BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/JS/YK/2026-27/32423]

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995

In respect of:
Rajiv Sharma
(Proprietor – M/s. Capital Life Market Research, Investment Adviser)
PAN: BVYPS5256C

In the matter of thematic inspection of Rajiv Sharma (Proprietor: M/s. Capital Life Market Research)

BACKGROUND

1. Rajiv Sharma, Proprietor: M/s. Capital Life Market Research (hereinafter referred to as "**Noticee**") is registered with Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") as an investment adviser (hereinafter referred to as "**IA**"). The registration number of the Noticee is INA000001365. SEBI and BSE Ltd. (hereinafter referred to as "**BSE**") had undertaken thematic inspection of the Noticee. The theme of the inspection was fees charged by IA, compliance with NISM qualification, periodic and annual reports submission and redressal of complaints. Accordingly, onsite inspection of the Noticee was carried out on February 07, 2025. The inspection has been conducted for the period starting from April 01, 2023 to January 31, 2025 (hereinafter referred to as "**Inspection period/IP**").

2. Thereafter, vide letter dated June 19, 2025, SEBI communicated the findings of the said inspection to the Noticee. In response, the Noticee submitted reply vide emails dated August 31, 2025 and September 01, 2025. After analyzing the findings of the inspection vis- à -vis the response of Noticee, a final inspection report was prepared wherein the following violations were alleged:

(a.)Regulation 15(3) of SEBI (Investment Advisers) Regulations, 2013 (hereinafter referred to as "**IA Regulations**");

(b.)Regulation 7(2) and 15(13) read with regulation 13(a) of IA Regulations;

(c.)Regulation 19(1)(a to h), (2), (3) of IA Regulations;

(d.)Regulation 15(12) of IA Regulations read with clause 27 of SEBI Master Circular No. SEBI/HO/MIRSD/MIRSD-PoD/P/CIR/2025/94 dated June 27, 2025 (hereinafter referred to as "**Master Circular dated June 27, 2025**");

(e.)Regulation 15(8) of IA Regulations read with clause 84 of section 2 of SEBI Master Circular No. SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 hereinafter referred to as "**Master Circular dated October 12, 2023**").

APPOINTMENT OF ADJUDICATING OFFICER

3. The undersigned has been appointed as Adjudicating Officer (hereinafter referred to as ''**AO**'') vide communiqué dated January 23, 2026, under section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**SEBI Act**") read with rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as **"Rules"**), to inquire into and adjudge under the provisions of section 15EB of the SEBI Act for the aforementioned violations alleged to have been committed by Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice Ref. No. DIS/7582-83/2026 dated March 10, 2026 (hereinafter referred to as **"SCN"**) was issued to Noticee in terms of rule 4 of the Rules read with section 15-I of the SEBI Act to show cause as to why an inquiry should not be held against Noticee and why penalty, if any, should not be imposed on him in terms of the provisions of the section 15EB of the SEBI Act for the violations alleged to have been committed by Noticee.

5. The SCN dated March 10, 2026, *inter alia*, alleged the following:

Keeping arm's length distance between its activities as an investment adviser and other activities

a. *From the data provided by the Noticee, it was observed that in respect of certain clients, the notice had charged advisory fees more than the permissible amount. As per regulation 15A of the IA Regulations read with clause I of Master Circular dated June 27, 2025 on Guidelines for Investment Advisers, an IA can charge maximum fee of Rs. 1,25,000/- per annum per family of client across all services offered by IA under the Fixed fee mode and fee charged shall not exceed Rs. 1,51,000/- per annum for new clients from the date of SEBI Circular dated January 08, 2025.*
b. *The aforesaid findings were communicated to the Noticee by SEBI. In response, Noticee submitted that the excess fee amounts were not investment advisory service charges but personal borrowings from respective friends and relatives and are supported by formal agreements. As against this, the Noticee submitted copies of informal loan agreements with clients. In this regard, the Noticee intimated vide email dated September 19, 2025 that all financial obligations including repayments, loans or dues have been completely settled and that he had no clients under his registration.*
c. *From the aforesaid, it was observed that by receiving loans from clients and in the same bank account being used for IA services, the Noticee has not maintained an arms-length distance between its activities as an IA and other activities. Therefore, it was alleged that Noticee has violated regulation 15(3) of the IA Regulations.*

Compliance with NISM certifications requirement

d. *It was observed that the Noticee on the date of inspection did not hold valid NISM certifications, viz., NISM Series X-A: Investment Adviser (Level 1) Certification Examination and NISM Series X-B: Investment Adviser (Level 2) Certification Examination as the said certificates expired on April 02, 2024 and April 12, 2024 respectively.*
e. *The aforesaid findings were communicated to the Noticee by SEBI. In response, Noticee submitted that due to personal difficulties, he could not take the exams despite scheduling the exams. Noticee further stated that he would take the necessary steps to revalidate his NISM certifications at the earliest possible opportunity.*
f. *In this regard, it was observed that NISM Certifications specified in IA Regulations are continuous requirements that need to be complied by the IA at all times. In the absence of the requisite NISM Certifications, the IA ceases to satisfy the eligibility criteria of grant of registration and is rendered ineligible to hold registration as IA. Therefore, it was alleged that Noticee has carried on investment advisory activities without holding valid NISM certifications (Level I and 2) and had collected investment advisory fees of Rs. 1.20 crore during the FY 24-25 and therefore, violated regulations 7(2) and 15(13) read with regulation 13(a) of IA Regulations.*

