BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/JS/YK/2025-26/ 31717-31723]

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:

Noticee No.	Noticee Name	PAN
1	5Paisa Capital Limited	AABCI7142M
2	Archana Niranjan Hingorani	ABLPH8227Q
3	Nirali Sanghi Sharad	ABBPS3268G
4	Ravindra Babu Garikipati	AIJPG2834K
5	Milin Kaimas Mehta	AAUPM0034G
6	Gourav Munjal	BIHPM1896A
7	Narayan Gangadhar	ARGPG9091A

*(The Noticees are individually referred to by their respective Noticee No. as mentioned above and collectively referred to as **"Noticees"**)*

In the matter of inspection of 5Paisa Capital Limited (OBPP)

BACKGROUND

1. Noticee 1 has been registered with the Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") as a stock broker. The registration number of Noticee 1 is INZ000010231. It had received approval to act as Online Bond Platform Provider (hereinafter referred to as **"OBPP"**) from BSE Ltd. (hereinafter referred to as "**BSE**") on June 14, 2023. SEBI had undertaken an inspection of Noticee 1 on May 24, 2024 to examine the extent of compliance to regulatory provisions with respect to Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with regulation 51A of SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (hereinafter referred to as "**NCS Regulations**") and circulars issued thereunder

by SEBI from time to time. The inspection had been conducted for the period from June 14, 2023, to March 31, 2024 (hereinafter referred to as "**Inspection period/IP**").

2. Thereafter, findings of the said inspection were communicated to Noticee 1 vide letter dated November 07, 2024. In response to the findings in the Inspection Report, Noticee 1 submitted its reply vide e-mail dated November 30, 2024. After analyzing the findings of the inspection vis- à -vis the response of Noticee 1, a post inspection analysis report (hereinafter referred to as **"PIA"**) was prepared wherein the following violations were alleged:

   (a.) Noticee 1 failed to enter into an agreement with third party sellers of products or services or securities. Therefore, it was alleged that Noticee 1 had violated the provisions of clause 3.2 of Annex-XXI-A of Chapter XXI of SEBI Master Circular No. SEBI/HO/DDHS/PoD1/P/CIR/2023/119 dated August 10, 2021 (updated as on July 07, 2023) (hereinafter referred to as **"SEBI NCS Master Circular dated August 10, 2021"**);

   (b.) Orders placed on online bond platform of Noticee 1 were not routed through the Request for Quote (RFQ) platform of the recognized stock exchange(s) and also not settled through the respective clearing corporations. Therefore, it was alleged that Noticee 1 had violated the provisions of clause 3.4.1 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021;

   (c.) Deal Sheets issued by Noticee 1 to its clients did not include all the information mandated by SEBI. Therefore, it was alleged that Noticee 1 had violated the provisions of clause 3.6.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021;

   (d.) Noticee 1 failed to issue quote receipt to third party sellers post execution of order (in case of third party sale of debt securities). Therefore, it was alleged that Noticee 1 had violated the provisions of clause 3.6.3 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021;

   (e.) Noticee 1 failed to meet the minimum disclosure requirements (as applicable) for each security offered on its online bond platform. Therefore, it was alleged that

Noticee 1 had violated the provisions of clause 4 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021;

(f.) Risk management policy as submitted by Noticee 1 to the inspection team did not cover aspects of operations related to its online bond platform. Therefore, it was alleged that Noticee 1 had violated the provisions of clause 7.1 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021;

(g.) Risk management policy as submitted by Noticee 1 to the inspection team did not incorporate the mechanisms as mentioned under the provisions of clause 7.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021. Therefore, it was alleged that Noticee 1 had violated the said provisions;

(h.) Risk management policy as submitted by Noticee 1 to the inspection team did not provide for any controls to reduce the likelihood of erroneous transactions such as fat-finger errors, unintended or uncontrolled trading activity by investors and sellers, as prescribed under the provisions of Clause 7.3 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021. Therefore, it was alleged that Noticee 1 had violated the said provisions;

(i.) Risk management policy as submitted by Noticee 1 to the inspection team did not provide for any safeguards and procedures to deal with exigencies, cancellation of orders or transactions by the investors and sellers, malfunctions or erroneous use of its systems by investors and sellers, or other unforeseen situations, as prescribed under the provisions of clause 8 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021. Therefore, it was alleged that Noticee 1 had violated the said provisions;

(j.) Risk management policy as submitted by Noticee 1 to the inspection team did not incorporate any clause pertaining to Conflict of Interest arising from its transactions or dealings with related parties. Therefore, it was alleged that Noticee 1 had violated the provisions of clause 9 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021;

(k.) Noticee 1 offered AT-1 instruments under the collection of “Bonds for Senior Citizens” and Tier-II bonds under the collection of “Ultra Safe Bonds”. Hence, it was alleged that labelling such instruments as ideal for senior citizens or ultra-safe

bonds tantamount to mis-selling of AT-1 instruments and Tier II bonds and thereby, Noticee 1 violated the provisions of regulation 4(1) read with regulation 4(2)(s) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as **"PFUTP Regulations")**.

3. It was further observed that Noticees 2 to 7 were the directors of Noticee 1 at the time of alleged contravention. Hence, by virtue of section 27 of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as **"SEBI Act"**), it was alleged that Noticees 2 to 7 have also violated the provisions of law as mentioned in the preceding paragraphs.

APPOINTMENT OF ADJUDICATING OFFICER

4. Pursuant to the transfer of the erstwhile Adjudicating Officer (hereinafter referred to as ''**AO**'') who had been appointed so vide communiqué dated March 07, 2025, the undersigned was appointed as AO in this matter vide communiqué dated April 21, 2025 under section 15-I of the 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 as under:

   (a.) Section 15HB of the SEBI Act for the violations aforementioned in paras 2(a) to 2(j) alleged to have been committed by Noticee 1;

   (b.) Section 15HA of the SEBI Act for the violations aforementioned in para 2(k) alleged to have been committed by Noticee 1;

   (c.) Section 15HB read with section 27 of the SEBI Act for the violations aforementioned in paras 2(a) to 2(j) alleged to have been committed by Noticees 2 to 7;

   (d.) Section 15HA read with section 27 of the SEBI Act for the violations aforementioned in para 2(k) alleged to have been committed by Noticees 2 to 7.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. Show Cause Notice Ref. No. SEBI/EAD-8/AS/YK/7746/1-7/2025 dated March 10, 2025 (hereinafter referred to as **"SCN"**) was issued to Noticees by erstwhile AO 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 Noticees and why penalty, if any, should not be imposed on them in terms of the provisions of sections 15HA and 15HB of the SEBI Act for the aforementioned violations alleged to have been committed by Noticees.

6. The SCN dated March 10, 2025, *inter alia*, alleged the following:

Failed to enter an agreement with sellers of products or services or securities

(a.)From the findings of inspection, it was observed that Noticee 1 offers securities which were held by vendors/ brokers/ bond houses/ bond providers on its online bond platform. However, Noticee 1 had submitted to inspection team that it did not have any third-party agreements. From the transactions details that have been submitted by Noticee 1 to the inspection team, it was observed that the transactions worth INR 5.16 crores have taken place on the online bond platform of Noticee 1 out of which:

1. *INR 0.13 crore worth securities were held by Darashaw & Company Private Limited.*
2. *INR 0.21 crore worth securities were held by JM Financial Products Limited.*
3. *INR 0.84 crore worth securities were held by Kanjalochana Finserve Private Limited.*
4. *INR 0.39 crore worth securities were held by PhillipCapital (India) Pvt. Ltd.*
5. *INR 2.44 crore worth securities were held by Smest Capital Private Limited.*
6. *INR 0.97 crore worth securities were held by Tipsons Financial Services Pvt. Ltd.*
7. *INR 0.15 crore worth securities were held by Trust Securities Services Private Limited.*

(b.) In view of the above, it was observed that Noticee 1 did not have any third-party agreements with third party seller entities which is required to comply with clause 3.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

(c.) In response to the aforesaid findings, Noticee 1, inter alia, stated as under:
"We are in the process of revamping the entire online bond platform to ensure that it thoroughly complies with the extant regulations and we expect the same to be completed by February 2025."

(d.) Thus, it was observed that Noticee 1 did not refute the aforesaid findings that it was offering debt securities held by third parties on its OBP without entering into agreements with such third party sellers. Hence, it was alleged that Noticee 1 had violated the provisions of clause 3.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Orders placed on OBP of Noticee 1 have not been routed through the Request for Quote (RFQ) Platform of the recognised Stock Exchange(s) and also not settled through the respective Clearing Corporations

(e.) From the findings of inspection, it was observed that Noticee 1 offers listed debt securities on its online bond platform. It was further observed that all the orders with respect to listed debt securities, listed municipal debt securities, listed securitized debt instruments and AT-1 instruments placed on the online bond platform of Noticee 1 were not routed through the RFQ Platform of the recognised stock exchange(s) and also not settled through the respective clearing corporations. The securities were transferred to clients through off-market mode and settlement was done directly through client account instead of clearing corporations.

(f.) It was further observed that Noticee 1 had submitted an application to the stock exchange to act as an OBPP. The application included an undertaking which, inter alia, read as under:
"We hereby undertake and ensure that all Orders with respect to listed debt securities placed on OBP are mandatorily routed through the Request for Quote platform (RFQ) of the recognised Stock Exchange(s) and settled through the respective Clearing Corporations."

(g.) Hence, it was further observed that Noticee 1 is not abiding by its undertaking submitted to stock exchanges at the time of its application to act as OBPP.

(h.) In response to the aforesaid findings, Noticee 1, inter alia, stated as under:
"We are in the process of revamping the entire online bond platform to ensure that it thoroughly complies with the extant regulations and we expect the same to be completed by February 2025."

(i.) Thus, it was observed that Noticee 1 did not refute the aforesaid findings. Hence, it was alleged that Noticee 1 had violated the provisions of clause 3.4.1 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Deal sheets did not include all information mandated by SEBI

(j.) From the findings of the inspection, it was observed that the Deal Sheets issued by Noticee 1 to its clients did not capture the following information:
i. Time of placing the order
ii. Time of settlement

(k.) In this regard, it was observed that clause 3.6.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021, inter alia, states as under:
"The entity shall, upon execution of the order, forthwith issue a deal sheet to the investor for all transactions, stating all the relevant information regarding the transaction which shall inter alia include date and ***time of placing of the order****,*

*date and **time of settlement of the order**, details of counter-parties involved, quantity and amount transacted, as may be applicable."*

(l.) Hence, it was observed that Noticee 1 did not capture all the information mandated by SEBI in the deal sheets issued to its clients.

(m.) In response to the aforesaid findings, Noticee 1, inter alia, stated as under:
"We are in the process of revamping the entire online bond platform to ensure that it thoroughly complies with the extant regulations and we expect the same to be completed by February 2025."

(n.) Thus, it was observed that Noticee 1 did not refute the aforesaid findings. Hence, it was alleged that Noticee 1 had violated the provisions of Clause 3.6.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Quote receipt not issued to seller post execution of order, in case of third party sale of debt securities on the OBP

(o.) From the findings of inspection, it was observed that Noticee 1 had submitted to inspection team that it had issued quote receipts to third parties, post execution of the order. However, when the quote receipts submitted by Noticee 1 was perused by the inspection team, it was observed that it is a deal sheet issued by the third party to Noticee 1 for selling their inventory to Noticee 1 which in turn down-sold by Noticee 1 to its clients. Hence, it was observed that quote receipt is not issued by Noticee 1 to its third party sellers.

(p.) In response to the aforesaid findings, Noticee 1, inter alia, stated as under:
"Currently, 5paisa generates deal sheets which provides all the prescribed information as is provided in the quote receipts. A sample of the same is attached as annexure 1 herewith for your perusal. However, we are in the process of streamlining the entire bond platform and shift completely to RFQ-based transactional system as soon as BSE is ready with their technical infrastructure. We expect the same to be completed by February 2025."

(q.) From the annexure 1 as submitted by Noticee 1 in its reply, it was observed that it was a deal sheet issued by Kanjalochana Finserve Private Limited to Noticee 1. The said document was not a quote receipt issued to third party seller in case of third party sale of debt securities on the OBP. It was further observed that Noticee 1 did not refute the aforesaid findings that it did not issue quote receipts to third party sellers in case of third party sale of debt securities on its OBP. Hence, it was alleged that Noticee 1 had violated the provisions of clause 3.6.3 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Minimum Disclosure Requirements for each security offered on the Online Bond Platform not met

(r.) From the screenshots of products listed on Noticee 1's online bond platform as submitted by Noticee 1 to the inspection team, it was observed that Noticee 1 had made the minimum disclosures for each debt security except the following disclosures:

i. Security Name
ii. Date of Rating
iii. Latest Rating Rationale
iv. Clean Price
v. Dirty Price
vi. Yield to Maturity
vii. Calculation of current yield and yield to maturity.

(s.) In this regard, it was observed that clause 4 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021, inter alia, states as under:
"The entity shall ensure compliance with the minimum disclosure requirements as specified in Annex - XXIB."

(t.) It was further observed that Annex-XXIB of SEBI NCS Master Circular dated August 10, 2021, inter alia, states as under:
"Minimum Disclosure Requirements (as applicable) for each security offered on the Online Bond Platform:
1. Name of the Issuer, Security Name and ISIN
2. Nature of instrument: Listed Secured/ Listed unsecured
3. Seniority: Senior/ non-senior
4. Original Mode of Issue and date of issue: Public issue/ Private Placement
5. Rating of the Instrument – Outstanding Rating; date of rating; Rating agency; latest
6. Rating rationale (pdf available for download)
7. Face Value, Clean price and Dirty price
8. Coupon: fixed/ floating, Rate /value, Frequency
9. Date of maturity/ Tenor
10. Name of Debenture trustee
11. Yield: Current yield and yield to maturity; calculation of such yields
12. Offer documents - Prospectus / Private Placement Memorandum (pdf available for download)
13. Any other documents as may be specified by SEBI from time to time."

(u.) In view of the above, it was observed that Noticee 1 has not met the minimum disclosure requirements (as applicable) for each security offered on its online bond platform.

(v.) In response to the aforesaid findings, Noticee 1, inter alia, stated as under:

"All details related to debt security is DULY disclosed on the platform to ALL the customers at various point of time in the bond journey. Screenshots displaying each of this requirement are attached as Annexure 2. Further, kindly appreciate that the entire online bond journey showcasing all these details was duly provided for at the time of inspection. We expect the same to be completed by February 2025."

(w.) From the annexure 2 as submitted by Noticee 1 in its reply, it was observed that the following disclosures were not made:

a. Security name
b. Date of rating
c. Clean price
d. Dirty price
e. Calculation of current yield and yield to maturity

(x.) Thus, it was observed that Noticee 1 has not met the minimum disclosure requirements (as applicable) for each security offered on its online bond platform and thereby, it was alleged that Noticee 1 has violated the provisions of clause 4 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Risk Management framework not covered all aspects of Noticee 1's operations

(y.) From the findings of inspection, it was observed that the Risk Management Policy as submitted by Noticee 1 to the inspection team pertains to trading in equity segment and not specifically for the operations carried on its online bond platform. Hence, it was observed that the risk management framework of Noticee 1 did not cover all aspects of its operations, i.e., with respect to the online bond platform.

(z.) In response to the aforesaid findings, Noticee 1, inter alia, stated as under:
"A separate Risk management process is already in place for monitoring of the risk aspects of OBPP. The said document was duly shared with the Inspection team at the time of inspection. We are attaching herewith a copy of the said risk management document for your reference as Annexure 3."

(aa.) From the risk management framework as submitted by Noticee 1 as annexure 3 of its reply, it was observed that the said risk management framework covers all aspects of its operations. However, it was further observed that the said risk management framework was not submitted to SEBI during the course of inspection. Though the Noticee submitted these documents post communication of findings of inspection, no documentary evidence was provided to establish that these documents existed during the IP. In view of the same, it was alleged that Noticee 1 had violated the provisions of clause 7.1 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021, during the IP.

Mechanisms required for an online bond platform provider was not in place

(za.) From the findings of inspection, it was observed that the Risk Management Policy as submitted by Noticee 1 to the inspection team did not incorporate the mechanisms mentioned under clause 7.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021 which, inter alia, states as under:

"7.2. It shall have a mechanism to:

7.2.1. ensure access control for its investors and sellers and prevent unauthorised access to the OBP;

7.2.2. prevent unfair access and avoid all actual, potential or perceived conflicts of interest;

7.2.3. ensure that all transactions on the OBP, without exception, are dealt within a fair, non-discriminatory, non-discretionary and orderly manner; and

7.2.4. prevent transactions that are not in compliance with the prevailing legal or regulatory requirements."

(zb.) In response to the aforesaid findings, Noticee 1, inter alia, stated as under:

"A separate Risk management process is already in place for monitoring of the risk aspects of OBPP. The said document was duly shared with the Inspection team at the time of inspection. We are attaching herewith a copy of the said risk management document for your reference as Annexure 3."

