incentives given to sales executives - Clause 4(xi) of the SEBI Circular dated August 27, 2013 read with clause 12.4(xi) of the SEBI Master Circular dated May 21, 2024.

d. Failed to digitally sign the research report maintained in electronic form - Regulations 25(1) (i) read with 25(2), and clause 7 of the Code of Conduct as specified in the Third Schedule read with regulation 24(2) of the RA Regulations.

82. I note that an Adjudication Order dated January 27, 2025 has been passed against the Noticee which imposed a monetary penalty of INR 8 Lakh for the same set of violations as alleged in these proceedings and the same has been paid. The Noticee had submitted before the DA vide reply dated November 25, 2024, that it had issued a warning letter to its employees after the conclusion of the inspection for adhering to the dos and don'ts, regulations and internal policies while communicating with the clients.I also note that there are no pending SCORES complaint in respect of the established violations and the non-compliance with RA Regulations with respect to assurance of profit/loss recovery while dealing with clients have not been established on certain instances.

83. I find that the DA has recommended issuance of regulatory censure and prohibition of the Noticee from on boarding any new clients for a period of one month. Having regard to the fact that the Notice has already been subjected to a monetary penalty of INR 8 Lakh imposed by the Adjudication Order which has been paid and the fact that certain instances of alleged violations against the Noticee have not been established on a preponderance of probability, I am not inclined to agree with the recommendations of the DA that the Noticee may be restrained from taking up new clients. In the facts and circumstances of the case, I am of the view that issuance of a regulatory censure to the Noticee would be more proportionate to the violations established in the present case.

F. ORDER

84. In view of the foregoing, I, in exercise of the powers conferred upon me under sub section (3) of Section 12 and Section 19 of the SEBI Act, 1992 read with the sub-regulation (5) of regulation 27 of the Intermediaries Regulations, hereby issue a regulatory censure against the Noticee i.e. Streetgains Research Services (Proprietor – Kumar Venkataramegowda Santhosh) having SEBI Registration No: INH200003208.

85. The Order shall come into force with immediate effect.

86. A copy of this order shall be served upon the Noticee and on BSE Limited (being the Research Analyst Administration and Supervisory Body) for its information and record.

Date: March 25, 2026

Place: Mumbai **Sd/-**

BIJU S.
QUASI JUDICIAL AUTHORITY
SECURITIES AND EXCHANGE BOARD OF INDIA