Maintenance of Records

g. *During the inspection, following was observed pertaining to submission of periodic and annual compliance audit reports, maintenance of records and failure to conduct Know Your Customer (KYC) norms by the Noticee:*
   i. *Noticee did not submit annual compliance audit report for the FY 2023-2024;*
   ii. *Noticee did not submit periodic reporting for the half year ended March 2024 and September 2024;*
   iii. *In respect of 5 clients, KYC details were not updated on CVL-KRA portal;*
   iv. *The rationales for arriving at investment advice submitted by Noticee were not signed and stamped. As details of the clients were not being mentioned for rationales submitted by the Noticee, it was difficult to ascertain for which client rationales are provided;*
   v. *Noticee did not maintain complete client summary. The details of clients were missing in the client summary such as complete names of the clients, PAN, risk score of the clients, etc.*

h. *The aforesaid findings were communicated to the Noticee by SEBI. In response, Noticee submitted the following:*
   A. For non-submission of complete client information and client summary including complete names, PAN and risk scores:
   i. *The complete data relating to clients was stored in 1 TB external hard disk which crashed and became non-functional. During SEBI inspection conducted on February 7, 2025, the inspecting officer had a conversation with the repair technician who informed that the hard disk was in a very bad condition and that the data restoration would be extremely difficult.*
   ii. *Noticee further stated that despite the challenges, he has made every effort to retrieve and submit whatever client data could be recovered. He has stated that he has submitted the client data based on the bank statements and mentioned "Awaited" for the data which could not be fetched from the crashed hard disk at the time of preparing the client summary report. The full data from the hard disk was still not retrieved.*
   iii. *A register containing all the relevant information about clients was also maintained, however, some physical documents including the clients record register were misplaced during shifting of the IA's office and few days were required to locate from unpacked boxes. Hence, the Noticee stated that he was fully dependent on the hard disk for accessing detailed client information and also on the physical records which were misplaced or lost.*
   iv. *Further, vide email dated September 01, 2025, Noticee stated that he could now locate his client record register and has submitted his client record register for the year 23-24 and 24-25 (handwritten) to SEBI.*

B. Regarding non-updation of KYC details for five clients on the CVL-KRA portal, Noticee submitted that the KYC of the said clients could not be updated due to a technical issue with his previously registered KRA, which had become defunct and as a result, Noticee was unable to upload or update any KYC details during that period. Subsequently, the IA applied for registration with an alternate KRA and resumed updating KYC details for all clients. However, the KYC records of the said five clients were stored in the IA's external hard disk, which had crashed and the specific KYC data for these five clients could not be retrieved. Noticee also submitted that there have been no grievances from any of these five clients.

i. *In this regard, it was observed that the client record or register submitted by the IA vide email dated September 1, 2025 was incomplete and did not contain details such as date and nature of advice and the details of products/securities in which advice was rendered. The record was not maintained as specified in the IA Regulations and not supported by any verifiable documents such as corresponding bank transactions, email correspondences with clients, etc. In view of the same, it was alleged that the Noticee has failed maintain records and thus, violated regulations 19 (1) (a to h) of IA Regulations and regulations 19(2) and (3) of IA Regulations, regulation 15(12) of IA Regulations read with clause 27 of Master Circular dated June 27, 2025 on periodic reporting format for Investment Advisers and regulation 15(8) of IA Regulations read with clause 84 of section 2 of Master Circular dated October 12, 2023 on KYC norms for the securities market.*

6. Noticee vide e-mail dated April 08, 2026 requested for seven days' additional time to file his submissions which was acceded to and Noticee was advised to file his reply by April 16, 2026. It is noted that Noticee had not submitted his reply within the stipulated time. Therefore, in the interest of natural justice, an opportunity of hearing was granted to Noticee on May 13, 2026 which was adjourned to May 25, 2026 on the request of Noticee. Further, vide letter dated May 13, 2026, Noticee filed reply to the SCN and the relevant extracts of the same is as follows:

Allegation I: Alleged Violation of Regulation 15(3) - Failure to maintain arm's length between advisory activities and other activities

a. *The SCN alleged that the Noticee failed to maintain an arm's length relationship between his activities as an Investment Adviser and other financial dealings, on the basis that certain amounts received from clients allegedly exceeded permissible advisory fees and were routed through the same bank account, thereby purportedly indicating intermingling of activities.*
b. *Noticee denied the said allegation. It was submitted that the amounts referred to in the SCN were not advisory fees but represent personal borrowings taken by the*

Noticee in his individual capacity from persons known to him. These transactions were not linked, directly or indirectly, to the provision of investment advisory services and were not in the nature of consideration for advice rendered.

c. *It was further submitted that there existed no nexus whatsoever between such borrowings and any advisory services rendered. There was no element of quid pro quo, or linkage to investment advice. The transactions were necessitated by personal exigencies and were undertaken with mutual consent between the parties, duly supported by agreements already submitted to SEBI.*
d. *The mere routing of such transactions through a bank account, which was also used for business purposes in a sole proprietorship structure, cannot, in the absence of any corroborative material, lead to the conclusion of regulatory breach. It was submitted that such amounts were not charged as fees, nor was any client misled.*
e. *Moreover, the loans were taken before any advice was rendered to the persons concerned. In effect, the "non-investment related financial activities/personal financial dealings" took place before the said persons, who were known friends and acquaintances of the Noticee, became clients of the Noticee.*
f. *In order to establish a violation under regulation 15(3), it must be demonstrated that:(i) the Noticee was engaged in multiple activities; (ii) there existed an overlap or intermingling between advisory and non-advisory activities; and (iii) such overlap resulted in conflict of interest, lack of independence, or any arrangement not conducted as between unrelated parties. Applying the above test, none of the essential ingredients are satisfied in the present case. The alleged transactions were purely personal in nature and do not constitute "other business activities" in the regulatory sense. There is no material on record to establish any functional linkage, interdependence, or overlap between such transactions and the investment advisory services rendered by the Noticee. Further, the chronology itself demonstrates absence of any nexus, inasmuch as the alleged financial dealings took place prior to the concerned individuals becoming clients. This clearly negates any allegation of conflict of interest or compromise of advisory independence.*
g. *In view of the above, it was submitted that the essential ingredients required to establish a violation of regulation 15(3) were not satisfied and the allegation is liable to be dropped.*