(zc.) From the risk management framework as submitted by Noticee 1 as annexure 3 of its reply, it was observed that the said document did not incorporate the mechanisms prescribed by SEBI under clause 7.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021. In view of the same, it was alleged that Noticee 1 had violated the provisions of clause 7.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Appropriate controls to reduce the likelihood of erroneous transactions was not in place

(zd.) From the findings of inspection, it was observed that the Risk Management Policy as submitted by Noticee 1 to the inspection team did not provide for any controls to reduce the likelihood of erroneous transactions such as fat-finger errors, unintended or uncontrolled trading activity by investors and sellers, as prescribed by SEBI under clause 7.3 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

(ze.) In response to the aforesaid findings, Noticee 1, inter alia, stated as under:

"A separate Risk management process is already in place for monitoring of the risk aspects of OBPP. The said document was duly shared with the Inspection team at the time of inspection. We are attaching herewith a copy of the said risk management document for your reference as Annexure 3."

(zf.) From the risk management framework as submitted by Noticee 1 as annexure 3 of its reply, it was observed that the said risk management framework covers controls in place to reduce the likelihood of erroneous transactions such as fat-finger errors, unintended or uncontrolled trading activity by investors and sellers. However, it was further observed that the said risk management framework was not submitted to SEBI during the course of inspection. Though the Noticee submitted these documents post communication of findings of inspection, no documentary evidence was provided to establish that these documents existed during the IP. Hence, it was alleged that Noticee 1 had violated the provisions of clause 7.3 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021, during the IP.

Appropriate safeguards and procedures to deal with exigencies was not in place

(zg.)From the findings of inspection, it was observed that the Risk Management Policy as submitted by Noticee 1 to the inspection team did not provide for any safeguards and procedures to deal with exigencies like suspension or cessation of trading in products or services or securities as specified in clause 5.2 of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021, cancellation of orders or transactions by the investors and sellers, malfunctions or erroneous use of its systems by investors and sellers, or other unforeseen situations, as prescribed by SEBI under clause 8 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

(zh.)In response to the aforesaid findings, Noticee 1, inter alia, stated as under:

"A separate Risk management process is already in place for monitoring of the risk aspects of OBPP. The said document was duly shared with the Inspection team at the time of inspection. We are attaching herewith a copy of the said risk management document for your reference as Annexure 3."

(zi.) From the risk management framework as submitted by Noticee 1 as annexure 3 of its reply, it was observed that the said risk management framework covers safeguards and procedures to deal with exigencies. However, it was further observed that the said risk management framework was not submitted to SEBI during the course of inspection. Though the Noticee submitted these documents post communication of findings of inspection, no documentary evidence was provided to establish that these documents existed during the IP. Hence, it was alleged that Noticee 1 had violated the provisions of clause 8 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021, during the IP.

Risk Management Policy did not incorporate any clause pertaining to disclosure of Conflict of Interest

(zj.) From the findings of inspection, it was observed that the Risk Management Policy as submitted by Noticee 1 to the inspection team did not incorporate any clauses pertaining to Conflict of Interest arising from its transactions or dealings with related parties.

(zk.) In response to the aforesaid findings, Noticee 1, inter alia, stated as under:

"A separate Risk management process is already in place for monitoring of the risk aspects of OBPP. The said document was duly shared with the Inspection team at the time of inspection. We are attaching herewith a copy of the said risk management document for your reference as Annexure 3."

(zl.) From the risk management framework as submitted by Noticee 1 as annexure 3 of its reply, it is observed that the said risk management framework did not pertain to disclosure of conflict of interest by the OBPP. Hence, it was alleged that Noticee 1 had violated the provisions of clause 9 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Mis-selling of securities

(zm.) From the findings of inspection, it was observed that the online bond platform of Noticee 1 disclosed the collections of bonds under separate tabs which, inter alia, includes "Bonds for Senior Citizens" and "Ultra Safe Bonds". The collection of "Bonds for Senior Citizens" and "Ultra Safe Bonds" has the following description:

"Bonds for Senior Citizens

"A collection of bonds issued by public sector companies or guaranteed by state govt. and giving monthly or quarterly interest payments.

- *Perceived levels of risk are very low*
- *The investors can earn regular cash flow (quarterly or monthly)*
- *Typically, these bonds provide a higher return than bank FD."*

Ultra Safe Bonds

"A collection of bonds which are rated 'AAA' by credit rating agencies such as CRISIL, ICRA, etc.

- *The 'AAA' rating indicated a higher level of safety associated with these bonds.*
- *The perceived levels of risk in these bonds are very low.*
- *Ideal for senior citizens seeking higher regular income than bank FD."*

(zn.) It was further observed that AT-1 instruments of State Bank of India and Bank of Baroda were being offered to the investors registered as clients on its OBP, under the collection of "Bonds for Senior Citizens" and Tier II bonds of Tata Capital Financial Services Limited were being offered to the investors, under the collection of "Ultra Safe Bonds".

(zo.) From the transaction details as submitted by Noticee 1 to inspection team pertaining to execution of orders through off market for AT-1 instrument, it was observed that AT-1 instruments worth of Rs. 15.70 Lac issued by the South Indian Bank Limited were purchased by 4 clients during the IP through the Noticee 1. It

was further observed that among these 4 clients, the youngest client being around 22 years old while oldest one was around 63 years. The senior citizen bought AT-1 instruments of Rs 8.84 Lakh.

(zp.) In view of the above, it was observed that Noticee 1 was offering both AT-1 instruments as well as Tier-II bonds targeting specific set of investors which included both senior as well as a young individual investor, who may either lack the understanding of the risk associated with these instruments or may have a less risk tolerance for such riskier instruments or both. Due to the complete write-off feature of these bonds/instruments at the discretion of the issuer, the risk levels associated with these bonds are much higher than debt securities. Hence, it was observed that offering of such instruments as ideal for senior citizens as well as labelling them as ultra-safe bonds tantamounts to mis-selling of AT-1 instruments and Tier II bonds.

(zq.) In response to the aforesaid findings, Noticee 1, inter alia, stated as under:

"With respect to the said observation, kindly note that the said ratings and information were immediately removed from our website as soon as the same were pointed out by the Inspection team. Further, please appreciate that the intent was never to mislead or mis-sell the product to the customer as all the ratings etc were duly available. The same were displayed inadvertently and due to oversight which we removed immediately. Further, also note that we have not received any customer grievances with respect to the said platform till date.
Please appreciate that this is the first year of carrying on of business for the bond platform and we too are in the process of streamlining the entire platform to ensure that the same is strictly in compliance with the extant regulations.
We are committed to comply with the regulations and we expect the same to be completed by February 2025."

(zr.) Thus, it was observed that Noticee 1 in its reply had not refuted the aforesaid findings. Hence, it was alleged that Noticee 1 had violated the provisions of regulation 4(1) read with regulation 4(2)(s) of PFUTP Regulations.

7. The SCN was duly served upon Noticees in consonance with the Rules. Noticees vide their letters dated March 23, 2025, March 24, 2025 and April 04, 2025 requested for inspection of documents which was duly conducted on April 30, 2025. Thereafter, Noticees were advised to submit their replies, if any, latest by May 20, 2025. However, Noticees had requested additional time of 4 weeks to submit replies which was acceded to and Noticees were advised to submit their replies, if any, latest by June 20, 2025. Noticees submitted their replies vide letters dated June 20, 2025. Subsequently, an opportunity of hearing was granted to Noticees on July 10, 2025. Authorized representatives (hereinafter referred to as **"ARs"**), Mr. Pulkit Sukhramani

assisted by Mr. Anshuman Sugla and Mr. Juan D'souza for Noticees 1 to 6 and Mr. Siddha Pamecha assisted by Ms. Garima Mehrotra for Noticee 7, attended the hearing and reiterated the submissions made by Noticees vide letters dated June 20, 2025. ARs had also requested time to make additional submissions in the matter which was acceded to. Noticees made their additional submissions vide letters dated July 25, 2025.

8. The relevant extracts of Noticees' replies are reproduced as under:

Noticee 1:

(a.)Vide email dated May 09, 2025, the authorized representatives of the Noticee inter alia took record of the documents received during the inspection and also sought certain additional documents. Vide email dated May 14, 2025, SEBI responded to the said letter inter alia rejecting the Noticee's request for additional documents. At the outset, without prejudice to what is stated herein, it is pertinent to note that even prior to issuance of the Observation Letter and the SCN, the Noticee took the voluntary decision to discontinue its OBPP services with immediate effect. To clarify, this was done on a 'without prejudice' basis and solely to align the existing system with SEBI's expectations. Given that the Platform itself has ceased to function coupled with the fact that there were no investor loss/ complaints during the relevant time (as detailed below), it is humbly submitted that the present proceedings are not warranted. At the outset, it is pertinent to note that the OBPP framework is at a nascent stage and the regulatory landscape surrounding the same is still evolving. Notwithstanding anything contained herein as well as in the SCN, the Noticee submits that it had, in fact, made all reasonable efforts to ensure that it was compliant with the applicable regulatory framework including the NCS Master Circular. The Noticee submits that it has always acted in a bona fide manner in line with the regulatory framework keeping in the mind the interest of the investors.

(b.)In addition to the above, it is also imperative to note that no loss or harm was caused to any investor and there have been no instances of investor complaints which do not even remotely suggest that the Noticee had acted in an unfair manner. Thus, even assuming (whilst denying) the allegations, it is pertinent to note that no circumstances arise which could be perceived as detrimental to the interests of the investors and warrant disciplinary action. Notably, these aspects have not been considered before issuing the SCN.

(c.)It is also settled law that every minor discrepancy or irregularity found during an inspection do not warrant initiation of adjudication proceedings and/ or imposition of monetary penalty unless serious lapses have been observed, which is not the case in the present matter. Therefore, even assuming (whilst denying) the allegations, the present case did not warrant imposition of penalty and requires exercise of the discretion provided under Section 15J of the SEBI Act.

(d.)It is pertinent to note that, in order to demonstrate its bona fide, the Noticee while responding to SEBI, communicated that it would improve those aspects which SEBI had raised during the Inspection. However, in our humble submission, this cannot be construed to be an admission of any wrongdoing or violation of law as stated in the SCN. In this regard, SEBI ought to have separately analyzed the alleged non-compliances. It is a settled principle of law that if the allegations in a show cause notice are vague, it would be a violation of natural justice and would jeopardize the interests of the Noticee. Thus, given that the present SCN contains vague and broad allegations, the same is deficient, inconclusive and thus, unsustainable in law. The Noticee has also relied on the judgment in the matter of Commissioner of Central Excise, Bangalore v. Brindavan Beverages (P) Ltd. and Ors., (2007) 5 SCC 388.

Mis-selling of securities (Paragraph 8.11 of the SCN)

(e.)The SCN alleges that the Noticee is found to be engaged in 'mis-selling' while referring to the following observations:

i. The Noticee had disclosed collections of bonds under separate tabs such as 'Bonds for Senior Citizens', 'Ultra Safe Bonds' and they included statements such as 'perceived levels of risk in these bonds are very low' and 'ideal for senior citizens seeking higher regular income than bank FD'. Such collections comprised AT-1, Tier-II instruments.

ii. That such presentation attempts to target a specific set of investors (such as senior citizens and young individual investors) who may either lack understanding or have a lower risk tolerance.

iii. That the complete write-off feature of these bonds/ instruments at the discretion of the issuer makes the risk levels associated much higher than other debt securities.

iv. By labelling such instruments having higher risk levels than debt securities as ultra-safe bonds amounts to 'mis-selling'.

v. That the Noticee in its response to the Observation Letter did not refute such finding.

Accordingly, the Noticee is alleged to have violated Regulation 4(1) read with Regulation 4(2)(s) of the PFUTP Regulations.

(f.) At the outset, please note that it is factual that 'debt securities' as defined in Regulation 2(1)(k) of the NCS Regulations ("Bonds") are debt instruments issued by various entities which tend to offer a higher interest rate as compared to fixed deposits. While one of the risk factors associated with Bonds may include 'writing off', such writing off only takes place when the financial condition of the issuer entity is in a detrimental condition. Notably, basis available public records, such writing off has taken place worldwide only 3 times each in the case of Tier-1 & Tier-2 instruments and has taken place in India once each in case of Tier-1 instruments and Tier-2 twice. This demonstrates the rarity of such a write-off. In this regard, it is also pertinent to note that when a scheduled bank is found to be unviable in accordance with provisions of the Banking Regulation Act, 1949, at such time, fixed depositors and Bond investors alike suffer from a risk of capital loss. Therefore, the risks associated with Bonds also exist in the case of fixed deposits.

It is also arguable that Bonds enjoy a higher degree of safety given that there have been more instances of scheduled banks being declared unviable as compared to Bonds being written off in the past decade.

(g.)Further, it is pertinent to note that the Noticee operated an online Platform for different types of Bonds. Only an investor, who already possesses some disposition to invest in Bonds, would log on and access the Noticee's Platform. Thus, the present case is not a situation where the Noticee or any of its employees/agents have either personally approached any investor and pointed out certain benefits of investing in Bonds to lure investors nor have they issued any such advertisements. Contrary to the same, the present case deals with a situation where an investor was already inclined to purchase Bonds and hence accessed the Platform to purchase some Bonds. The Noticee's role is limited to providing all such information and details as required to enable informed decision making. Resultantly, the business model of the Platform was completely and solely investor driven. As such, the question of mis-selling by the Noticee does not even arise. Without prejudice to the above, the SCN has failed to consider several factual aspects relevant to the present matter before alleging 'mis-selling' of the Bonds. In this regard, it is submitted that:

i. As is evident from Annexures 9 & 12 to the SCN, the Platform contained a specific link which allowed investors direct access to the information memorandum (which included the term sheet that summarized salient features of the bonds) of the relevant issuer entity. Such a link was available on the primary page where such Bonds were displayed. Pertinently, the information memorandum sets out, in detail, all the risks associated with Bonds, including provision of and conditions with respect to their write off.

ii. As such, the Noticee had ensured that at the very first instance when an investor reviews a particular Bond, information in terms of the risk factors of the said Bond was conveniently and directly accessible to such investor. Notably, such information was available before/ while an investor considers to invest in any Bond. It is also pertinent to note here that this is consistent with the manner in which other Platforms operate as well.

iii. That said, in any event, the information memorandums relating to such instruments are publicly available on stock exchange website.

iv. Furthermore, as part of the operating process of the Noticee's Platform, the investors are provided with a deal sheet at the time of purchasing of Bonds. Such deal sheets categorically capture inter alia that the investor has read the information memorandum relevant to the particular instrument and agreed to the associated risks thereof. An excerpt of the said confirmation as part of the deal sheet is reproduced below for ease of reference:

"Before making investments/ subscribing to securities, I have read all the related transaction documents including but not limited to offer documents, instrument description, term sheet, security features, statutory filings, issuer information, rating letter(s), rating rationale(s) etc. and all other documents) information as required for my/ our informed decision making, I am fully aware and have independently evaluated the past and current financial and business performance of the issuer.

I/ we fully understand the various risks associated with investing/ subscribing to said securities including but not limited to (a) … (d) Instrument Risks i.e. risks arising out of nature and status of instruments e.g. senior/ subordinated, secured/ unsecured, asset cover/ repayment mechanism, otherwise…."

v. *In view of the above, it is clear that the investors were completely aware of the risks associated with Bonds and had voluntarily and with full knowledge invested in the same. This is also substantiated by the fact that there is not a single investor who purchased Bonds through the Noticee's Platform has raised any grievance in this regard.*

vi. *In addition to the above, ratings/ rating rationale of the instruments were also made available on the Platform and were accessible to the investor before/ while an investor considers investing in any Bond.*

(h.) *Given the aforesaid, it is submitted that the Noticee has taken all the adequate and necessary steps to ensure that all critical information in relation to the Bonds (including its risks) were readily available and accessible to the investors and that the investors were well informed prior to making their investment decisions. Furthermore, it is also not even the case of SEBI that the risk factors associated with such instruments were not disclosed and/or concealed nor is it the case that any material fact which would have had an adverse impact on the investment decision was either omitted or concealed. With this background, it is submitted that the allegation of 'mis-selling' is completely unfounded and unsustainable and thus, cannot be made out against the Noticee. It is also pertinent to note that while dealing with various proceedings initiated by investors in relation with the writing off of AT-1 instruments issued by Yes Bank Ltd., the Hon'ble Madras High Court in the matter of Piyush Bokaria v. RBI (Piyush Bokaria & Ors. v Reserve Bank of India & Ors. – (Madras HC) WP No. 12586 of 2020 – Judgement dated September 30, 2020) has opined that various risks associated with such instruments have been adequately communicated to the investors by way of the information memorandum and other similar documents. Relevant extracts from the aforesaid judgement have been extracted hereunder for ease of reference:*

"22. Thus, all the conditions specified in the Basel III Report were introduced in the Master Circular and the AT 1 bonds were issued by Yes Bank Limited by incorporating all these conditions in the information memorandum. Although the Petitioners state that they purchased the AT 1 bonds in the secondary market, they cannot claim to be ignorant of the terms and conditions thereof. Significantly, the Petitioners contractually agreed to invest in an instrument which may be permanently written down, if a point of non-viability trigger is reached.