Allegation II: Violation of regulations 7(2) and 15(13) r/w 13(A) of IA Regulations - Non-Compliance with NISM Certification

h. *The SCN alleged that the Noticee continued to carry on investment advisory activities without holding valid NISM certifications after expiry of the same in April 2024.*
i. *The aforesaid allegation was denied. Although, without prejudice, the Noticee acknowledged that the NISM certifications expired during the relevant period, he*

submitted that no investment advice was rendered in the capacity of an investment advisor. The said lapse, if any, was temporary, inadvertent, and arose due to compelling personal and financial constraints faced by the Noticee. The Noticee had taken steps to schedule the requisite examinations but was unable to appear due to circumstances beyond his control, including deeply distressing personal issues as specified above.

j. *It was submitted that the Noticee's son was undergoing severe medical issues, requiring continuous care and emergency medical attention. Due to these circumstances, the Noticee was unable to appear for the scheduled examinations despite making genuine efforts to do so. The record demonstrates that the Noticee had enrolled for examinations multiple times and had even reached examination centres but was compelled to withdraw due to unavoidable exigencies related to his son's condition.*
k. *The aforesaid facts clearly establish: a. The absence of any intent to circumvent regulatory requirements; b. Continuous bona fide efforts to comply; c. The involuntary nature of the lapse, if any.*
l. *Further, a. The Noticee did not expand his business or onboard new clients during the relevant period when the license had expired; b. No advice rendered during this period was rendered in the capacity of an investment advisor; c. No unsuitable advice was ever rendered by the Noticee during his tenure as an investment advisor which caused any loss or prejudice to investors; d. No complaint has been received in respect of advisory services rendered during the said period.*
m. *Subsequently, the Noticee regularized his position by successfully obtaining the required certification as on date, thereby demonstrating continued commitment to compliance. In the absence of any fraudulent intent, investor harm, or unjust enrichment, the alleged lapse, if any, remains technical and does not warrant penal action.*

Allegation III: Alleged violation of regulations 19(1)(a to h), 19(2)(3), 15(12) and 15(8) of IA Regulations - Deficiencies in Record Maintenance, KYC Compliance and Periodic Reporting

n. *The SCN alleged that the Noticee failed to maintain proper records in the prescribed manner, did not update KYC details of certain clients, did not submit periodic and annual reports and did not maintain adequate documentation in the prescribed manner.*
o. *The said allegations were denied. In order to substantiate allegations under regulations 19(1)(a) to (h), 19(2) and 19(3), as well as regulations 15(12) and 15(8), there must be demonstrable wilful, systemic, or negligent failure resulting in suppression of material information or prejudice to investor interest, which is absent in the present case. It is a fact that the entirety of client data was stored on an external hard disk which subsequently became non-functional owing to an unforeseen technical failure. This position was duly communicated to the*

inspecting authority at the time of the inspection. It is pertinent to note that the inspection officer personally interacted with the technician over a phone call, during which it was confirmed that data recovery would be both extremely difficult and time-consuming. The said failure was purely technical and beyond the control of the Noticee and therefore ought not to be construed as a deliberate or systemic lapse.

p. *Notwithstanding the aforesaid constraints, the Noticee undertook bona fide and diligent efforts to reconstruct client information from all available alternate sources, including bank statements and such partial physical records as were accessible. It was further submitted that certain physical documents were inadvertently misplaced during the relocation of the office premises; however, the same were subsequently traced and have been furnished vide email dated 09 May 2025. Additionally, a physical register containing client details was maintained, though certain gaps remained due to the exceptional circumstances described hereinabove. Hence, there was no suppression or intentional non-maintenance of records.*
q. *Insofar as KYC compliance is concerned, it was submitted that the Noticee encountered technical impediments with the previously registered KRA system, which had become non-operational. The Noticee had already initiated necessary steps to migrate to an alternate KRA platform. Accordingly, any inability to update certain records may be viewed in light of these constraints and not as a wilful or deliberate default. Thus, it was submitted that there was no conscious or negligent failure in KYC compliance.*
r. *It is a matter of record that: a. no client has raised any grievance in relation to KYC or documentation; b. no investor has suffered any prejudice or financial loss; and c. all clients have been duly serviced and kept appropriately informed at all material times. In view of the foregoing, it was submitted that the essential elements required to constitute a violation namely, deliberate non-maintenance, suppression of material information, or prejudice to investor interest, are absent in the present case since the Noticee has always attempted to efficiently conform to the IA Regulations. The alleged deficiencies, if any, were purely procedural in nature and arose due to circumstances beyond the control of the Noticee. The same, therefore, ought not to be construed as violations warranting any penal or adverse consequences.*

Mitigating Factors

s. *Without prejudice to the foregoing submissions, it was submitted that the present proceedings pertain, at best, to alleged procedural and technical lapses, completely devoid of any element of fraud, misrepresentation, investor harm or wrongful gain. The record itself demonstrates that no complaint has been received from any client, no loss has been caused to any investor and there is no allegation of mis-selling or unsuitable advice. In such circumstances, it is well settled that*

regulatory action ought not to be punitive but guided by principles of proportionality and fairness.

t. *Noticee has also placed reliance on the decision in Ayushi Chauksey, In re (SEBI WTM Order), wherein despite multiple alleged violations under the IA Regulations, including certification lapses, documentation deficiencies and fee-related issues, the Whole Time Member recorded that there was no disproportionate gain or grave misconduct and that the alleged non-compliances were technical and inadvertent in nature. Significantly, the proceedings in the said case were disposed of without any adverse directions or penalty, thereby affirming that in the absence of investor harm and mala fide intent, such lapses do not warrant penal consequences.*

u. *Noticee further submitted that a similar view has been taken in Dr. Nikhil Dayanand Baljekar, In re, where the Ld. Adjudicating Officer, while dealing with deficiencies relating to KYC, record maintenance and certification requirements, acknowledged that such lapses may arise due to inadvertence or lack of awareness, and where the Noticee demonstrates bona fide intent and takes corrective steps, the same deserves to be considered favourably. In the said matter as well, while certain non-compliances were noted, the approach adopted was lenient in nature with limited penal consequences, having regard to the bona fide conduct and subsequent rectification by the Noticee.*

v. *Without prejudice to the above submissions on merits, it was submitted that even assuming, without admitting, that if any violation is made out under section 15EB of the SEBI Act, the imposition of penalty must necessarily be preceded by a due and conscious consideration of the mandatory factors stipulated under section 15J of the SEBI Act. It is a settled position emerging from Ld. Authority's own adjudication jurisprudence that the factors enumerated under section 15J, namely, (i) the amount of disproportionate gain or unfair advantage, if any, (ii) the amount of loss caused to investors, and (iii) the repetitive nature of the default, are not merely illustrative but are mandatory considerations which must be applied to the facts of each case before determining quantum or even the necessity of penalty.*

w. *In view of the present case, it was submitted that a plain reading of the aforesaid parameters unequivocally demonstrates that no penalty is warranted. There is no material on record that the Noticee has derived any disproportionate gain or unfair advantage from the alleged lapses. Further, there is no allegation, that any investor has suffered loss or prejudice. Further, the alleged instances are not repetitive in nature but arise out of isolated and exceptional circumstances, which have already been explained and subsequently rectified.*

x. *The legislative intent behind section l5J is to ensure that penalty is proportionate to the gravity and consequences of the alleged misconduct and not imposed in a mechanical manner. It was submitted that in cases such as the present, where the conduct is bona fide, the lapses are technical or procedural, and there is a complete absence of investor harm or wrongful gain, the invocation of penal provisions would be wholly disproportionate and contrary to the settled principles governing adjudication under the SEBI Act.*

7. On May 25, 2026, authorised representatives (hereinafter referred to as "**ARs**") of the Noticee, viz., Ms. Ragini Singh assisted by Mr. Mihir Rathod (i/b ThinkLaw advocates) attended the hearing and reiterated the submissions made vide letter dated May 13, 2026.

CONSIDERATION OF ISSUES AND FINDINGS

8. After careful perusal of the material on record, I note that the issues that arise for consideration in the present case are as follows:

I. Whether Noticee violated the provisions of IA Regulations, Master Circular dated June 27, 2025 and Master Circular dated October 12, 2023?

II. Does the violation, if any, on the part of Noticee attract monetary penalty under section 15EB of the SEBI Act?

III. If so, what would be the quantum of monetary penalty that can be imposed on Noticee after taking into consideration the factors stipulated in section 15J of the SEBI Act?

9. Before proceeding further, it is pertinent to refer the relevant provisions of law, allegedly violated by Noticee. The same are reproduced hereunder:

IA Regulations

*"**Qualification and certification requirement.***
7. …
(2) An individual investment adviser or principal officer of a non-individual investment adviser, registered under these regulations, persons associated with investment advice, and in case of investment adviser being a partnership firm, the partners thereof who are engaged in providing investment advice, shall have at all times relevant NISM certification as specified by the Board from time to time:
Provided that a fresh relevant NISM certification as specified by the Board from time to time shall be obtained before expiry of the validity of the existing certification to ensure continuity in compliance with certification requirements."

*"**Conditions of certificate.***

13. The certificate granted under regulation 9 shall, inter alia, be subject to the following conditions:-

(a)the investment adviser shall abide by the provisions of the Act and these regulations;"

"General responsibility.

15…

(3) An investment adviser shall maintain an arms-length relationship between its activities as an investment adviser and other activities.

…

(8) An investment advisor shall follow Know Your Client procedure as specified by the Board from time to time.

…

(12) Investment advisers shall furnish to the Board information and reports as may be specified by the Board from time to time.

(13) It shall be the responsibility of the investment adviser to ensure compliance with the certification and qualification requirements as specified under Regulation 7 at all times."