…

33. From the Petitioners' perspective, there is no doubt that they are put to heavy losses on account of the permanent write-down of these AT 1 bonds. However, all investors in AT 1 bonds were informed about the features of these bonds by way of disclosures in the information memorandum. In spite of such disclosure, the Petitioners and other investors chose to run the risk of investing in an instrument with loss absorption features…" (emphasis supplied)

(i.) *Additionally, the SCN alleges that certain investors to whom Bonds were offered "may not have equivalent risk appetite" to trade in Bonds. However, in this regard,*

the SCN fails to substantiate as to how such a finding has been arrived at. On examination of the documents shared with the Noticee at the time of inspection, the Noticee understands that no specific exercise and/or analysis has been carried out in order to arrive at such a finding. The SCN also fails to identify any such investor and/or quantify any losses which may have been incurred on account of such alleged violations. Therefore, for this reason alone, the said allegation remains unfounded and unsubstantiated. Further, it is submitted that a mere comparison of the returns from such instruments with that of fixed deposits does not in any way tantamount to misrepresentation and/or mis-selling. Pertinently, the same was based upon factual and publicly available information and was meant for public dissemination and not for targeting any specific set of investors. The fact that Bonds offered a higher rate of return than FDs at the relevant time is also evident from factual records. It is common public knowledge and known to all market participants that higher the rate of interest/ return, higher is the risk associated with the instrument. In any event, the SCN does not record or aver that the information displayed by the Noticee was factually incorrect. Absent such a finding, coupled with the fact that the risk factors were in the knowledge of the investors prior to investing in the Bonds, an allegation of mis-selling cannot be sustained as against the Noticee.

(j.) It is also submitted that the alleged act does not conform within the scope of mis-selling as provided under Regulation 4(2)(s) of the PFUTP Regulations. Regulation 4(2)(s) of the PFUTP Regulations has been reproduced below for ease of reference:

"4. Prohibition of manipulative, fraudulent and unfair trade practices:

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

….

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

Explanation- For the purpose of this clause, "mis-selling" means sale of securities or services relating to securities market by any person, directly or indirectly, by-

i. Knowingly making a false or misleading statement, or

ii. Knowingly concealing or omitting material facts, or

iii. Knowingly concealing the associated risk, or

iv. Not taking reasonable care to ensure suitability of the securities or service to the buyer;"

(k.) In terms of Regulation 4(2)(s) of the PFUTP Regulations, it is submitted that for a charge of mis-selling, it must be proved that any false/misleading statements were published, any material fact and/or associated risk was omitted/ concealed or reasonable care had not been exercised to ensure suitability of the securities to the buyer. Pertinently, this requirement has not been adequately discharged by SEBI in the SCN. In fact, the SCN contains broad statements of alleged mis-selling without any actual basis, explanation or rationale. Furthermore, while the SCN sets out various observations, it is humbly submitted that the same are merely conjectures and surmises which do not directly or indirectly have any nexus with the allegation that the Noticee engaged in mis-selling. As such, the SCN has failed to:

i.establish any nexus between the observations (set out in point para 27 above) and the allegation of 'mis-selling'.

ii.adequately address the manner in which the Noticee has engaged in 'mis-selling' specify let alone identify as to whether the Noticee made any false or misleading statements, concealment of any material fact and/or associated risk and failing to ensure reasonable care to ensure suitability of the buyer.

As such, the requirements for making out a case of 'mis-selling' is not borne out of the present SCN and is unsustainable in law.

(l.) With reference to the allegation that the Noticee had displayed collection of certain Bonds as "Ultra Safe Bonds" and "Bonds for Senior Citizens", it is reiterated that the Platform was completely investor driven, without any intervention of the Noticee. Typically only those investors who are keen to invest in Bonds would access the Platform. It is also submitted that merely because certain types of Bonds were basketed into collections cannot by itself imply 'mis-selling'. As stated above, the Noticee had displayed/ made available all information necessary for an investor to make an informed decision for each of such Bonds, including the ones as part of the collections. Given that (i) the Platform contained the necessary information (including risk factors) of all Bonds; (ii) the investor suo motu intended to purchase Bonds and hence, accessed the Platform; (iii) the Noticee did not personally interact or recommend any particular type of Bond; and (iv) the collections were displayed on a separate tab and available to all investors (of all age groups) who accessed the Platform, it is apparent that the Noticee was not in fact mis-selling any Bond to any investor and that the investors were not misled into investing in certain kinds Bonds by the Noticee.

(m.) With specific reference to the classification of certain bonds as "Ultra Safe Bonds", please note that the only the Bonds which were rated as 'AAA' and above were referred to as "Ultra Safe Bonds". In respect of the meaning of such rating in terms of debt instruments, it is relevant to note that the rating 'AAA' implies that the securities are considered to be safe and the issuing entity is highly unlikely to default on its obligation. As an example, a screenshot from the website of XXX is annexed which clearly states that AAA rated instruments offer the 'highest degree of safety' regarding timely servicing of financial obligations and that such securities carry the 'lowest credit risk'. Copy the screenshot of the website of Care Edge Ratings is enclosed as Exhibit D. It is submitted that the classification of "Ultra Safe Bonds" contained only the highest rated Bonds which were in fact safer compared to other Bonds. I Therefore, the Noticee has not misled any investor in any manner and has only displayed factually accurate information.

(n.)Notably, the Noticee's Platform serviced only debt instruments. It is not the case that the Platform provided options to purchase different kinds of securities and then amongst those certain bonds were being referred to as "Ultra Safe Bonds". As stated above, investors already inclined towards purchasing Bonds would access the Noticee's Platform. The Noticee did not personally, or through its relationship managers, agents etc. advertise or approach such client. All information, including risk factors were available to such investors and the choice to invest in such Bonds was solely at the discretion of the relevant investor. Thus, it is humbly submitted that merely referring to or classifying the highest rated bonds as "Ultra Safe Bonds"

cannot lead to a conclusion that the Noticee was mis-selling securities and is liable for a monetary penalty under PFUTP Regulations.

(o.)With specific reference to the classification of certain bonds as "Bonds for Senior Citizens", please note that the same only contained Bonds issued by financial institutions backed by the government & government backed entities. Given that government backed Bonds are inherently perceived to have a higher degree of safety as compared to other Bonds, in the Noticee's experience, such bonds are of interest to Senior Citizens, who generally prefer a safer and more reliable investment option. In any event, all information, including risk factors, were available to investors who were voluntarily accessing the Platform with some intent to invest, and the choice to invest in such Bonds was solely in the discretion of the investor. Thus, it is humbly submitted that merely having a reference/ classification of "Bonds for Senior Citizens" cannot tantamount to mis-selling in any way.

(p.)It is also pertinent to note that while such Bonds were presented under the classification of "Ultra Safe Bonds" and "Bonds for Senior Citizens", such Bonds were also generally available on the Platform amongst all offerings. Pertinently during the Inspection Period, a total of 128 transactions in Bonds were entered into on the Platform. Out of which:

<u>In relation to "Bonds for Senior Citizens"</u>

i. 8 transactions have been undertaken in such Bonds by all age groups (and not specifically senior citizens);

ii. Only 2 investors below the age of 30 years have transacted in such Bonds;

iii. Only 1 investor above the age of 65 years has transacted in such Bonds;

<u>In relation to "Ultra Safe Bonds"</u>

iv. 4 transactions have been undertaken in such Bonds by all age groups;

v. No investor below the age of 30 years and/or above the age of 65 years have transacted in such Bonds.

The above information makes it amply clear that such classification of Bonds on the Platform had no bearing on the transactions undertaken in such instruments. Therefore, in view of the same it is humbly submitted that an allegation of mis-selling cannot be made out.

(q.)With reference to the AT-1 instruments of South Indian Bank purchased by 4 investors, it is submitted that Annexure 12 to the SCN shows that these instruments were neither classified as "Bonds for Senior Citizens", nor were they classified as "Ultra Safe Bonds". It is submitted that there is no prohibition on selling AT-1 Bonds on the Platform and the same has been done in accordance with law after providing all relevant features of such bonds. In fact, Annexure 12 to the SCN clearly shows that investors had an option to click on a link labelled as "Term Sheet" to access the Prospectus of these bonds, a document which is mandated by SEBI to provide all features of such bonds. Accordingly, it is submitted that the charge of mis-selling cannot be made out.

(r.) With specific reference to the allegation that the Noticee was targeting specific set of investors which included senior as well as young individual investors, who may either lack the understanding of the risk associated with these instruments or may have less risk tolerance for such riskier instruments or both, it is submitted that this allegation is entirely based on conjecture and surmise. Firstly, the Platform was

available to all investors and there nothing on record to suggest that the Noticee has targeted any "young individual investors". Secondly, as stated above, reference to certain bonds as "Bonds for Senior Citizens" was a mere classification/ categorization based on Noticee's experience in dealing with Senior Citizens who prefer securities that are backed by the government. The features of bonds bucketed under this category were accessible to all investors. Thirdly, there is no provision of law which prohibits sale of AT-1 or Tier II bonds to investors of certain age group. Accordingly, it is submitted that merely because investors of different age group purchased bonds from the Platform, it cannot mean that the Noticee has indulged in mis-selling.

(s.) It is trite law that the test of preponderance of probabilities has been laid down for positively concluding a violation of PFUTP Regulations/ SEBI Regulations. In this regard, the Hon'ble Supreme Court in the matter of Kishore R. Ajmera v. SEBI, (2016) 6 SCC 368 , has held that:

"26. It is a fundamental principle of law that proof of an allegation levelled against a person may be in the form of direct substantive evidence or, as in many cases, such proof may have to be inferred by a logical process of reasoning from the totality of the attending facts and circumstances surrounding the allegations/charges made and levelled. While direct evidence is a more certain basis to come to a conclusion, yet, in the absence thereof the Courts cannot be helpless. It is the judicial duty to take note of the immediate and proximate facts and circumstances surrounding the events on which the charges/allegations are founded and to reach what would appear to the Court to be a reasonable conclusion therefrom. The test would always be that what inferential process that a reasonable/prudent man would adopt to arrive at a conclusion."

(za.) Therefore, even for the sake of argument, if the test of preponderance of probabilities were to be applied, the present facts and circumstances do not make out any case of 'mis-selling' resulting in violation of Regulation 4(2)(s) of the PFUTP Regulations.

(zb.) Without prejudice to the foregoing, it is submitted that the collections of Bonds on the website were promptly taken down once they had been pointed out by the inspection team. Furthermore, prior to issuance of the SCN, the Noticee has t discontinued the Platform. In this regard, Thus, even assuming (whilst denying) the allegations, no penalty ought to be imposed in this regard.

Failure to enter an agreement with sellers of products or services or securities (Paragraph 8.1 of the SCN)

(zc.) In this regard, it is submitted that prior to issuance of the SCN, the Noticee has discontinued the Platform. The Noticee also submits that it has always acted in a bona fide manner in line with the regulatory framework and keeping in the mind the interest of the investors. It is also a matter of record that no client grievances/ complaints have been received by the Noticee in relation with the functioning of the Platform. Therefore, in view of the above, the Noticee humbly submits that the observations set out in the aforementioned paragraphs are merely technical in nature and do not warrant a specific penal action.

Orders placed on OBPP had not been routed through the Request for Quote ("RFQ") platform of the recognized stock exchanges and were not settled through the respective clearing corporations (Paragraph 8.2 of the SCN)

(zd.) It is most humbly submitted that the extant regulatory framework does not expressly prohibit off-market transactions and therefore, even assuming (whilst denying) the allegations, no penalty ought to be imposed in this regard. In this regard, it is submitted that prior to issuance of the SCN, the Noticee has discontinued the Platform. The Noticee also submits that it has always acted in a bona fide manner in line with the regulatory framework and keeping in the mind the interest of the investors. It is also a matter of record that no client grievances/ complaints have been received by the Noticee in relation with the functioning of the Platform. Therefore, in view of the above, the Noticee humbly submits that the observations set out in the aforementioned paragraphs are merely technical in nature and do not warrant a specific penal action.

Deal sheet did not include all information mandated by SEBI (Paragraph 8.3 of the SCN)

(ze.) In this regard, it is submitted that while the deal sheets did not specifically capture such details, the information in terms of the time of placing the order as well as the time of settlement was communicated to the investor and also part of the record of the Noticee. In this regard, please note that during the process of transacting on the Platform, the Noticee promptly addresses communications to the investors by way of email on a real-time basis at the time of order placement as well as once such orders are confirmed. Similarly, once such trades are settled, the investors receive an intimation on the registered mobile number from the depository intimating settlement and credit of such securities in the demat account of the client. Enclosed herewith as Exhibit E is copy of email log for Client code 51305097 and 57695274 captured on November 03, 2022 and January 05, 2023 evidencing confirmation of order placement.

(zf.) Therefore, it is submitted that the requisite information was substantively provided to the investors. Further, no damage or harm was caused to the investors and no investor complaints/ grievance was received in this regard. Thus, even assuming (whilst denying the allegations) it is submitted that the said violation could at the very best be attributed as technical and venial in nature and therefore, no penalty ought to be imposed in this regard.

Quote receipt not issued to seller post execution of order, in case of third party sale of debt securities on the OBPP (Paragraph 8.4 of the SCN)

(zg.) It is most humbly submitted that the requirement of issuing quote receipts is to ensure that the price of entering into a trade has been locked. However, in the present case, on execution of a transaction, the Noticee forthwith issues deal sheets (Annexure 6 to the SCN) to its clients which contain information relating to date, details of counter parties involved, quantity and amount quoted as was required to be provided in such quote receipts. In terms of time stamps for the order, please refer to paragraph 54 above. Accordingly, it is submitted that no specific requirement for a quote receipt would arise given that the requisite information had been communicated vide the deal sheets and especially when the

order was placed only after obtaining the confirmation by way of a One Time Password (OTP) from the investor. Therefore, even assuming (whilst denying) the allegation, no penalty ought to be imposed in this regard as the same is merely technical and venial in nature and the Noticee was in substantive compliance of the requirement.

Minimum disclosure requirements for each security offered on the OBPP (Paragraph 8.5 of the SCN)

(zh.) In this regard, it is submitted that the Platform contained a specific link providing investors access to the information memorandum (which includes the term sheet and security name). Further, it is pertinent to note that the rating displayed also functions as a hyperlink to the rating rationale which also has the date of the rating. Given that the Annexure 9 to the SCN is in black and white, please find enclosed a colour copy of the said annexure as Exhibit F. A perusal of the same shows that the word 'CRISIL' (which is in different colour from the rest of the text) in the said screenshot is a hyperlink. Thus, there was a substantive compliance of the said requirements to the best extent possible. Without prejudice to the above, it is submitted that prior to issuance of the SCN, the Noticee has discontinued the Platform. The Noticee also submits that it has always acted in a bonafide manner in line with the regulatory framework and keeping in the mind the interest of the investors. It is also a matter of record that no client grievance/ complaints have been received by the Noticee in relation with the functioning of the Platform.

(zi.) Therefore, in view of the above, the Noticee humbly submits that the observations set out in the aforementioned paragraphs are merely technical in nature and do not warrant a specific penal action.

Risk Management framework did not cover all aspects of the Noticee's operations (Paragraph 8.6 of the SCN)

(zj.) The SCN alleges that during the Inspection, the Noticee submitted an incorrect RMP which pertained to equity segment and not the OBPP. The SCN further records that the Noticee, pursuant to the inspection, had in fact submitted the RMP pertaining to the OBPP ("Relevant RMP"). However, the SCN alleges that there is no proof provided in respect of the Relevant RMP being in existence at the time of Inspection. Accordingly, while accepting that the Relevant RMP had appropriate provisions to cover the above allegations, the SCN charges the Noticee in respect of the said allegations on the limited ground that no evidence has been submitted to show that the Relevant RMP was in existence at the time of inspection. In view thereof, the Noticee is alleged to be non-compliant with Clause 7.1 of Annexure XXI-A of Chapter XXI of the NCS Master Circular.

(zk.) In this regard, it is submitted that the Relevant RMP was shared on November 30, 2024 vide email to SEBI. Such correspondence was issued to SEBI pursuant to the Inspection. It is submitted that the said Relevant RMP was applicable at the time of the Inspection Period. Thus, merely because the Relevant RMP was inadvertently not provided during the Inspection, it is submitted that no adverse inference ought to be drawn from the same.

(zl.) Separately, it is also submitted that while the SCN proceeds to allege that the Noticee did not maintain the RMP, at the same time, also alleges that the Noticee's RMP did not contain certain clauses as required under the regulatory framework. Thus, this leads to a situation where the SCN proceeds to hold the Noticee liable not just for non-existence of a RMP but for such non-existent RMP to not contain certain clauses, leading to a bizarre situation which potentially and hypothetically could lead to multiple penalties being imposed upon the Noticee. This in our humble submission is against the principles of law and equity, resulting in the SCN unreliable and unsustainable on this front. On this ground alone, the allegations in terms of RMP are unreliable, unsustainable in law and should be set aside in its entirety. Without prejudice to the aforesaid, set out below are the Noticee's submissions to the balance allegation raised in the SCN with respect to the RMP.

Appropriate controls to reduce the likelihood of erroneous transactions was not in place (Paragraph 8.8 of the SCN)

(zm.) In this regard, reference is drawn to the submissions made in paragraph 65 of this Reply. As such, it is submitted that no adverse inference be drawn on account of inadvertently not providing the Relevant RMP during the Inspection.

Appropriate safeguards and procedures to deal with exigencies was not in place (Paragraph 8.9 of the SCN)

(zn.) In this regard, reference is drawn to the submissions made in paragraph 65 of this Reply. It is reiterated that the Noticee had in place the Relevant RMP during the Inspection Period and was compliant with the requirements of the aforesaid provisions. Thus, no violation can be held against the Noticee in this regard.

Mechanisms required for an online bond platform provider were not in place (Paragraph 8.7 of the SCN)

(zo.) In this regard, it is submitted that Clause 3 of the Relevant RMP provides for mechanisms such as confirmation prompts, trade limits and restrictions, two-factor authentication, transaction timeout, education and user training as well as real-time monitoring and alert generation. The said mechanisms have been put in place in order to ensure that there is no unfair and unauthorized access to Platform.

(zp.) With reference to provision of 'conflict of interest' it is submitted that relevant provisions relating to the manner in dealing with conflict of interest forms part of the document titled 'Rights And Obligations of Stock Brokers, Sub-Brokers and Clients as prescribed by SEBI and Stock Exchanges' issued by the Noticee in compliance with the SB Regulations and various circulars issued thereunder and also forming part of the Account Opening Form. A copy of the document titled 'Rights and Obligations of Stock Brokers, Sub-Brokers and Clients as prescribed by SEBI and Stock Exchanges' issued by the Noticee (as provided to the clients) is enclosed as Exhibit G to this Reply.

(zq.) Without prejudice to the foregoing, it is most humbly submitted that the same can at the very best be a technical default resulting in no loss or harm to the investors. Thus, it is urged that no penalty ought to be imposed in this regard as they are merely technical in nature and would not warrant any penalty to be imposed.

Risk Management Policy does not incorporate any clause pertaining to disclosure of Conflict of Interest (Paragraph 8.10 of the SCN)

(zr.) In this regard, it is submitted that Clause 9 of Annexure XXI-A of Chapter XXI of the NCS Master Circular stipulates a requirement for the OBPP to make disclosure of all instances relating to conflict of interest arising from its transactions or dealings with related parties. In this regard, it is pertinent to note that during the Inspection Period, no such transactions were undertaken with related parties and therefore, no disclosure was warranted. In view of the aforementioned, it is submitted that the Noticee was in fact compliant with the provisions of Clause 9 of Annexure XXI-A of Chapter XXI of the NCS Master Circular and thus, no violation is made out in this regard. Without prejudice to above, it is pertinent to note that Clause 9 does not specifically require 'conflict of interest' to be included as part of RMP. In any event, even assuming (whilst denying) the allegation, it is urged that no penalty ought to be imposed in this regard as they are merely technical in nature and would not warrant imposition of any penalty. In light of the above, it is humbly submitted that:

(i) The Noticee does have the Relevant RMP in place as required by the NCS Master Circular;

(ii)A case of mi-selling is not made out;

(iii)There have been no investor complaints;

(iv)The Platform has since been discontinued by the Noticee.

(zs.) As such, even assuming (whilst denying) that there was any default on part of the Noticee, it is humbly submitted that the same is a technical and venial violation and does not merit penal consequences. In this regard, reference is drawn to the judgment of the Hon'ble Supreme Court in the matter of Hindustan Steel Ltd. v. State of Orissa, AIR 1970 SC 253 has held that -

"8…. The discretion to impose a penalty must be exercised judicially. A penalty will ordinarily be imposed in cases where the party acts deliberately in defiance of law, or is guilty of contumacious or dishonest conduct, or acts in conscious disregard of its obligation; but not, in cases where there is a technical or venial breach of the provisions of the Act or where the breach flows from a bona fide belief that the offender is not liable to act in the manner prescribed by the statute..".

(zt.) The aforesaid rationale is squarely applicable to the present matter. Given the facts and circumstances (as detailed above), it is humbly submitted that the present matter is a fit and appropriate case to deem the same as a technical and venial default. In the present matter, it is also pertinent to note that during the Inspection Period, a total of 268 clients were registered and transacted in bonds on the Platform for a total value of Rs. 18.82 Crore. Furthermore, the revenue earned by the Noticee from these transactions was Rs. 7,56,900/- out of which operational overheads amounted to Rs.2,51,273/-. As evident, the said amount is miniscule. In any event, it is submitted that the Noticee has voluntarily taken the decision to discontinue its Platform. Furthermore, there have been no cases of investor grievances and/or dissatisfaction nor of any losses being caused to the investors on account of any such alleged violations. Therefore, even assuming (whilst denying) that there was any shortfall in the Noticee's obligations, in light of

the above-mentioned authority and in line with the facts of the matter, in our humble submission, is a venial default and does not warrant any penalty.

(zu.) The Noticee submits that it is trite law wherein the purpose of an inspection is not punitive but to ensure compliance with the procedural requirements by the intermediary. On several occasions, the Hon'ble Securities Appellate Tribunal has held that every minor discrepancy or irregularity found during an inspection cannot be converted into a violation for imposition of monetary penalty barring cases where a serious lapse has been observed in the course of inspection. Certain orders passed by the Hon'ble Tribunal in this regard have been enlisted below.

The Hon'ble Tribunal in the matter of Religare Securities Ltd. v. SEBI (Order dated June 16, 2011) has held that:

"5. It must be remembered that the purpose of carrying out inspection is not punitive and the object is to make the intermediary comply with the procedural requirements in regard to the maintenance of records. We also cannot lose sight of the fact that every minor discrepancy/irregularity found during the course of inspection is not culpable and the object of the inspection could well be achieved by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant. …"

The aforesaid principle has been reiterated by the Hon'ble Tribunal in ACML Capital Markets Ltd. v. SEBI (Order dated June 29, 2022) and in P.G Electroplast Ltd. & Ors. v. SEBI (Order dated August 02, 2019).

(zv.) In any event, it is humbly submitted that the violations set out in the SCN are clearly venial and technical defaults and thus, do not warrant imposition of any penalty upon the Noticee. It is well settled law that the Adjudicating Officer is granted with wide discretion to decide whether a penalty should be imposed or not in the facts and circumstances of a matter. In this regard, it is humbly submitted that the present matter is not a fit case to impose any penalty.

(zw.) In addition to the aforesaid, it is submitted that in the Noticee's response to the Observation Letter, the Noticee has, inter alia, stated that it has voluntarily discontinued the Platform indefinitely to revamp the existing systems in order to meet SEBI's expectations. However, the said statement would not in any manner tantamount to be an admission to the said violations. Furthermore, it is submitted that the SCN is incorrect to preemptively conclude that in absence of a specific denial, such violations have been admitted by the Noticee. It is also strongly urged that merely because an allegation has not been specifically refute, the same cannot be construed to be an admission of the violation. Thus, for this very reason, the SCN proves to be arbitrary and contrary to the settled principles of law.

(zx.) Additionally, in this regard, due consideration must also be given to the factors laid down in Section 15J of the SEBI Act before passing any penalty. In the present case, none of the factors specified under Section 15J of the SEBI Act have been met. Briefly,

(i) The Noticee has not obtained any disproportionate gain or advantage specifically on account of the allegations in the SCN. As stated above, there was no commercial activity between the Noticee.

(ii) There is no evidence, direct or indirect, that would suggest that the Noticee acted in a manner that caused any loss to the public shareholders of any investors.

(iii) The Noticee has not committed any 'repetitive default' in the instant case and alleged violation, if any is attributed to the Noticee the same is bona fide unintentional and inadvertent.

(zy.) In this regard, reference is drawn to the various orders of the Hon'ble Tribunal and the Hon'ble Supreme Court wherein it was held that the Ld. Adjudicating Officer of SEBI has wide discretion, in the facts and circumstances of a matter, to decide whether a penalty should be imposed or not. In view of the aforesaid submissions, the Noticee most respectful submits that the present matter is not a fit case to impose any penalty (Adjudicating Officer, Securities and Exchange Board of India vs. Bhavesh Pabari (2019) 5 SCC 90; Piramal Enterprises Ltd. vs. SEBI (SAT Appeal No. 466 of 2016) and ICICI Bank Ltd. vs. SEBI (SAT Appeal No. 583 of 2019).

Noticees 2 to 5:

(a.) An opportunity of inspection of documents was granted on April 30, 2025. Pursuant to the inspection proceedings held on April 30, 2025, vide email dated May 09, 2025, SEBI was requested to provide inspection of certain additional documents, as set out therein. Thereafter, vide email dated May 14, 2025, the opportunity to inspect the requested documents was denied by SEBI and I was directed to file a reply to the SCN. In the said correspondence, it was also confirmed by SEBI that aside from the documents shared, there is no other document referred to or relied upon by SEBI in the respect of the present proceedings.

(b.) At the outset, it is pertinent to note that, in my capacity as non-executive independent director of 5paisa,

- *(i) My role did not entail any executive or operational facets of 5paisa's business operations;*
- *(ii) I was not in charge of the day-to-day affairs of 5paisa;*
- *(iii) I was not drawing any salary or remuneration from 5paisa in any executive capacity; and*
- *(iv) I was only paid a sitting fee for the limited number of board meetings of 5paisa which I have attended.*

(c.) To the best of my recollection, I had attended 4 board meetings during the inspection period. Further, in the month of January 2025, the Board was apprised about the findings of the OBPP inspection and the letter of advice received from SEBI consequent to the responses filed by the company. Except for the above disclosure, I do not recall any matters pertaining to the OBPP and / or any matter in connection with the issues raised in the SCN being placed before or raised before the board in any board meetings of 5paisa that I may have attended.

(d.) It is submitted that other than the fact that I was an independent director of 5paisa during the relevant period of time, the SCN fails to bring out any evidence/ document / information on the basis of which I have been purportedly imputed and deemed to be held liable for such alleged contraventions by 5paisa. In fact, there is not even any averment which suggests my involvement in the subject matter of the proceedings. It is also a settled position that independent directors are generally not involved in the day-to-day affairs of the company.

(e.)As such, given the aforesaid, it is clear that the SCN and the allegations therein relevant to me are not sustainable and thus, the SCN must be discharged in my respect. With this background, set out below are certain detailed submissions in this regard.

(f.) Incorrect application of Section 27 of the SEBI Act: It is *reiterated that in absence of any specific documents/ evidence to show my involvement in the affairs of the OBPP or even knowledge of the alleged violations by 5paisa, liability in terms of Section 27(1) and 27(2) of the SEBI Act cannot be imputed to me and the charges in the SCN are not sustainable and do not hold any merit.*

(g.)Furthermore, it is also relevant to note that in terms of provisions of Section 27 of the SEBI Act, it must be proved that the contravention has been committed with the consent or connivance of or is attributable to any neglect on part of the director.

(h.)It is clear from the SCN and other documentations there is not a single material or record that shows my involvement/ participation/ ascertain my role in the board processes of 5paisa in respect of the alleged violations or that I was involved in/ aware in respect of the same. As such, the test for application of Section 27 of the SEBI Act has not been met with and the charge in relation to violation of various provisions of the PFUTP Regulations, SEBI Circulars and/or any other regulatory provisions cannot be brought or sustained against me. Director cannot be made severally liable without personal involvement: It is submitted that aside from merely setting out Section 27 of the SEBI Act, the SCN fails to make any specific mention as to my culpability with respect to the alleged contraventions and liability for the penalty as stipulated under the SCN.

(i.) Case law jurisprudence over the years have explored this proposition at length and have crystalised the position in this regard, as set out below. Reference is drawn to the Judgment of Hon'ble Supreme Court in the matter of Sunil Bharti Mittal, Sham Sunder and SEBI vs. Gaurav Varshney.

(j.) From the above judgements, it is well settled and clear that:

- *It is a settled position of law, upheld by various courts including the Hon'ble Supreme Court and the Hon'ble Securities Appellate Tribunal, that a person cannot be held liable for each and every act of a company, merely because he/she was a director of the company and should fall within the scope of 'officer in default'.*
- *When a company is an offender, vicarious liability of the directors cannot be imputed de facto.*
- *A categorical finding is made in relation to the actions and nature of involvement is a sine qua non for adjudging a director's liability over any act/ omission of the company.*

(k.)It is also relevant to note that the Section 149(12) of the Companies Act, 2013 ("Companies Act") as well as Regulation 25(5) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations") clearly recognise that in case of an independent director, his/her role can be considered purely from the standpoint of involvement, connivance and knowledge that is discernible form the director's participation in the board processes. The Ministry of Corporate Affairs (MCA) has also, vide its circular dated March 02, 2020, clarified that the liability of independent directors or non-executive directors would only be

in respect of such acts or omissions by a company which had occurred with their knowledge, and with their consent or connivance or where such director has not acted diligently. Earlier, the MCA vide circular dated July 29, 2011 had stipulated the same standard. A copy of Section 149(12) of the Companies Act, Regulation 25(5) of the LODR Regulations and MCA Circulars dated July 29, 2011 and March 02, 2020 are enclosed as Exhibit B. Separately, in addition to the above, precedents also dictate that for a violation of Section 27 would require the allegation to be specifically attributed to the relevant director. In this regard, reference is drawn to the order passed by the Hon'ble Securities Appellate Tribunal, in the matter of Sayanti Sen v. SEBI.

(l.) As stated above, the SCN, the Inspection Report and PIA Report have failed to bring on a single record or information or document to remotely substantiate the charge that I as a director of 5paisa was personally aware of the alleged contraventions and/or any instances. Barring any specific finding and merely attributing such alleged contraventions as being a 'deemed contravention' is wholly untenable in fact and law. Thus, in the absence of any material to suggest direct involvement and knowledge, an 'indirect' charge cannot be sustained/ established against a director of a company merely because they were a director at the relevant point of time. A charge of such nature is contrary to settled principles of law, as set out above, and cannot be alleged against me.

(m.) Precedents dictate consistent approach in similar matters: It is further submitted that while adjudicating the issue relating to Section 27 of the SEBI Act, SEBI has adopted a consistent approach of applying the test of personal involvement while fastening liability upon directors, particularly independent directors. The same is also borne out of the orders passed by SEBI in the matters of Religare Enterprises Limited (in the context of Noticee No. 56, et.al.), Karvy Stock Broking Limited (in the context of Noticee No. 6, et.al.) , Quest Financial Services Limited and Raghukul Shares India Private Limited. In this regard, it is most humbly submitted that in the matter of State of Uttar Pradesh & Ors. vs. Ajay Kumar Sharma, the Hon'ble Supreme Court has emphasised the importance of application of 'doctrine of precedent' and judicial discipline while dealing with issues which have already been decided by co-ordinate benches.

(n.)A similar view was also taken by the Hon'ble Supreme Court in the matter of Mary Pushpam v. Telvi Curusumary. In this regard, it is submitted that the Ld. Adjudicating Officer ought to apply the previously settled principles laid down in relation to the application of Section 27 of the SEBI Act in present case. In view thereof, it is most humbly submitted that the same in fact portray that the present SCN issued to me does not hold any merit and thus, ought to be quashed and set aside.

(o.)SCN is vague and inconclusive: At the outset, it is submitted that the SCN fails to bring out any evidence/ document/ information as to why any of charges alleged can be personally attributed to me and appears to be issued in a generic broad-brush manner, without specifying the exact charge each Noticee is being asked to answer. It is a settled principle of law that if the allegations in a show cause notice are not specific, vague and/or lack details, it is sufficient to hold that the noticee was not given an adequate proper opportunity to meet the allegations indicated in

the show cause notice. In the aforesaid context, it is also evident that the SCN has been issued without any application of judicial mind and that there is no document available to suggest my direct/ indirect involvement in the alleged contraventions. In this regard, the allegations levelled against me in the SCN are not specific and unintelligible. The SCN has thus been issued in dereliction of principles of natural justice and on this ground alone, is vitiated and ought to be discharged insofar as it relates to me.

(p.)Provisions of PFUTP Regulations are not attracted: The SCN proceeds to allege that 5paisa has indulged in the act of 'mis-selling' by misrepresenting and/or categorizing certain AT-1 and Tier-II bonds as 'ultra safe bonds' while completely disregarding the associated risk factors. Furthermore, the liability for such alleged contraventions have been fastened upon me solely by virtue of my virtue of my directorship in 5paisa.

(q.)Without prejudice to the aforesaid arguments on liability of a director for allegation non-compliance by the company, it is also relevant to note that it is trite law that the test laid down for violation of PFUTP Regulations/ SEBI Regulations is that of preponderance of probabilities. Reference was drawn to the Judgment of Hon'ble Supreme Court in the matter of Kishore R. Ajmera v. SEBI, (2016) 6 SCC 368.

(r.) In this regard, it is reiterated that as a non-executive director, I was not a part of the day-to-day affairs of 5paisa. Additionally, as stated above, the SCN, the Inspection Report and PIA Report have failed to bring on record any information/ documents which could insinuate and/or lead to the inference that I was in fact involved in the operations of the OBPP in any manner.