*"**Maintenance of records.***

19.(1) An investment adviser shall maintain the following records,-

(a) Know Your Client records of the client;

(b) Risk profiling and risk assessment of the client;

(c) Suitability assessment of the advice being provided;

(d) Copies of agreements with clients, incorporating the terms and conditions as may be specified by the Board;

(e)Investment advice provided, whether written or oral;

(f) Rationale for arriving at investment advice, duly signed and dated;

(g)A register or record containing list of the clients along with PAN, the date of advice, nature of the advice, the details of products/securities in which advice was rendered and fee/consideration, if any charged/received for such advice;

(h) Records of communication including emails, call recordings etc. with all clients including prospective clients, 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) An investment adviser shall conduct yearly 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 or Institute of Cost Accountants of India and submit a report of the same as may be specified by the Board."

Master Circular dated June 27, 2025

"VII. REPORTING REQUIREMENTS
27.Periodic reporting format for Investment Advisers
27.1. In terms of Regulation 15(12) of Securities and Exchange Board of India (Investment Advisers) Regulations, 2013 ("IA Regulations"), investment advisers are required to furnish to SEBI, information and reports as may be specified by SEBI from time to time.
27.2. The periodic reporting format for IAs shall be as specified by IAASB in consultation with SEBI, from time to time. Such changes shall be notified to IAs through circulars/notices.
27.3. For any changes in regulatory provisions in future, IAASB shall make appropriate consequential amendments to the reporting format and notify the same to IAs, through circulars/notices.
IAASB shall make necessary arrangements for obtaining periodic reports from IAs in the specified format
27.4. IAs shall submit periodic report for half-yearly periods ending on September 30 and March 31 of every financial year, within 30 days from the end of the respective half-yearly period for which details are to be furnished."

Master Circular dated October 12, 2023

"84. After doing the initial KYC of the new clients, the intermediary shall forthwith upload the KYC information on the system of the KRA within 3 working days from the date of completion of KYC process."

10. I shall now proceed to decide the issues at hand.

Issue I: Whether Noticee violated the provisions of IA Regulations, Master Circular dated June 27, 2025 and Master Circular dated October 12, 2023?

Failure to maintain an arm's length relationship between advisory and other financial activities

11. From the inspection report, it is noted that payments received from certain clients exceeded the permissible regulatory thresholds for investment advisory fees. As against this, Noticee had submitted before inspecting team that the excess amounts were not investment advisory service charges but personal borrowings from friends and relatives. Accordingly, it was alleged that by receiving loans from clients and in the same bank account being used for IA services, the Noticee had failed to maintain an arms-length distance between its activities as an investment adviser and other activities.

12. In response, the Noticee contended in his reply that these loans were taken by him in his individual capacity from persons known to him. It was argued that the mere routing of transactions through a bank account which was also used for business purposes in a sole proprietorship structure cannot lead to the conclusion of a regulatory breach. The Noticee further contended that it was not demonstrated that he was engaged in multiple activities, that there existed an overlap or intermingling between advisory and non-advisory activities or that such an overlap resulted in a conflict of interest, lack of independence or any arrangement not conducted as between related parties.

13. In this regard, an examination of the material on record shows that the Noticee had provided copies of loan agreements to the inspection team. However, there is no evidence available on record, such as client confirmation or a loan repayment schedule concerning the amounts received from his clients in excess of the prescribed limits. Nevertheless, whether the amount received in excess of the prescribed fees is actually a loan or not is not an issue before me for consideration in the present proceedings since the inspecting authority had already accepted that the Noticee had taken loan in his bank account. Hence, the scope is limited to ascertaining whether, by taking a loan from his client in the bank account used for investment advisory

services, the Noticee had failed to maintain an arm's-length distance between his activities as an investment adviser and other activities.

14. In this context, it is noted that the phrase “arms-length” is not defined in the IA Regulations. However, regulation 2(2) of the IA Regulations states that, “*The words and expressions used and not defined in these regulations but defined in the Act, the Securities Contracts (Regulation) Act, 1956 (42 of 1956), the Companies Act, 2013 (18 of 2013), or any rules or regulations made thereunder shall have the same meanings respectively assigned to them in those Acts, rules or regulations made thereunder or any statutory modification or re-enactment thereto, as the case may be*.” Accordingly, reference is drawn to section 188 of the Companies Act, 2023 which defines “arm’s length transaction” as “*a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest*”.

15. As per the aforesaid definition, the objective is to avoid conflict of interest and in the given context, it implies operational and financial separation of professional client-facing advisory functions from personal or unrelated business transactions. This ensures that any transaction entered into with an advisory client is executed with complete transparency, objectivity and independence. Such transactions must be conducted under terms, conditions and rates that mirror what would have been negotiated with an entirely unrelated independent third party, thereby preventing any personal or financial proximity from creating an actual or potential conflict of interest that could compromise the fairness of the investment advice provided.

16. In the present case, it is noted that there is no material on record to show whether the Noticee has charged any unfair fees or rendered any compromised service to the clients from whom he availed the loan which is beyond the arm’s length. Nor is there any allegation to show that the Noticee had taken loans in accounts that were specifically meant for safeguarding client funds.

17. It is pertinent to note that Noticee is a sole proprietorship and the bank account in question functions as the main revenue collection point of Noticee as investment advisory fees. It naturally acts as the proprietor's direct financial account as well. Therefore, routing personal loans into this account does not inherently mean that there was conflict of interest. Without clear proof that this financial arrangement led to biased investment advice, unfair fees or a direct conflict of interest that harmed the clients, the co-mingling of funds in a proprietorship account is an operational overlap rather than a regulatory breach.

18. In view of the aforesaid, I am inclined to give the benefit of doubt to the Noticee. Accordingly, the violation of the provisions of regulation 15(3) of the IA Regulations is not established.

Non-compliance with mandatory NISM Certification requirements

19. From the material on record, it was observed that the Noticee's NISM certifications, viz., NISM Series X-A: Investment Adviser (Level 1) Certification (hereinafter referred to as the "**Level 1 certificate**") and NISM Series X-B: Investment Adviser (Level 2) Certification (hereinafter referred to as the "**Level 2 certificate**"), had expired on April 02, 2024, and April 12, 2024, respectively. Despite such expiry, the Noticee continued to render investment advisory services and collected a total fee of Rs. 1.20 Crore towards investment advisory activities. It was, therefore, alleged that the Noticee violated regulations 7(2) and 15(3) read with regulation 13(a) of the IA Regulations.

20. The Noticee admitted that he had failed to renew the relevant NISM certifications due to compelling personal and financial constraints, however, he submitted that no investment advice was rendered in the capacity of an investment adviser. The Noticee submitted that he was required to provide continuous emergency care to his son, who was suffering from severe mental health issues following the untimely and tragic demise of the Noticee's daughter-in-law. The Noticee further submitted that he had

enrolled for examinations multiple times but was compelled to withdraw due to unavoidable exigencies. The Noticee argued that during the period of the certification lapse, he did not expand his commercial operations, onboard fresh advisory clients, or render unsuitable advice. He contended that no investor complaints arose during this period and no client suffered any loss.

21. In this regard, it is noted that the IA Regulations expressly mandate that an Investment Adviser shall obtain and maintain valid NISM certification at all times. The obligation to ensure continuous compliance with the certification requirement squarely rests upon the IA. The Noticee, being an IA, was duty-bound to remain fully compliant with all applicable regulatory provisions. The plea that the lapse occurred due to compelling personal and financial constraints, that no unsuitable advice was rendered and that no clients' complaints arose or no loss has been caused to clients cannot absolve the Noticee of his statutory responsibility.

22. With regard to the submission of the Noticee that no investment advice was rendered during the relevant period when he did not hold the requisite NISM certificates, it is noted from the IR that the Noticee had collected a total fee of Rs. 1.20 Crore during the FY 2024-25, despite the fact that the relevant certificates had expired on April 02, 2024 (Level 1 certificate) and April 12, 2024 (Level 2 certificate) and were renewed only on February 16, 2026 (Level 2 certificate) and April 13, 2026 (Level 1 certificate), as per the submissions made by the Noticee in the present proceedings. It is further noted that the details of the fees received from his clients were provided by the Noticee himself to the inspection team. Hence, the submission of the Noticee that he did not render any investment advice after the expiry of his certificates is not true and devoid of merit.

23. The Noticee further submitted that he had enrolled for examinations multiple times but was compelled to withdraw due to unavoidable exigencies. First of all, the Noticee has

not adduced any supporting documents to substantiate his claim. Further, from the IR, it is noted that details of the Noticee's enrolments and attempts for the Level 1 certification and Level 2 certification were sought from the NISM. From the response of NISM, it is noted that the Noticee failed to appear three times (March 15, 2024, April 12, 2024, and June 26, 2024) for the Level 1 certification and subsequently, failed in the exam four times during the period from June 2024 to March 2025. Also, the Noticee had enrolled for the Level 2 certificate on March 7, 2025, but did not appear. Even the Noticee, in his reply to the adjudication proceedings, had adduced admit cards and scorecards from NISM which are in line with the response of NISM. It is pertinent to note that the Noticee appeared for the Level 1 certificate exam four times but was not able to clear it. It is further noted that during the FY 2024–25, the Noticee rendered Investment Adviser services and earned fees amounting to Rs. 1.20 Crore. I am unable to accept the submission of Noticee on personal/financial hardships, etc., given the fact that he could find time to provide investment advice and earn a fee of Rs. 1.20 Crore during the same period. The Noticee claims are self-contradicting, where on one hand the Noticee had sufficient time to provide IA services, and on the other hand, he failed to obtain the NISM certification due to alleged hardships faced. Hence, the submission of the Noticee that he had enrolled for examinations multiple times but was compelled to withdraw due to unavoidable exigencies is not tenable.

24. The Noticee further submitted that he has now regularized his position by obtaining the required certification as on date. As per the copies of the NISM certificates adduced by the Noticee, he passed the Level 1 certificate exam on April 13, 2026 and the Level 2 certificate exam on February 16, 2026. The Noticee's completion of the Level 1 and Level 2 certificates in early 2026 is noted. However, subsequent regularization of a compliance status does not and cannot retroactively cure the violation of prior period.

25. In view of the foregoing discussions, it stands established that Noticee had violated the provisions of regulations 7(2) and 15(3) read with regulation 13(a) of the IA Regulations.

Deficiencies in Record Maintenance, KYC Compliance and Periodic Reporting

26. From the material on record, it is noted that following deficiencies were observed during inspection with respect to record maintenance, KYC compliance and periodic reporting:
    a. Noticee did not submit annual compliance audit report for the FY 2023-2024;
    b. Noticee did not submit periodic reporting for the half year ended March 2024 and September 2024;
    c. In respect of 5 clients, KYC details were not updated on CVL-KRA portal;
    d. The rationales for arriving at investment advice submitted by Noticee were not signed and stamped. As details of the clients were not being mentioned for rationales submitted by the Noticee, it was difficult to ascertain for which client rationales are provided;
    e. Noticee did not maintain complete client records/register/summary. The details of clients were missing such as complete names of the clients, PAN, risk score of the clients, etc.