(s.)Without prejudice to the aforesaid arguments regarding the liability of directions, I submit that even on applying the test of preponderance of probabilities, the present matter cannot be said to have been met the required threshold to frame a charge against me merely on basis that I was a director of 5paisa at the relevant time. In absence thereof, it is submitted that the allegations levelled against me are mere bald assertions and wholly unmerited.

Noticee 6:

*(a.)*An *opportunity of inspection of documents was granted on April 30, 2025. Pursuant to the inspection proceedings held on April 30, 2025, vide email dated May 09, 2025, SEBI was requested to provide inspection of certain additional documents, as set out therein. Thereafter, vide email dated May 14, 2025, the opportunity to inspect the requested documents was denied by SEBI and I was directed to file a reply to the SCN. In the said correspondence, it was also confirmed by SEBI that aside from the documents shared, there is no other document referred to or relied upon by SEBI in the respect of the present proceedings.*

(b.)At the outset, it is relevant to note that neither the SCN nor the supporting documentation on record ascribes any role or involvement to me (direct or indirect) in the functioning of the OBPP which forms the subject matter of the present proceedings or any of the allegations set out in the SCN.

(c.)With this background, please note that I was appointed as CFO of 5paisa w.e.f. January 16, 2019 and WTD w.e.f. January 16, 2020. As the WTD and CFO of 5Paisa, my role was confined and focused on accounts and treasury functions of

5paisa. As such, being the WTD and CFO of 5paisa, I was not involved in the day-to-day operations, internal functioning and management of the OBPP, which forms the subject matter of the present SCN and did not deep dive into procedural aspects thereof. My role was limited to partake in major business and strategy related aspects of the company.

(d.)In this regard, it is pertinent to note that aside from a mere reference to Section 27 of the SEBI Act, the SCN is devoid of any material, evidence, or document to show my involvement in the affairs of 5paisa's OBPP or any specific knowledge in terms of the allegations contained in the SCN. In this regard, a bare reading of Section 27(1) and 27(2) of the SEBI Act implies that in order for the same to be applicable, a specific role, neglect or knowledge must be attributable to the relevant individual.

(e.)As such, it is submitted that I did not have any knowledge of the relevant aspects of the OBPP as raised in the SCN, nor did I consent or connive in respect of any violations as alleged in the SCN. Thus, it is submitted that Section 27 cannot be applied simpliciter in so far as I am concerned. The SCN along with the available record fails to (i) bring on record a single material or document to demonstrate my involvement or participation in the alleged violations; or (ii) record a single averment to assert any role to me with regards to the said allegations or knowledge thereof. My role as a WTD and CFO cannot ipso facto attract the applicability of Section 27 of the SEBI Act. In view of the above, it is submitted that the present proceeding does not meet the requirements of Section 27 of the SEBI Act and thus, the alleged violations of various provisions of the PFUTP Regulations, SEBI Circulars and/or any other regulatory provisions cannot be attributed to me.

(f.) In order to substantiate the above, reference is drawn to various judicial precedents that have established set principles while determining the liability of directors of a company. Reference is drawn to the Judgment of Hon'ble Supreme Court in the matter of Sunil Bharti Mittal, Sham Sunder and SEBI vs. Gaurav Varshney and Judgment of Hon'ble SAT in the matter of Sayanti Sen v. SEBI.

(g.)The aforesaid judgments passed by various courts including the apex court, categorically postulate the following principles:

- *A person cannot be held liable for each and every act of a company merely because he/ she was a director of the company, and should fall within the scope of 'officer in default' merely on being a director.*
- *When a company is an offender, vicarious liability of the directors cannot be imputed de facto.*
- *A categorical finding made in relation to the actions and nature of involvement is a sine qua non for adjudging a director's liability over any act/ omission of the company.*

(h.)In view of the above, given that the SCN, the Inspection Report and PIA Report have failed to bring on record any information or document to remotely substantiate the charge that I was personally aware of or involved in the alleged contraventions, a charge of such nature is not sustainable against me. Merely attributing the alleged contraventions as being a 'deemed contravention' is contrary to settled principles of law, as set out above. The aforesaid case laws and position in law have been acknowledged, accepted and followed by SEBI in various other matters dealing with similar aspects in terms of Section 27 of the SEBI Act. Thus, SEBI

has, in various matters adopted a consistent approach and applied the said principles before fastening any liability on a director. Moreover, the violations in respect of OBPP are technical, venial and insignificant. SEBI itself doesn't invoke provisions of Section 27 of the SEBI Act in such matters. In this regard and in order to support this submission, reference is drawn to the orders passed by SEBI in the matters of Quest Financial Services Limited and Raghukul Shares India Private Limited. Further, it is pertinent to note that the Hon'ble Supreme Court in the matter of State of Uttar Pradesh & Ors. vs. Ajay Kumar Sharma, has emphasized the importance of application of 'doctrine of precedent' and judicial discipline while dealing with issues which have already been decided by co-ordinate benches. A similar view was also taken by the Hon'ble Supreme Court in the matter of Mary Pushpam v. Telvi Curusumary.

(i.) In line with the above, it is submitted that the Ld. Adjudicating Officer ought to consistently apply the settled principles of law in relation to the application of Section 27 of the SEBI Act in the present case. Thus, it is most humbly submitted that the present SCN and the allegation therein qua me do not hold any merit and thus, are unsustainable in law. Without prejudice to what is stated herein, it is submitted that even prior to initiation of proceedings against 5paisa, a voluntary decision was taken to discontinue the OBPP with immediate effect. The intent behind this was strictly 'without prejudice' in order to align the existing systems with SEBI's expectations. It is further submitted that the present proceedings are not warranted.

(j.) Without prejudice to the aforementioned and whilst reiterating that no personal involvement has been attributed to me for any of the below-mentioned allegations, the responses to the allegations are as follows:

(k.) With respect to paragraph 8.1 of the SCN, it is submitted that prior to issuance of the SCN, 5paisa has discontinued the OBPP platform. It is also submitted that 5paisa has always acted in a bonafide manner keeping the interest of the investors in mind. In any event, it is submitted that the said observations are technical and venial in nature and there is no scope of re-occurrence. As such, the said alleged violations do not warrant for imposition of any penalty.

(l.) With respect to paragraph 8.2 of the SCN, it is submitted that there is no express regulatory bar on off-market transactions and therefore, even assuming (whilst denying) the allegations, no penalty ought to be imposed in this regard.

(m.) With respect to paragraph 8.3 of the SCN, it is submitted that while the said information may not be provided in the deal sheets, the investors are given real-time notifications as to the time of order placement as well as order settlement. As such, the regulatory intent of keeping the investors up to date with timely information is being met with. Therefore, in view of the above, even assuming (whilst denying) the said allegation, the same can at most be attributed to being a technical default with no impact. As such, no penalty ought to be imposed in this regard.

(n.) With respect to paragraph 8.4 of the SCN, it is submitted that given 5paisa issues deal sheets to its clients which contain information relating to date, details of counter parties involved, quantity and amount quoted as was required to be provided in such quote receipts. As such, there would be no requirement for

issuing a separate quote receipt. Therefore, in view of the above, even assuming (whilst denying) the said allegation, the same can merely be attributed to being a technical default with no impact. As such, no penalty ought to be imposed in this regard.

(o.) With respect to paragraph 8.5 of the SCN, it is submitted that a specific link providing investors access to the information memorandum (which includes the term sheet and security name). Further, it is pertinent to note that the rating displayed also functions as a hyperlink to the rating rationale which also has the date of the rating. As such, the regulatory intent of keeping the investors up to date with timely information is being met with. Therefore, in view of the above, even assuming (whilst denying) the said allegation, the same can at most be attributed to being a technical default with no impact. As such, no penalty ought to be imposed in this regard.

(p.) With respect to paragraphs 8.6, 8.8 & 8.9 of the SCN, it is submitted that it is an admitted position in the SCN that subsequent to the inspection, 5paisa submitted a risk management policy which was relevant for the OBPP. Further, it also finds that the said policy contains the relevant provisions in order to comply with said alleged violations. Therefore, no penalty ought to be imposed in this regard.

(q.) With respect to paragraph 8.7 of the SCN, it is submitted that Clause 3 of the Relevant RMP provides mechanisms such as confirmation prompts, trade limits and restrictions, two-factor authentication, transaction timeout, education and user training as well as real-time monitoring and alert generation. The said mechanisms have been put in place in order to ensure that there is no unfair and unauthorized access to Platform. Therefore, at best the same can only be viewed as a technical and venial default and no penalty ought to be imposed in this regard.

(r.) With respect to paragraph 8.10 of the SCN, it is submitted that the Clause 9 of Annexure XXI-A of Chapter XXI of the NCS Master Circular stipulates a requirement for the OBPP to make disclosure of all instances relating to conflict of interest arising from its transactions or dealings with related parties. In this regard, it is pertinent to note that during the Inspection Period, no such transactions were undertaken with related parties and therefore, no disclosure was warranted.

(s.) With respect to Paragraph 8.11 of the SCN which relates to the allegation of 'mis-selling' and violative of the provisions of the PFUTP Regulations:

- *At the outset, it is submitted that the SCN fails to specify any grievance/ complaints raised by investors who have invested in Bonds especially in relation with the issue of 'mis-selling' and/or concealing its associated risks. In this regard, it can only be assumed that there were no investor complaints in relation thereto and that they were well aware of the risks associated with such instruments and thus, the question of mis-selling does not arise.*
- *The adequate information (including risk factors) relating to the said debt securities were made adequately accessible to the investors by 5paisa on the OBPP platform itself. Further, such information was also made available on the websites of the stock exchanges. As such, all the relevant information for enabling investors to take an informed decision on their investments was available with the investors. This is further substantiated by the fact that the deal sheet generated at the time of purchasing the bonds*

captures that the investor has acknowledged that it has read the information memorandum and is aware of the risk associated with investing in such bonds.

- *It is submitted that for a charge of 'mis-selling' in terms of Regulation 4(2)(s) of the PFUTP Regulations, it must be proved that any false/misleading statements were published, any material fact and/or associated risk was omitted/ concealed or reasonable care had not been exercised to ensure suitability of the securities to the buyer. Pertinently, this requirement has not been adequately discharged by SEBI in the SCN. In fact, the SCN contains broad statements of alleged mis-selling without any actual basis, explanation or rationale.*
- *In relation with the classification of certain bonds as 'Ultra Safe Bonds', it is submitted that the 'AAA' rating inherently imply that the securities are considered the 'highest degree of safety' regarding timely servicing of financial obligations and that such securities carry the 'lowest credit risk'. As such, the classification of 'Ultra Safe Bonds' contained only the highest rated Bonds which were in fact safer compared to other Bonds. Similarly, in relation with the classification of certain bonds as 'Bonds for Senior Citizens', it is pertinent to note that such collection only contained instruments issued by government & government backed entities. government backed instruments are generally perceived to have a higher degree of safety as compared to other debt securities. Thus, owing to a lower risk of systematic failure, such securities are ordinarily preferred by senior citizens. However, it is submitted that merely having a classification as 'Ultra Safe Bonds' and/or 'Bonds for Senior Citizens' cannot lead to a charge of mis-selling, particularly when all features of these bonds are accessible for an investor's perusal and viewing.*

(t.) It is also submitted that the OBPP platform was completely investor-driven wherein investors would access the platform with an intention to invest in debt securities. Neither 5paisa nor any of its employees/agents have personally approached any investor in this regard, nor were any such advertisements issued to lure investors. Briefly, 5paisa's role was merely limited to providing all such information and details as required to enable informed decision making.

(u.)Further, a mere comparison of the returns from such instruments with that of fixed deposits does not in any way tantamount to misrepresentation and/or 'mis-selling'. Furthermore, the same was based upon factual and publicly available information and was meant for public dissemination and not for targeting any specific set of investors. It is specifically reiterated that none of the factual aspects relating to bonds being safe or suitable for a group/ class of investors, which have been brought out in the SCN to support the charge of mis-selling, were to my knowledge. Any information, if at all incorrectly displayed on the OBPP, was without my consent and I had no role to play regarding the same.

(v.)In view of the aforementioned, it is submitted that the in present case and from the instances mentioned in the SCN, no case of 'mis-selling' can be made out.

The default (if any) is technical and venial.

(w.) Even assuming (whilst denying) that there was any default on part of 5paisa and that Section 27 of the SEBI Act arguably is applicable to me, it is humbly submitted that the allegations in the SCN are technical and venial violations and do not merit penal consequences. In this regard, reference is drawn to the judgment of the Hon'ble Supreme Court in the matter of Hindustan Steel Ltd. v. State of Orissa, AIR 1970 SC 253 which sets out the aforesaid position in law. Given the facts and circumstances (as detailed above), it is humbly submitted that the present matter is a fit and appropriate case to deem the same as a technical and venial default and would not warrant any penalty to be imposed thereupon. Consequently, Section 27 of the SEBI Act ought not to be invoked in a matter where the violations are technical, venial and insignificant.

(x.) Further, it is also pertinent to note that during the Inspection Period, a total of 268 clients were registered and transacted in bonds on the OBPP platform of total value of Rs. 18.82 Crores. However, 5paisa's revenue from such transactions stood at Rs. 7,56,900/- out of which operational overheads amounted to Rs.2,51,273/-. As such, the said sum is a miniscule portion of 5paisa's earnings. Regardless, the OBPP platform has been voluntarily discontinued and during its existence, no investor complaints/grievance were received. It is also submitted that 5paisa has always acted in a bonafide manner in line with the regulatory framework and keeping in the mind the interest of the investors.

(y.) It is submitted that it is trite law that the purpose of an inspection is not punitive and is to ensure compliance with the procedural requirements by the intermediary. On several occasions, the Hon'ble Securities Appellate Tribunal has held that every minor discrepancy or irregularity found during inspection cannot be converted into a violation for imposition of monetary penalty unless there is a serious lapse which is found in the course of inspection. This principle has been upheld by the Hon'ble Tribunal in the matters of Religare Securities Ltd., ACML Capital Markets Ltd. v. SEBI and P.G. Electroplast Ltd.. As stated above, since the defaults are technical and venial, the Ld. Adjudicating Officer ought to exercise discretion and ought not to involve provisions of Section 27 of the SEBI Act to fasten liability onto me in the present matter.

(z.) In addition to the aforesaid, it is also submitted that in 5paisa's response to the Observation Letter, 5paisa has inter alia stated that it has 'without prejudice' taken proactive steps to discontinue the OBPP indefinitely to revamp the existing systems in order to meet SEBI's expectations. However, the said statements do not in any manner tantamount to be an admission of the said violations. Furthermore, it is submitted that the SCN is incorrect to preemptively conclude that in absence of a specific denial, such violations have been admitted by the Noticee. It is also strongly urged that merely because an allegation has not been specifically refute, the same cannot be construed to be an admission of the violation. Thus, for this very reason, the SCN proves to be arbitrary and contrary to the settled principles of law.

The 15J factors have not been met with.

(za.)Additionally, in this regard, due consideration must also be given to the factors laid down in Section 15J of the SEBI Act before passing any penalty. In the present case, none of the factors specified under Section 15J of the SEBI Act have been met. Briefly,

- *That I have not obtained any disproportionate gain or advantage specifically on account of the allegations in the SCN.*
- *There is no evidence, direct or indirect, that would suggest that I was involved in, had knowledge of or acted in a manner that caused any loss to the public shareholders of any investors.*
- *That I have not committed any 'repetitive default' in the instant case and alleged violation, if any is attributed to me is bona fide unintentional and inadvertent.*

(zb.)In this regard, reference is drawn to the various orders of the Hon'ble Tribunal and the Hon'ble Supreme Court wherein it was held that the Ld. Adjudicating Officer of SEBI has wide discretion, in the facts and circumstances of a matter, to decide whether a penalty should be imposed or not. In view of the aforesaid submissions, it is humbly submitted that the present matter is not a fit case to impose any penalty qua me.

Noticee 7:

(a.)Pursuant to such inspection, vide email dated May 14, 2025, I requested SEBI to provide certain additional documents. Thereafter, vide email dated May 14, 2025, SEBI denied the opportunity to inspect the additional documents, and I was directed to file a reply to the SCN. In the said email, SEBI also confirmed that aside from the documents shared there are no other documents referred to or relied upon by SEBI in the respect of the present proceedings.

(b.)At the outset, I submit that I was appointed as CEO of 5Paisa w.e.f. May 25, 2023 and as MD w.e.f. July 13, 2023. As the CEO and MD of 5Paisa, my role was limited to overseeing the overall business strategy, profitability, growth and technological revamping within the company. Thereafter, in order to pursue additional responsibilities as a strategic advisor to the IIFL group in their new initiatives towards artificial intelligence and digital transformation, I tendered my resignation to the board of 5Paisa on May 30, 2024 which was accepted on the same day and made effective from August 28, 2024.

(c.)As such, since August 28, 2024, I have not been associated with 5Paisa in any manner. Thus, it is pertinent to note that since then I do not have access to any of the documents, information and records relevant to the subject matter of the SCN and the current reply is being filed by me based on my best recollection and knowledge and the documents shared by SEBI as part of the current proceedings.