27. It was, therefore, alleged that the Noticee violated the provisions of regulations 15(8), 15(12), 19(1)(a to h), 19(2) and 19(3) of IA Regulations read with clause 27 of Master Circular dated June 27, 2025 and clause 84 of section 2 of Master Circular dated October 12, 2023.

28. With regard to deficiencies in maintenance of client data, Noticee submitted that the client data was stored on an external hard disk which subsequently became non-functional owing to an unforeseen technical failure. It was further submitted that Noticee undertook diligent efforts to reconstruct client information from all available

alternate sources. Further, a physical register containing client details with certain gaps was maintained.

29. The Noticee's reliance on a single external hard disk crash as a comprehensive explanation for missing records across multiple compliance categories is inadequate under the regulatory obligations applicable to registered market intermediaries. Regulation 19 of the IA Regulations places an explicit obligation on Investment Advisers to preserve client records, risk profiles and suitability assessments for a minimum period of five years. This obligation is unconditional and is not subject to any carve-out for hardware failures or technical mishaps. Registered intermediaries are expected to maintain proper infrastructure that includes adequate backups of data. Relying exclusively on a single external hard drive, without any secondary backup, represents a clear and serious failure of maintenance of records. It is further noted from records that the client data as submitted by Noticee to inspection team which were allegedly reconstructed from alternate sources or physical register of clients had failed to capture requisite details as specified in IA regulations such as complete names of the client, PAN of the client, duly signed and dated rationale for arriving at investment advice, etc. Further, the said data has also not been supported by any corroborative evidence such as bank statements, correspondences with clients, etc. Accordingly, the submissions of Noticee in this regard cannot be accepted.

30. With regard to the allegation that KYC details of five clients were not updated on CVL-KRA portal, Noticee submitted that he encountered technical impediments with the previously registered KRA system and has already initiated necessary steps to migrate to an alternative KRA system. In this regard, it is noted that Noticee has not specified the technical impediments which exactly occurred with the previous KRA system nor has he produced evidence of the steps taken by him for the prompt resolution of the same. Further, it is the responsibility of the Noticee to ensure strict compliance with the provisions of the IA Regulations. A registered intermediary cannot

abdicate its statutory obligations by merely citing vague and unsubstantiated technical impediments. The maintenance of updated and accurate client KYC records on the KRA portal is crucial. Consequently, the absence of any contemporaneous documentary evidence demonstrating that the Noticee took prompt and proactive measures to resolve the alleged technical difficulties do not absolve Noticee from his liability for failing to update the client details within the prescribed timelines.

31. It is further noted that Noticee has not provided any reason or explanation regarding non-submission of the annual compliance audit report for the FY 2023-2024 and periodic reporting for the half-year ended March 2024 and September 2024. By failing to submit these crucial reports within the prescribed timelines and offering no justification for the delay, the Noticee has demonstrated a casual approach toward regulatory mandates. Consequently, in the absence of any reasonable explanation, the Noticee is held to be in clear violation of its statutory reporting obligations.

32. In view of the foregoing discussions, it stands established that Noticee had violated the provisions of regulations 15(8), 15(12), 19(1)(a to h), 19(2) and 19(3) of IA Regulations read with clause 27 of Master Circular dated June 27, 2025 and clause 84 of section 2 of Master Circular dated October 12, 2023.

Issue II. Does the violation, if any, on the part of Noticee attract monetary penalty under section 15EB of the SEBI Act?

Issue III. If so, what would be the quantum of monetary penalty that can be imposed on Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act?

33. In the preceding paragraphs, followings violations have been established against Noticee:

(a.)Regulations 7(2) and 15(13) read with regulation 13(a) of IA Regulations;

(b.) Regulations 19(1)(a to h), (2) and (3) of IA Regulations;

(c.) Regulation 15(12) of IA Regulations read with clause 27 of Master Circular dated June 27, 2025;

(d.) Regulation 15(8) of IA Regulations read with clause 84 of section 2 of Master Circular dated October 12, 2023.

34. With respect to this, Noticee argued that no investor suffered any financial loss, no client filed a complaint and no evidence of fraud or deliberate suppression of information was uncovered in the present case which were essential elements required to constitute the aforesaid violations.

35. In this context, reference is drawn to the ruling of Hon'ble High Court of Bombay in the matter of SEBI v. Cabot International Capital Corporation[1], wherein the Hon'ble High Court of Bombay*, inter alia,* held that,

"31. The adjudication for imposing penalty by Adjudicating Officer, after due inquiry, is neither a criminal nor a quasi criminal proceeding. The penalty leviable under this Chapter or under these Sections, is penalty in cases of default or failure of statutory obligation or in other words breach of civil obligation. The provisions and scheme of penalty under SEBI Act and the Regulations, there is no element of any criminal offence or punishment as contemplated under criminal proceedings. Therefore, there is no question of proof of any mens rea by the Appellants and it is not essential element for imposing penalty under SEBI Act and the Regulations.……32. The SEBI Act and the Regulations, are intended to regulate the Security Market and the related aspects, the imposition of penalty, in the given facts and circumstances of the case, cannot be tested on the ground of "no mens rea, no penalty". For breaches of provisions of SEBI Act and Regulations, according to us, which are civil in nature, mens rea is not essential. On particular facts and circumstances of the case, proper exercise of judicial discretion is a must, but not on a foundation that mens rea is an essential to impose penalty in each and every breach of provisions of the SEBI Act……..According to us, mens rea is not essential for imposing civil penalties under the SEBI Act and Regulations."