(d.)In this regard, it is also pertinent to note that, in my capacity as CEO and MD of 5Paisa:

- *My role was limited to decision making at a macro level and did not entail overseeing business operations at a micro-level, including any operational or procedural aspects;*

- *Various functional heads were responsible for the various verticals, and I was only consulted on major decision-making processes;*
- *Specifically, I was not involved in any of the operational and procedural aspects relating to 5Paisa's OBPP.*

(e.)In addition to the above, to the best of my knowledge and recollection, no matters in relation to the OBPP and/ or any issues raised in the SCN were placed or raised before the board or board meeting of 5Paisa that I may have attended or specifically raised to me. As such, to the best of my recollection, I am not aware of or have knowledge with respect to any of the aspects/ allegations raised in the SCN. A reading of the SCN clearly demonstrates that the alleged violations are technical and operational in nature and relate to the daily functioning of the OBPP. In line with the above, such aspects were not particularly handled by the senior management of 5Paisa, including myself. As such, any alleged violation in this regard cannot be attributed to any action/ inaction committed by me. Furthermore, it is pertinent to note that there is no material, information or even a specific allegation placed and/ or recorded in the SCN that would attribute my involvement in relation to such allegations in any manner.

(f.) In view of the above, it is submitted that other than the fact that I was the CEO and MD of 5Paisa during the relevant period of time, the SCN fails to bring out any evidence/ document/ information on the basis of which I have been deemed to be held liable for such alleged contraventions by 5Paisa.

(g.)Incorrect application of Section 27 of the SEBI Act: Absent any specific documents/ evidence to show my involvement in the affairs of 5Paisa's OBPP or knowledge thereof, the SCN solely relies upon Section 27 of the SEBI Act to confer liability upon me for the said allegations. In this regard, it is pertinent to note that Section 27(1) and 27(2) of the SEBI Act cannot be applied in a simpliciter and blanket manner without specifically attributing a role to the relevant individual. A reading of the above also demonstrates that for Section 27 of the SEBI Act to be applicable, it must be proved that the contravention has been committed with the knowledge or consent or connivance of or is attributable to any neglect on part of the relevant director.

(h.)It is reiterated that the SCN along with all other documentations provided by SEBI, there is not a single material or record that demonstrates my involvement or participation in the alleged violations and further fails to assert any role or any knowledge thereof. As such, I submit that in the present case the requirements as set out in Section 27 of the SEBI Act itself have not been met with and the charge in relation to violation of PFUTP Regulations, SEBI Circulars and/or any other regulatory provisions cannot be brought or sustained against me.

(i.) Case law jurisprudence over the years have explored this proposition at length and have crystalised the position in this regard, as set out below. Reference is drawn to the Judgment of Hon'ble Supreme Court in the matter of Sunil Bharti Mittal, Sham Sunder and SEBI vs. Gaurav Varshney and Judgment of Hon'ble SAT in the matter of Sayanti Sen v. SEBI.

(j.) The aforesaid judgments passed by various courts including the apex court, categorically postulate the following principles:

- *It is a settled position of law, upheld by various courts including the Hon'ble Supreme Court and the Hon'ble Securities Appellate Tribunal, that a person cannot be held liable for each and every act of a company, merely because he/she was a director of the company and should fall within the scope of 'officer in default'.*
- *When a company is an offender, vicarious liability of the directors cannot be imputed de facto.*
- *A categorical finding made in relation to the actions and nature of involvement is a sine qua non for adjudging a director's liability over any act/ omission of the company.*

(k.) It is further submitted that while adjudicating the issue relating to Section 27 of the SEBI Act, SEBI themselves have adopted a consistent approach of applying the test set out in the aforesaid case laws on the aspect of personal involvement while fastening liability upon directors. In this regard, reference is drawn to the orders passed by SEBI in the matters of Quest Financial Services Limited and Raghukul Shares India Private Limited.

(l.) From the above submissions and case law jurisprudence, it is clear that since the SCN, the Inspection Report and PIA Report have failed to bring on record any information or document to remotely substantiate the charge that I was personally aware of or involved in the alleged contraventions, a charge of such nature is not sustainable against me. Merely attributing the alleged contraventions as being a 'deemed contravention' is contrary to settled principles of law, as set out above.

(m.) Application of the doctrine of precedents: The Hon'ble Supreme Court in the matter of State of Uttar Pradesh & Ors. vs. Ajay Kumar Sharma, has emphasised the importance of application of 'doctrine of precedent' and judicial discipline while dealing with issues which have already been decided by co-ordinate benches. A similar view was also taken by the Hon'ble Supreme Court in the matter of Mary Pushpam v. Telvi Curusumary.

(n.) In this regard, it is submitted that the Ld. Adjudicating Officer ought to apply the previously settled principles laid down in relation to the application of Section 27 of the SEBI Act in present case. In view thereof, it is most humbly submitted that the present SCN and the allegation therein qua me does not hold any merit and thus, unsustainable in law.

(o.) SCN is vague and inconclusive: It is reiterated that the SCN fails to bring out any evidence/ document/ information as to why any of charges alleged can be personally attributed to me. The SCN appears to be issued in a generic broad-brush manner, without specifying the exact charge each Noticee is being asked to answer.

(p.) It is a settled principle of law that if the allegations in a show cause notice are not specific, vague and/or lack details, it is sufficient to hold that the noticee was not given an adequate proper opportunity to meet the allegations indicated in the show cause notice.

(q.) In the aforesaid context, it is also evident that the SCN has been issued without any appreciating the context and background of the proceedings, and that there is no document available to suggest my direct/ indirect involvement in the alleged contraventions. In this regard, the SCN has thus been issued in dereliction of

principles of natural justice and on this ground alone, is vitiated and ought to be discharged insofar as it relates to me.

(r.) Provisions of PFUTP Regulations are not attracted: The SCN proceeds to allege that 5Paisa has indulged in the act of 'mis-selling' by misrepresenting and/or categorizing certain AT-1 and Tier-II bonds as 'ultra safe bonds' while completely disregarding the associated risk factors. Furthermore, the liability for such alleged contraventions have been fastened upon me solely by virtue of my virtue of my directorship in 5Paisa.

(s.) Without prejudice to the aforesaid arguments on liability of a director for allegation non-compliance by the company, it is also relevant to note that it is trite law that the test laid down for violation of PFUTP Regulations/ SEBI Regulations is that of preponderance of probabilities. Reference is drawn to the Judgment of the Hon'ble Supreme Court in the matter of Kishore R. Ajmera v. SEBI.

(t.) In this regard, it is reiterated that as the CEO and MD, I was not responsible for every minute operation of the Company. Nothing related to OBPP was placed before the Board in any Board Meeting. Hence none of the violations were to my knowledge or consent, nor was I responsible for the compliances in respect of the OBPP. Additionally, as stated above, the SCN, the Inspection Report and PIA Report have failed to bring on record any information/ documents which could insinuate and/or lead to the inference that I was in fact involved in the operations of the OBPP in any manner.

(u.) Without prejudice to the aforesaid arguments regarding the liability of directions, I submit that even on applying the test of preponderance of probabilities, the present matter cannot be said to have been met the required threshold to frame a charge against me merely on basis that I was a director of 5Paisa at the relevant time. In absence thereof, it is submitted that the allegations levelled against me are mere bald assertions and wholly unmerited.

(v.) Without prejudice to the above, the Noticee's submissions in relation to the allegations specified in the SCN are as follows:

(w.) With respect to Paragraph 8.1 to 8.10 of the SCN:

- *It is submitted that the said allegations and charges appear to be technical and operational in nature.*
- *As already stated hereinabove, I was not personally involved in the day-to-day functioning of the OBPP.*
- *The SCN fails to bring out any evidence/ document/ information on the basis of which my personal involvement or knowledge can be attributed to me.*
- *Therefore, even assuming (whilst denying) the said allegations, as already stated hereinabove, liability for such violations cannot be attributed to me as the test prescribed under Section 27 of the SEBI Act has not been fulfilled.*
- *In this regard, it is most humbly submitted that the said charges may be dropped against me.*

(x.) With respect to Paragraph 8.11 of the SCN which relates to the allegation of 'mis-selling' and violative of the provisions of the PFUTP Regulations:

- *At the outset, it is submitted that the SCN fails to specify any grievance/ complaints raised by investors who have invested in Bonds especially in*

relation with the issue of 'mis-selling' and/or concealing its associated risks. In this regard, it can only be assumed that there were no investor complaints in relation thereto and that they were well aware of the risks associated with such instruments and thus, the question of mis-selling does not arise.

- *The adequate information (including risk factors) relating to the said debt securities were adequately disseminated to the investors by 5Paisa. Further, such information was also made available on the websites of the stock exchanges. As such, all the relevant information for enabling investors to take an informed decision on their investments was available with the investors.*
- *It is submitted that for a charge of mis-selling in terms of Regulation 4(2)(s) of the PFUTP Regulations, it must be proved that any false/misleading statements were published, any material fact and/or associated risk was omitted/ concealed or reasonable care had not been exercised to ensure suitability of the securities to the buyer. Pertinently, this requirement has not been adequately discharged by SEBI in the SCN. In fact, the SCN contains broad statements of alleged mis-selling without any actual basis, explanation or rationale.*
- *In relation with the classification of certain bonds as 'Ultra Safe Bonds', it is submitted that the 'AAA' rating inherently imply that the securities are considered the 'highest degree of safety' regarding timely servicing of financial obligations and that such securities carry the 'lowest credit risk'. As such, the classification of 'Ultra Safe Bonds' contained only the highest rated Bonds which were in fact safer compared to other Bonds. Similarly, in relation with the classification of certain bonds as 'Bonds for Senior Citizens', it is pertinent to note that such collection only contained instruments issued by government & government backed entities. government backed instruments are generally perceived to have a higher degree of safety as compared to other debt securities. Thus, owing to a lower risk of systematic failure, such securities are ordinarily preferred by senior citizens. However, it is submitted that merely having a classification as 'Ultra Safe Bonds' and/or 'Bonds for Senior Citizens' cannot lead to a charge of mis-selling, particularly when all features of these bonds are accessible for an investor's perusal and viewing.*
- *It is also submitted that the OBPP platform was completely investor-driven wherein investors would access the platform with an intention to invest in debt securities. Neither 5paisa nor any of its employees/agents have personally approached any investor in this regard, nor were any such advertisements issued to lure investors. Briefly, 5paisa's role was merely limited to providing all such information and details as required to enable informed decision making.*
- *Further, a mere comparison of the returns from such instruments with that of fixed deposits does not in any way tantamount to misrepresentation and/or mis-selling. Furthermore, the same was based upon factual and publicly available information and was meant for public dissemination and not for targeting any specific set of investors.*

- *It is specifically reiterated that none of the factual aspects relating to bonds being safe or suitable for a group/ class of investors, which have been brought out in the SCN to support the charge of mis-selling, were to my knowledge. Any information, if at all incorrectly displayed on the OBPP, was without my consent and I had no role to play regarding the same.*
- *In view of the aforementioned, it is submitted that the in present case and from the instances mentioned in the SCN, no case of 'mis-selling' can be made out.*

Post Hearing Submissions:

Noticees 1 to 6:

(a.) The present proceedings arose out of an inspection of 5paisa, as carried out by SEBI in May 2024. It is submitted that even prior to issuance of the Observation Letter, the OBPP/ Platform was discontinued by 5paisa on a 'without prejudice' basis. It is also noteworthy that after discontinuation of the Platform or even when the Platform was operational, no investor grievances/ complaints were received with respect to the Platform and/or its services. In a nutshell, without prejudice that no case for violations has been made out, it is submitted that no loss or harm to any investors has been caused.

(b.) It is submitted that the intent for imposition of monetary penalty is to act as a deterrent to recurrent non-compliances. However, in the present case, since the Platform is presently inoperative and no specific finding has been made of any loss being caused to investors. Therefore, it is submitted that no monetary penalty ought to be imposed to the present case and exercise of discretion is urged.

(c.) With regard to the charges levelled in the SCN, the submissions are as under:

(d.) In relation to the charge pertaining to failure of entering into agreements with third-party sellers (Paragraph 8.1 of the SCN) as well as failure to route orders through the RFQ platform of the recognized stock exchange (Paragraph 8.2 of the SCN), it is submitted that the said non-compliances are merely technical in nature and would not warrant any specific penal action. In any event, it is reiterated that the Platform is currently non-functional and even during its existence, no investor complaints were observed.

(e.) In relation to the charge relating to the deal sheets containing inadequate information (Paragraph 8.3 of the SCN), it is submitted that at the time of entering a trade, 5paisa promptly issued a notification to the investor vide email (or as the case may be) at the time of order placement as well as order confirmation (Please see Exhibit E to 5paisa's reply). Further, the investor also received confirmation notifications from the respective depository on settlement of the trade, thus demonstrating that the investor was aware of every stage of the trades undertaken on a real-time basis. In essence, substantive compliance was being done.

(f.) In relation to the charge relating to failure on issuance of quote receipts in relation to third-party sales (Paragraph 8.4 of the SCN), it is submitted that on execution of a trade, in addition to timely notifications on email/ SMS, 5paisa forthwith issued deal sheets which captured the information relating to such information as may be required to be captured in such quote receipts, thus complying with the regulatory intent.

(g.)In relation to the charge relating to minimum disclosure requirements not being met for each security offered on the Platform (Paragraph 8.5 of the SCN), it is submitted that the investors were provided with a specific link to access the information memorandum, rating rationale, etc. of such offered securities (Please see Exhibit F to 5paisa's reply; separate copy shared during the hearing on July 10, 2025). Therefore, it is submitted that substantive compliance had been done by providing the investors with access to the requisite information as required under the said provisions.

(h.)In relation to the charges relating to deficiencies observed in the risk management policy of 5paisa, it is submitted that:

- *It is an admitted position that due to inadvertence, an incorrect risk management policy was submitted to the inspection team. On taking cognizance of such error, the Relevant RMP was submitted in response to the Observation Letter. As such, the said policy was found to be compliant with the prescribed regulatory norms. However, while framing the charges in SCN, the Relevant RMP has not been considered. Thus, if the Relevant RMP were to be considered, the Answering Noticees would ipso facto be exonerated from the charges specified in Paragraphs 8.6, 8.8. & 8.9 of the SCN.*
- *In addition to the aforementioned, the SCN has a contradictory stand by disregarding the Relevant RMP while framing certain charges. On the other hand, the SCN refers to the said policy in order impose a separate set of charges on account of the said policy being incomplete. Thus, irrespective of the conclusion drawn it would result in the Answering Noticees being penalized. In this regard, it is submitted that such findings which are in stark contrast with each other are unsustainable in law and ought to be set aside.*
- *In relation to the charge relating to the absence of mechanisms for preventing unauthorized access, etc. (Paragraph 8.7 of the SCN), it is submitted that the said mechanisms are in fact incorporated in Clause 3 of the Relevant RMP. Similarly, at the time of account opening, a document titled 'Rights and Obligations of Stock Brokers, Sub Brokers and Clients as prescribed by SEBI and Stock Exchanges' which forms part of the Account Opening Kit and shared with the client (Please see Exhibit F to 5paisa's reply @ Page 50). Such documents provide elaborate provisions for dealing with conflict of interest. Therefore, the said charges ought to be set aside.*
- *In relation to the charge relating to the failure to disclose conflict of interest (Paragraph 8.10 of the SCN), it is submitted that the same is erroneous and incorrect. It is submitted that Clause 9 of Annexure XXI-A of Chapter XXI of the NCS Master Circular stipulates a requirement for the OBPP to make disclosure of all instances relating to conflict of interest arising from its transactions or dealings with related parties. However, since no such transactions were undertaken with related parties and therefore, no disclosure was warranted.*
- *In relation to the charges of non-compliance as stated in Paragraphs 8.1 to 8.10 of the SCN and without prejudice to the other contentions raised by the Answering Noticees, it is most humbly submitted that even assuming (whilst*

denying) the said allegations, such violations are merely technical and venial in nature and would not warrant any specific penal action to be undertaken in this regard.

(i.) In relation to the charges relating to mis-selling, it is submitted that:

(j.) During the time the Platform was functional, there have been no instances of investor complaints and/or grievances relating to any misrepresentation in respect of sale of Bonds or mis-selling of any Bonds through the Platform. Thus, it is submitted that the SCN proceeds on an entirely incorrect assumption that there has been any kind of alleged mis-selling by 5paisa.

(k.) The entire process on the Platform was completely investor-driven wherein investors would access the platform using his/her online login credentials with an intention to invest in debt securities. Neither 5paisa nor any of its employees/agents have personally approached any investor in this regard, nor were any such advertisements issued to lure investors. Briefly, 5paisa's role was merely limited to providing all such information and details as required to enable informed decision making. Therefore, the question does not arise for 5paisa to target any specific investor of any age-group as alleged in the SCN.

(l.) The Platform displayed the salient features of the instruments and the investors were also provided access to the important documents such as the Information Memorandum, term sheet and revised rating rationale. These documents were essential for ensuring that the investor is aware of the risk factors associated with such instruments. From judgment of the Hon'ble Madras High Court in the matter of Piyush Bokaria & Ors. v. RBI & Ors. (WP NO. 12586 of 2020) in respect of AT-1 Bonds, it can be clearly derived that once the Information Memorandum (containing all features of the Bonds) is provided to the investors, it can be assumed that the investors has consciously chosen to invest in the Bonds. (Please see Paragraph 29 of 5paisa's reply).

(m.) In relation with the classification of certain bonds as 'Ultra Safe Bonds', it is submitted that only those bonds that had AAA ratings were categorized as 'Ultra Safe'. The 'AAA' rating inherently imply that the securities are considered the 'highest degree of safety' regarding timely servicing of financial obligations and that such securities carry the 'lowest credit risk'. In fact, the same also aligns with the rationale employed by credit rating agencies while rating debt securities and publishing its rating rationale (Please see Exhibit D to 5paisa's reply @ Page 31).

(n.) Similarly, in relation with the classification of certain bonds as 'Bonds for Senior Citizens', it is pertinent to note that such collection only contained instruments issued by government & government backed entities. Government-backed instruments are generally perceived to have a higher degree of safety as compared to other debt securities.

(o.) Moreover, the description of the classification of these Bonds under the category of 'Ultra Safe' and 'Bonds for Senior Citizens' (as produced in para 8.11.1 of the SCN) is entirely factually accurate. Thus, merely by having a classification as 'Ultra Safe Bonds' and/or 'Bonds for Senior Citizens' cannot lead to a charge of mis-selling, more particularly when all features of these bonds are accessible for an investor's perusal and viewing.

(p.) In relation to paragraph 8.11.2 of the SCN and the bonds issued by South Indian Bank, it is submitted that the said bonds had neither been classified under the heads of 'Ultra Safe Bonds' and/or 'Bonds for Senior Citizens', nor were the investors in any manner persuaded to invest in such instruments. Further, it can be evidenced that the investors were provided access to the Information Memorandum, term sheet and revised rating rationale. Therefore, the allegations levelled against the Answering Noticees in this regard remain unfounded and do not in any manner tantamount to an act of mis-selling. It appears that facts pertaining to sale of South Indian Bank have been included in the SCN merely because of these bonds are being sold on the Platform.

(q.) In terms of Regulation 4(2)(s) of the PFUTP Regulations, it is submitted that for a charge of mis-selling to be made out, it must be proved that any false/misleading statements were published, any material fact and/or associated risk was omitted/ concealed or reasonable care had not been exercised to ensure suitability of the securities to the buyer. However, in this regard it is submitted that the SCN fails to bring out any such case against the Answering Noticees. The Platform displayed all information accurately. All material facts were available to the client before buying the bonds. The Platform was investor driven and the clients chose to buy products basis their own criteria, without any influence from 5paisa.

(r.) The settled position in law is that for establishing a case under the PFUTP Regulations, the same ought to be without reasonable doubt. A catena of judgments have also laid out the specific requirements in order to apply the principles of preponderance of possibility for making out a case. However, it is most humbly submitted that even applying such principles no case of violation of the PFUTP Regulations and more particularly 'mis-selling' are being made out (Please see Paragraphs 43 & 44 of 5paisa's reply), specifically when the investors are the ones who are logging in on the Platform with a voluntary intent to buy these bonds. In this regard, it is most humbly submitted that the said charges ought to be set aside.

(s.) With regard to the allegations and charges levelled against the directors of 5paisa, it is submitted that:

(t.) It is trite law that in order to impute liability upon a director, a categorical finding made in relation to the actions and nature of involvement is a sine qua non. Barring any specific finding and merely attributing such alleged contraventions as being a 'deemed contravention' is wholly untenable in fact and law. Thus, in the absence of any material to suggest direct involvement and knowledge, an 'indirect' charge cannot be sustained/ established against a director of a company merely because they were a director at the relevant point of time.

(u.) Corollary to the above, the SCN, the Observation Letter, the PIA Report and Inspection Report prepared by SEBI do not attribute any specific act to the directors, namely Noticee Nos. 2 to 6. Therefore, it is submitted that the allegations against the directors are unfounded and without basis.

(v.) It is further submitted that the board of directors cannot reasonably be expected of having knowledge and awareness of every single operational matter which may occur during the day-to-day functioning of the company. Applying the same in the present case, it is submitted that the alleged violations merely relate to operational

matters and therefore, the directors at such time namely Noticee Nos. 2 to 6 cannot be expected to have knowledge and/or have any direct involvement therein. As such, the requirements for imposing liability upon a director have not been met with.

(w.) It is submitted that invoking Section 27 of the SEBI Act requires clear evidence of a director's personal involvement in the alleged violation. This is supported by the proviso to Section 27(1), Section 27(2), and coupled with various decisions of the Hon'ble Supreme Court dealing with director's liability. In the present case, the SCN fails to establish any such involvement, rendering the application of Section 27 untenable.

(x.) Judicial precedents affirm that Section 27 is not intended for automatic application in all cases of non-compliance. SEBI itself has, in numerous inspection-related matters involving brokers and intermediaries, refrained from proceeding against directors for operational lapses. It is thus evident that Section 27 does not extend to routine or day-to-day non-compliances.

(y.) As established, the allegations in Paragraphs 8.1 to 8.10 pertain solely to non-compliances arising from routine operations. Such lapses do not attract the application of Section 27 of the SEBI Act. It follows that the proceedings appear to be premised on alleged violations of the PFUTP Regulations. However, as stated in Paragraph 5(vii), the charge of mis-selling is uncorroborated by documentary material. Accordingly, the initiation of proceedings against the directors is unwarranted and liable to be quashed.

(z.) In addition to the above and more particularly in relation to the independent directors arraigned in the present proceedings, it is most humbly submitted that Section 149(12) of the Companies Act as well as Regulation 25(5) of the LODR Regulations clearly recognize that in case of an independent director, his/her role can be considered purely from the standpoint of involvement, connivance and knowledge that is discernible form the director's participation in the board processes. The same is further supplemented by the clarificatory circular dated March 02, 2020 issued by the MCA.

Noticee 7:

(a.) It is submitted that Noticee No. 7 was appointed as the Chief Executive Officer (CEO) of 5paisa with effect from May 25, 2023, and subsequently as Managing Director (MD) with effect from July 13, 2023 (Para 11 of the Reply). As CEO and MD, Noticee No. 7's responsibilities were limited to overseeing overall business strategy, growth, profitability, and technological advancement within the company. Noticee No. 7's role was largely strategic in nature and did not extend to day-to-day operational control or execution-level oversight.

(b.) On May 30, 2024, Noticee No. 7 tendered his resignation to the Board of 5paisa in order to pursue additional responsibilities as a strategic advisor to the IIFL Group, particularly in the domains of artificial intelligence and digital transformation. The resignation was accepted on the same day and made effective from August 28, 2024.

(c.) Accordingly, since August 28, 2024, Noticee No. 7 has not been associated with 5paisa in any capacity. It is therefore submitted that he no longer has access to

internal documents, systems, or records relevant to the subject matter of the SCN. The present submissions are made based on best efforts, recollection, and the documents furnished by SEBI as part of these proceedings. It is submitted that, Noticee No. 7's role was limited to overseeing the overall business strategy, profitability, growth and technological revamping within the company. Therefore, his oversight was on the macro level and did not entail overseeing business operations at a micro-level, including any operational or procedural aspects. Further, various functional heads were responsible for various verticals and in those aspects, Noticee No. 7' was only consulted for major decision making.

(d.)It is submitted that, to the best of the knowledge and recollection of Noticee No. 7, no matters relating to the OBPP or the issues raised in the SCN were ever placed before the Board of Directors or discussed at any Board meeting attended by Noticee No. 7. Furthermore, no such matters relating to OBPP segment were specifically brought to his attention during his tenure. Accordingly, Noticee No. 7 had no knowledge of, or involvement in, the alleged contraventions.It is submitted that alleged violations outlined in the SCN are technical in nature, arising from the routine functioning of the OBPP, which were not particularly under the supervision of Noticee No. 7. Consequently, Noticee No. 7 cannot be linked to such alleged contraventions. Importantly, the SCN does not contain any material, evidence, or specific allegation indicating Noticee No. 7's involvement. Apart from his designation as CEO and MD during the relevant period, no factual basis has been provided to justify the imposition of liability under Section 27 of the SEBI Act.

SCN Fails to Meet the Requirements of Section 27

(e.)It is submitted that Section 27 of the SEBI Act cannot be invoked in a blanket or mechanical manner. Its application requires a clear and specific attribution of role, responsibility, or culpability. In the present case, there is no document or material on record that links Noticee No. 7 to the alleged contraventions-whether by way of knowledge, consent, connivance, or neglect. In the absence of any such attribution, and since no role or involvement of Noticee No. 7 has been demonstrated, the essential conditions for invoking Section 27 remain unmet.

(f.) It is submitted that various judgements have held that a person cannot be held liable for each and every act of a company, merely because he/she was a director of the company and should de facto fall within the scope of 'officer in default'. Further, a categorical finding is required to be made in relation to the actions and nature of involvement is a sine qua non for adjudging a director's liability over any act/ omission of the company. Therefore, it is submitted that mere designation as a director does not attract liability under Section 27 of the SEBI Act unless there is a specific finding of personal involvement, knowledge, consent, or neglect in relation to the alleged contraventions. In the present case, neither the SCN nor the Inspection Report or PIA Report discloses any material linking Noticee No. 7 to the alleged violations. Therefore, attributing liability solely on the basis of his position is contrary to settled law and is wholly unsustainable.

(g.)It is submitted that precedents dictate that provisions of Section 27 of the SEBI Act cannot be invoked in every meagre technical defaults and/or non-compliances observed during routine inspections of a broker/ intermediary cannot be a ground for initiating proceedings against the director of a company. It is submitted that the

allegations set out in Paragraphs 8.1 to 8.10 of the SCN appear to be routine, technical and operational in nature, pertaining to the routine functioning of the OBPP platform. As stated earlier, Noticee No. 7 was not personally involved in the day-to-day operations of the OBPP. The SCN fails to produce any evidence, document, or material to indicate Noticee No. 7's knowledge of or involvement in the alleged acts. Accordingly, even assuming the allegations to be correct (which is denied), no liability can be fastened upon Noticee No. 7, as the requirements under Section 27 of the SEBI Act have not been met. It is therefore submitted that the charges against Noticee No. 7 be dropped. With specific reference to the charge relating to mis-selling, it is submitted that same appears to be unmerited and has been specifically dealt with hereinafter.

(h.)At this juncture it is relevant to note that the Hon'ble Supreme Court in State of Uttar Pradesh v. Ajay Kumar Sharma (2016) 15 SCC 289 and Mary Pushpam v. Telvi Curusumary (2024) 3 SCC 224 has reaffirmed that courts must follow settled legal principles laid down by earlier and larger benches. The doctrine of precedent promotes consistency and predictability. Accordingly, reasoning and observations made by the Hon'ble Supreme Court and the Hon'ble SAT on the application of Section 27 of the SEBI Act ought to be applied in the present case as well.

Provisions of PFUTP Regulations are not attracted

(i.) It is submitted that SCN alleges that 5paisa engaged in 'mis-selling' by misrepresenting certain AT-1 and Tier-II bonds as 'ultra-safe bonds', allegedly in violation of the PFUTP Regulations. However, Noticee No. 7 has been implicated solely by virtue of his designation as a director, without any specific act, omission, or knowledge being attributed to him. It is reiterated that no material has been placed on record to demonstrate any direct or indirect involvement of Noticee No. 7 in relation to the OBPP operations or the alleged mis-selling.

(j.) It is submitted that, for alleged violations under the PFUTP Regulations, the applicable standard is that of preponderance of probabilities. However, as held by the Hon'ble Supreme Court in Kishore R. Ajmera v. SEBI 11 (2016) 6 SCC 368, even under this standard, a finding of contravention must be based on reasonable and logical inferences drawn from proximate and surrounding facts and circumstances. In the present case, the SCN does not disclose any such proximate material. There is no evidence to suggest that Noticee No. 7 had any knowledge of, consented to, or was in any way responsible for the alleged misrepresentations relating to the OBPP platform.

(k.)In light of the above, it is submitted that Noticee No. 7 cannot be held liable either directly or vicariously under the PFUTP Regulations. The SCN, Inspection Report, and PIA Report have not brought on record any fact, document, or circumstance that could justify the drawing of an adverse inference against Noticee No. 7. Even on the test of preponderance of probabilities, the threshold to frame a charge against Noticee No. 7 is not met.

No Mis-selling of Bonds on OBPP

(l.) With reference to paragraph 8.11 of the SCN, it is submitted that no specific investor grievance or complaint has been cited in connection with the alleged 'mis-selling' of bonds. In the absence of any such complaints, it may be reasonably

inferred that investors were aware of the associated risks, and therefore, the charge of mis-selling is unfounded.

(m.) It is submitted that adequate disclosures regarding the risk factors associated with the said debt instruments were made available to investors by 5paisa, including through the OBPP platform and the websites of the stock exchanges. All necessary information was accessible to enable investors to make independent and informed investment decisions, thereby negating any suggestion of concealment or misleading representation.

(n.)It is submitted that regulation 4(2)(s) of the PFUTP Regulations applies where false or misleading statements are made, material facts are concealed, or reasonable care is not exercised to ensure the suitability of the securities. In the present case, the SCN contains only broad and unsupported assertions, without any specific facts or evidence. Therefore, the allegation of mis-selling is not legally sustainable.

(o.)With respect to the classification of bonds as 'Ultra Safe Bonds' or 'Bonds for Senior Citizens', it is submitted that these labels were purely indicative in nature and cannot be regarded as misleading. The classification was based on objective criteria such as credit ratings (e.g., 'AAA'), which were assigned by independent credit rating agencies. In this context, mere categorisation of such bonds on the OBPP platform does not amount to mis-selling, particularly in the absence of any intent to mislead or conceal material facts.

(p.)It is submitted that nature and risk of the bonds were clearly provided on the platform, including the type of instrument (such as Tier I or Tier II) and their superior or subordinate status in the payment hierarchy. These details were available to investors, and is evidenced from the screenshots provided as of Annexure 12 to the SCN.

(q.)It is further submitted that the OBPP platform was entirely investor-driven, and at no point did 5paisa or its representatives personally solicit investments. Noticee No. 7 had no role in content generation, classification, or marketing of these bonds. If any information on the platform was inaccurately displayed, it was without the knowledge or consent of Noticee No. 7. Accordingly, there is no basis to attribute liability for mis-selling to him in this context.

(r.) It is reiterated that none of the factual representations regarding bonds being 'safe' or 'suitable' for a particular group or class of investors, as cited in the SCN to support the charge of mis-selling, were within the knowledge of Noticee No. 7. If any such information was incorrectly displayed on the OBPP platform, it was without his knowledge, consent, or involvement. In view of the above, and based on the instances cited in the SCN, it is submitted that no case of mis-selling can be made out against Noticee No. 7.

CONSIDERATION OF ISSUES AND FINDINGS

9. Before dealing with the issues involved, I would like to address the preliminary submissions made by Noticees.

10. The Noticees submitted that the SCN contains vague and broad allegations which is a violation of natural justice and would jeopardize the interests of the Noticees. In

support of their submissions, Noticees have cited the Judgment of Hon'ble Supreme Court in the matter of Commissioner of Central Excise, Bangalore v. Brindavan Beverages Pvt. Ltd. and Ors[1].

11. In this regard, it is noted that the SCN issued to the Noticees clearly indicates the specific nature of violations that have been alleged in terms of different provisions of the SEBI NCS Master Circular dated August 10, 2021 and PFUTP Regulations. Further, all the documents in support of the allegations made were also provided as annexures to the SCN and during the course of inspection of documents conducted on April 30, 2025. It is further noted that the Noticees have filed detailed replies which deal with each allegation in the SCN. Further, the Noticees have not identified any specific paragraph of the SCN, the contents of which could not be understood by them on account of alleged vagueness. Hence, the submissions of Noticees that SCN is vague cannot be accepted.

12. The Noticees further submitted that prior to issuance of the SCN, Noticee 1 had discontinued the platform. In this regard, it is noted that the alleged violations pertain to the IP during which the online bond platform was operational. Discontinuation of the platform at a later stage does not absolve the Noticees from regulatory liability for alleged violations occurred during the relevant period of operation. Hence, the submission of Noticees in this regard is misplaced.

13. The Noticees further submitted that post inspection of documents they have sought certain additional documents which were not provided to them. In this regard, it is noted that Noticees have conducted inspection of documents on April 30, 2025, wherein the following documents were provided to them:

(a.) Copy of communiques of appointment of AOs dated March 07, 2025 and April 21, 2025;
(b.) Copy of Inspection Report along with all annexures;
(c.) Copy of Post Inspection Analysis Report;
(d.) Copy of findings of inspection communicated to the Noticee 1 vide letter dated November 07, 2024;
(e.) Copy of reply received from Noticee 1 vide e-mail dated November 30, 2024;

[1] *(2007) 5 SCC 388*

(f.) Copy of Noticee 1 response to pre inspection questionnaire;
(g.)Copy of transaction details as submitted by Noticee 1 to the inspection team;
(h.)Copy of deal sheets issued by Noticee 1 to its clients on execution of order;
(i.) Copy of undertaking as submitted by Noticee 1 to the Stock Exchange;
(j.) Copy of quote receipts as submitted by Noticee 1 to the inspection team;
(k.)Copy of screenshots of products listed on Noticee 1's online bond platform;
(l.) Copy of Risk Management Policy as submitted by Noticee 1 to the inspection;
(m.) Copy of screenshots of online bond platform of the Noticee 1;
(n.)Copy of transaction details pertaining to execution of orders through off market for AT-1 instrument.