[1] *Appeal No. 7 of 2001 decided on March 03, 2004*

36. Further, the Hon'ble Supreme Court in the matter of SEBI v. Shri Ram Mutual Fund[2], *inter alia,* held that as under:

"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulation is established and hence the intention of the parties committing such violation becomes wholly irrelevant. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must made by the defaulter with guilty intention or not. We also further held that unless the language of the statute indicates the need to establish the presence of mens rea, it is wholly unnecessary to ascertain whether such a violation was intentional or not. On a careful perusal of Section 15(D)(b) and Section 15-E of the Act, there is nothing which requires that mens rea must be proved before penalty can be imposed under these provisions. Hence once the contravention is established then the penalty is to follow."

37. In view of the aforesaid settled legal position, it is evident that wilful failure is not required to be established for the imposition of penalty in the present proceedings. Once failure to comply with statutory obligations is established, the penalty stands attracted. Hence, the submission of Noticee on this point is also misplaced.

38. In respect of submission of Noticee that parameters enumerated in section 15J of the SEBI Act has not been satisfied in the present case and accordingly, no penalty should be imposed, it is pertinent to note the judgment of Hon'ble Supreme Court in the matter of SEBI v. Bhavesh Pabari[3], wherein Hon'ble Supreme Court, *inter alia*, held as under:

"8…….. we are inclined to take the view that the provisions of clauses (a), (b) and (c) of Section 15J are illustrative in nature and have to be taken into account whenever such circumstances exist. But this is not to say that there can be no other circumstance(s) beyond those enumerated in clauses (a), (b) and (c) of Section 15J that the Adjudicating Officer is precluded in law from considering while deciding on the quantum of penalty to be imposed.

9. A narrow view would be in direct conflict with the provisions of Section 15I(2) of the SEBI Act which vests jurisdiction in the Adjudicating Officer, who is empowered on completion of the inquiry to impose "such penalty as he thinks fit in accordance with the provisions of any of those sections."

[2] *[2006] 68 SCL 216(SC)*
[3] *(2019) 5 SCC 90*

……..

12. At this stage, we must also deal with and reject the argument raised by some of the private appellants that the conditions stipulated in clauses (a) to (c) of Section 15J are mandatory conditions which must be read into Sections 15A to 15HA in the sense that unless the conditions specified in clauses (a) to (c) are satisfied, penalty cannot be imposed by the Adjudicating Officer under the substantive provisions of Sections 15A to 15HA of the SEBI Act. The argument is too farfetched to be accepted. Section 15J of the SEBI Act enumerates by way of illustration(s) the factors which the Adjudicating Officer should take into consideration for determining the quantum of penalty imposable. The imposition of penalty depends upon satisfaction of the substantive provisions as contained in Sections 15A to Section 15HA of the SEBI Act."

39. In view of the above, it is legally settled that the parameters enumerated in section 15J of the SEBI Act are not required to be mandatorily satisfied for the imposition of penalty. The factors stipulated in section 15J of the SEBI Act which are taken into account for the imposition of penalty are illustrative in nature and have to be taken into account whenever such circumstances exist.

40. In this background, Noticee is liable for imposition of monetary penalty under section 15EB of the SEBI Act which is reproduced below:

"Penalty for default in case of investment adviser and research analyst.
15EB *Where an investment adviser or a research analyst fails to comply with the regulations made by the Board or directions issued by the Board, such investment adviser or research analyst shall be liable to penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees."*

41. While determining the quantum of penalty under section 15EB of the SEBI Act, the following factors stipulated in section 15J of the SEBI Act are taken into account[4]:

"Factors to be taken into account while adjudging quantum of penalty.
15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely: —

[4]*The Noticee relies on the SEBI orders in the matter of Ayushi Chauksey – Investment Adviser and Dr. Nikhil Dayanand Baljekar - Investment Adviser to support the contention that mitigating factors should be considered in the present proceedings.*

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;
(b) the amount of loss caused to an investor or group of investors as a result of the default;
(c) the repetitive nature of the default."

42. The material available on record has neither quantified the amount of disproportionate gain or unfair advantage, made by Noticee nor the amount of loss, caused to an investor/clients as a result of the default of Noticee. As regard the repetitive nature of default, there is nothing on record to show that the nature of default by Noticee is repetitive. However, it is noted from the material on record that Noticee was charging fees from his clients for the investment advisory activities without having valid NISM certificates.

43. It is noted from the replies of Noticee that he had completed Level 1 and Level 2 certificates in early 2026 and the same has been considered as mitigating factors while imposing penalty.

44. The aforementioned factors have been taken into consideration while adjudging the penalty.

ORDER

45. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in preceding paragraphs and in the exercise of powers conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Rules, I hereby impose a monetary penalty of Rs. 5,00,000/- (Rupees Five Lakh Only) on the Noticee under section 15EB of the SEBI Act.

46. I am of the view that the said penalty is commensurate with the lapses/omissions on the part of Noticee.

47. Noticee shall remit/pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e., www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT -> Orders -> Orders of AO -> PAY NOW.

48. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties of Noticee.

49. In terms of the provisions of rule 6 of the Rules, a copy of this order is being sent to Noticee and also to SEBI.

JAI SEBASTIAN

Digitally signed by JAI SEBASTIAN
Date: 2026.05.27 13:38:19 +05'30'

Date: May 27, 2026 **JAI SEBASTIAN**

Place: Mumbai **ADJUDICATING OFFICER**