14. Pursuant to inspection of documents, Noticees requested additional documents, *inter alia*, including internal notings. In response, it was communicated to Noticees that all the relevant and relied upon documents were already provided to them along with the SCN and during the course of inspection. Further, they were advised to file their reply to the SCN.

15. In this context, reference is drawn to the following judgments of Hon'ble Supreme Court and Hon'ble SAT:

(a.)In the matter of Kavi Arora v. SEBI[2], the Hon'ble Supreme Court held that:

> *"49. It is well settled that the documents which are not relied upon by the Authority need not be supplied as held in Natwar Singh (supra) where this Court held:-*
> *"48. On a fair reading of the statute and the Rules suggests that there is no duty of disclosure of all the documents in possession of the Adjudicating Authority before forming an opinion that an inquiry is required to be held into the alleged contraventions by a noticee. Even the principles of natural justice and concept of fairness do not require the statute and the Rules to be so read. Any other interpretation may result in defeat of the very object of the Act. Concept of fairness is not a one way street. The principles of natural justice are not intended to operate as roadblocks to obstruct statutory inquiries. Duty of adequate disclosure is only an additional procedural safeguard in order to ensure the attainment of the fairness and it has its own limitations. The extent of its applicability depends upon the statutory framework."*

(b.) In the matter of Madhyam Agrivet Industries Ltd. v. SEBI[3], the Hon'ble SAT held that:

[2] *Special Leave Petition (Civil) No. 15149 of 2021 dated September 14, 2022*
[3] *Appeal No. 258 of 2024 dated May 22, 2024*

"It is held herein that it is sufficient to disclose materials relied upon for issuance of show cause notice."

16. In view of the above, since all the relevant and relied upon documents in the present proceedings were provided to Noticees, the submissions of Noticees in this regard is devoid of merit.

17. I shall now proceed to deal with the issues involved on merits.

18. 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 1 failed to enter an agreement with third party sellers of products or services or securities and thereby, violated the provisions of clause 3.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?***
II. ***Whether orders placed on online bond platform of Noticee 1 had not been routed through the RFQ platform of the recognised stock exchange(s) and also not settled through the respective clearing corporations and thereby, Noticee 1 violated the provisions of clause 3.4.1 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?***
III. ***Whether Deal Sheets issued by Noticee 1 to its clients did not include all the information mandated by SEBI and thereby, Noticee 1 violated the provisions of clause 3.6.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?***
IV. ***Whether Noticee 1 failed to issue quote receipt to third party sellers post execution of order (in case of third party sale of debt securities) and thereby, violated the provisions of clause 3.6.3 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?***
V. ***Whether Noticee 1 failed to meet the minimum disclosure requirements for each security offered on its online bond platform and thereby, violated the provisions of clause 4 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?***

VI. ***Whether there were lacunas in the risk management policy as submitted by Noticee 1 to the inspection team and thereby, Noticee 1 violated the provisions of clauses 7.1, 7.2, 7.3, 8 and 9 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?***

VII. ***Whether Noticee 1 indulged in mis-selling of AT-1 instruments and Tier II bonds and thereby, violated the provisions of regulation 4(1) read with regulation 4(2)(s) of PFUTP Regulations?***

VIII. ***Whether Noticees 2-7 being directors of Noticee 1 at the time of alleged contravention had also violated the provisions of law as mentioned in the preceding paragraphs by virtue of section 27 of the SEBI Act?***

IX. ***Does the violation, if any, on the part of Noticees attract monetary penalty under sections 15HA and 15HB of the SEBI Act?***

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

19. Before proceeding further, it is pertinent to refer the relevant provisions of law, allegedly violated by Noticees. The same are reproduced as under:

> *"**PFUTP Regulations***
> ***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: —*
> *…….*
> *(s) mis-selling of securities or services relating to securities market;*
> *Explanation- For the purpose of this clause, "mis-selling" means sale of securities or services relating to securities market by any person, directly or indirectly, by—*
> *(i) knowingly making a false or misleading statement, or*

(ii) knowingly concealing or omitting material facts, or
(iii)knowingly concealing the associated risk, or
(iv) not taking reasonable care to ensure suitability of the securities or service to the buyer;

SEBI NCS Master Circular dated August 10, 2021
Annex - XXI – A
3.2. Agreement with sellers of products or services or securities as specified in clause 5.2 of this Chapter: *Where the entity allows third party sellers of debt securities to use the OBP to sell such securities, the entity shall, before taking up an assignment of offering of such securities on its OBP, enter into an agreement in writing with such sellers that clearly defines the inter-se relationship and sets out their mutual rights, liabilities and obligations relating to such assignments.*

3.4. Execution of orders: *The entity shall ensure that:*
3.4.1. All Orders placed on an Online Bond Platform with respect to securities, as specified in clause 5.2.1 of this circular shall be mandatorily routed through the RFQ platform of a recognised Stock Exchange and settled through the respective Clearing Corporation.

3.6. Issue of order receipt, deal sheet and quote receipt:
……..
3.6.2. Deal Sheet to investor post execution of the order: The entity shall, upon execution of the order, forthwith issue a deal sheet to the investor for all transactions, stating all the relevant information regarding the transaction which shall inter-alia include date and time of placing of the order, date and time of settlement of the order, details of counter-parties involved, quantity and amount transacted, as may be applicable.

3.6.3. Quote receipt to seller post execution of the order: The entity, post execution of order, in case of third party sale of debt securities on the OBP, shall issue without delay to the seller, a quote receipt which shall, inter-alia, include date and time of quote, details of counter-parties involved, quantity and amount quoted, etc.

4. Minimum Disclosure Requirements*: The entity shall ensure compliance with the minimum disclosure requirements as specified in Annex - XXIB.*

7. Risk Management: *The entity undertakes to ensure that:*
7.1. It has a comprehensive risk management framework covering all aspects of its operations and shall ensure that risks associated with its operations are identified properly and managed prudently.

7.2. It shall have a mechanism to:
7.2.1. ensure access control for its investors and sellers and prevent unauthorised access to the OBP;

7.2.2. prevent unfair access and avoid all actual, potential or perceived conflicts of interest;'
7.2.3. ensure that all transactions on the OBP, without exception, are dealt within a fair, non-discriminatory, non-discretionary and orderly manner; and
7.2.4. prevent transactions that are not in compliance with the prevailing legal or regulatory requirements.

7.3. It shall, establish appropriate controls to reduce the likelihood of erroneous transactions such as fat-finger errors, unintended or uncontrolled trading activity by investors and sellers.

8. Handling exigencies: *The entity undertakes to establish appropriate safeguards and procedures to deal with exigencies like suspension or cessation of trading in products or services or securities as specified in clause 5.2 of this Chapter, cancellation of orders or transactions by the investors and sellers, malfunctions or erroneous use of its systems by investors and sellers, or other unforeseen situations.*

9. Disclosure of conflict of interest: *The entity undertakes to identify and disclose on its OBP, all instances of conflict of interest, if any, arising from its transactions or dealings with related parties.*

SEBI Act
Contravention by companies.
27. (1) Where a contravention of any of the provisions of this Act or any rule, regulation, direction or order made thereunder has been committed by a company, every person who at the time the contravention was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly:
Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the contravention was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such contravention.
(2) Notwithstanding anything contained in sub-section (1), where an contravention under this Act has been committed by a company and it is proved that the contravention has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly. Explanation: For the purposes of this section,—
(a) "company" means any body corporate and includes a firm or other association of individuals; and
(b) "director", in relation to a firm, means a partner in the firm."

Issue I. Whether Noticee 1 failed to enter an agreement with third party sellers of products or services or securities and thereby, violated the provisions of clause 3.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?

20. It was observed that Noticee 1 offered securities which were held by vendors/ brokers/ bond houses/ bond providers on its online bond platform. However, Noticee 1 had submitted to inspection team that it did not have any third-party agreements. From the transactions details that have been submitted by Noticee 1 to the inspection team, it was observed that the transactions worth Rs. 5.16 crores had taken place on the online bond platform of Noticee 1 during the IP.

21. In this regard, it is noted that Noticee neither disputed aforesaid findings nor submitted any reason regarding the same. Hence, it is established that Noticee 1 had failed to enter an agreement with third party sellers of products or services or securities and thereby, violated the provisions of clause 3.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Issue II. Whether orders placed on online bond platform of Noticee 1 had not been routed through the RFQ platform of the recognised stock exchange(s) and also not settled through the respective clearing corporations and thereby, Noticee 1 violated the provisions of clause 3.4.1 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?

22. It was observed that all the orders with respect to listed debt securities, listed municipal debt securities, listed securitized debt instruments and AT-1 instruments placed on the online bond platform of Noticee 1 were not routed through the RFQ Platform of the recognised stock exchange(s) and also not settled through the respective clearing corporations. The securities were transferred to clients through off-market mode and settlement was done directly through client account instead of clearing corporations.

23. It is noted that Noticee 1 had not disputed the aforesaid findings. Noticee 1 submitted that the extant regulatory framework does not expressly prohibit off-market transactions.

24. In this regard, reference is drawn to the provisions of clause 3.4.1 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021 which held as under:

> *"All Orders placed on an Online Bond Platform with respect to securities, as specified in clause 5.2.1 of this circular shall be mandatorily routed through the RFQ platform of a recognised Stock Exchange and settled through the respective Clearing Corporation."*

25. Further, clause 5.2.1. of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021 covers *"Listed debt securities, listed municipal debt securities and listed securitised debt instruments;"*

26. In view of the above, it is noted that SEBI Circular explicitly mandated that all the orders placed on an OBP with respect to listed debt securities, listed municipal debt securities and listed securitised debt instruments have to be routed through the RFQ platform of a recognised Stock Exchange and settled through the respective Clearing Corporation. However, the trades executed by Noticee 1 on its platform in these categories of securities were admittedly not routed through the RFQ platform and were settled directly in off-market mode.

27. The submission of Noticee 1 that the regulatory framework does not expressly prohibit off-market transactions is untenable. Once a regulatory provision prescribes a mandatory route and settlement mechanism, any deviation from the same, even if effected through another legally permissible mode in isolation (such as off-market transfers), cannot override the express mandate. Therefore, the argument that off-market transfer is not *per se* prohibited does not absolve the Noticee 1 of its specific obligations under the aforesaid SEBI Circular.

28. Accordingly, it stands established that Noticee 1 had violated the provisions of clause 3.4.1 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Issue III. Whether deal sheets issued by Noticee 1 to its clients did not include all the information mandated by SEBI and thereby, Noticee 1 violated the provisions of clause 3.6.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?

29. It was observed that the deal sheets issued by Noticee 1 to its clients did not capture the following information:
    (a.) Time of placing the order;
    (b.) Time of settlement.

30. In respect of aforesaid findings, Noticee 1 admitted that the deal sheets did not specifically capture such details. However, it submitted that the information in terms of the time of placing the order and time of settlement was communicated to the investor by way of e-mail and intimation in the registered mobile number of the investor (from the depository) respectively.

31. In this regard, reference is drawn to the provisions of clause 3.6.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021 which held as under:

> *"The entity shall, upon execution of the order, forthwith issue a deal sheet to the investor for all transactions, stating all the relevant information regarding the transaction which shall inter-alia include date and* ***time of placing of the order****, date and* ***time of settlement of the order****, details of counter-parties involved, quantity and amount transacted, as may be applicable."* (Emphasis supplied)

32. In view of the above, it is noted that SEBI Circular explicitly mandated that deal sheet issued to the investor should include the time of placing of the order and time of settlement of the order. Hence, the obligation squarely rests on the Noticee 1 to ensure compliance. Such obligations cannot be diluted by adopting alternate modes of communication. Hence, the reliance placed by Noticee 1 on communication made by depository or indirect communication through e-mail cannot absolve it of its statutory obligations. In this content, reference is drawn to the judgment of Hon'ble SAT in the matter of *Premchand Shah & Ors. v. SEBI*[4], wherein Hon'ble SAT held that:

[4] *Appeal No. 192 of 2010 dated February 21, 2011.*

"…when law prescribes a manner in which a thing is to be done, it must be done only in that manner or not at all."

33. Accordingly, the submission of Noticee 1 in this regard cannot be accepted and it is established that Noticee 1 had violated the provisions of clause 3.6.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Issue IV. Whether Noticee 1 failed to issue quote receipt to third party sellers post execution of order (in case of third party sale of debt securities) and thereby, violated the provisions of clause 3.6.3 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?

34. It was observed that Noticee 1 had submitted to inspection team that it had issued quote receipts to third parties, post execution of the order. However, when the quote receipts submitted by Noticee 1 was perused by the inspection team, it was observed that it was a deal sheet issued by the third party to Noticee 1 for selling their inventory to Noticee 1 which in turn down-sold by Noticee 1 to its clients. Hence, it was observed that quote receipt was not issued by Noticee 1 to its third party sellers.

35. In respect of aforesaid findings, Noticee 1 admitted that quote receipt was not issued to third party sellers. However, it submitted that it had issued deal sheets to its clients capturing the requisite particulars and obtained confirmation from the investors by way of OTP which, according to it, suffices the requirement of quote receipt.

36. In this regard, reference is drawn to the provisions of clause 3.6.3 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021 which held as under:

"The entity, post execution of order, in case of third party sale of debt securities on the OBP, ***shall issue without delay to the seller, a quote receipt*** *which shall, inter-alia, include date and time of quote, details of counter-parties involved, quantity and amount quoted, etc."* (Emphasis supplied)

37. From the aforesaid, it is noted that the regulatory provision mandates issuance of a quote receipt by the OBPP to the seller. The fact that an OTP-based confirmation was obtained from investors/clients or that deal sheets contained some similar particulars issued to investors/clients does not absolve the Noticee from the obligation of

separately issuing quote receipts to third-party sellers as envisaged in the framework. Accordingly, the contention of the Noticee 1 that issuance of deal sheets suffices the requirement of quote receipts is misplaced.

38. In view of the above, it is established that Noticee 1 had failed to issue quote receipt to third party sellers post execution of order (in case of third party sale of debt securities) and thereby, violated the provisions of clause 3.6.3 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Issue V. Whether Noticee 1 failed to meet the minimum disclosure requirements for each security offered on its online bond platform and thereby, violated the provisions of clause 4 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?

39. It was observed that Noticee 1 had not made following disclosures for each security listed on its online bond platform which was mandated under clause 4 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021:
    (a.) Security Name;
    (b.) Date of Rating;
    (c.) Clean Price;
    (d.) Dirty Price;
    (e.) Calculation of current yield and yield to maturity.

40. In respect of aforesaid findings, Noticee 1 submitted that its platform contained a specific link providing investors access to the information memorandum (which included the term sheet and security name). Noticee 1 further submitted that rating displayed in the platform also functions as a hyperlink to the rating rationale, which contained the date of the rating.

41. In this regard, it is noted that Noticee 1 had not adduced relevant evidence in support of its contention, i.e., the copy of information memorandum and rating rationale to demonstrate that these documents which were allegedly accessible through hyperlink on its platform, in fact contained the information pertaining to security name and date

of rating as contended by Noticee 1. It is also pertinent to note that SEBI circular specifically mandates disclosure of certain information on the online bond platform itself, including the security name and the date of rating. Therefore, such information should have been displayed explicitly on the platform. The availability of such information in separate documents cannot be considered a substitute for the mandatory disclosures required on the platform. Hence, the submission of Noticee 1 in this regard is devoid of merit. Further, it is noted that Noticee 1 had not submitted any justification for its failure to disclose other mandated information such as clean price, dirty price and calculation of current yield and yield to maturity.

42. In view of the above, it is established that Noticee 1 had failed to meet the minimum disclosure requirements for each security offered on its online bond platform and thereby, violated the provisions of clause 4 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.

Issue VI. Whether there were lacunas in the Risk Management Policy as submitted by Noticee 1 to the inspection team and thereby, Noticee 1 violated the provisions of clauses 7.1, 7.2, 7.3, 8 and 9 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021?

43. The following observations were made from the Risk Management Policy submitted by Noticee 1 to the inspection team:
    (a.) It covered only Noticee 1's operations in equity segment and not the operations carried out on its online bond platform;
    (b.) It did not incorporate the mechanisms mentioned under clause 7.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021;
    (c.) It did not provide for any controls to reduce the likelihood of erroneous transactions such as fat-finger errors, unintended or uncontrolled trading activity by investors and sellers, as prescribed by SEBI under clause 7.3 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021;
    (d.) It did not provide for any safeguards and procedures to deal with exigencies, cancellation of orders or transactions by the investors and sellers, malfunctions or

erroneous use of its systems by investors and sellers, or other unforeseen situations, as prescribed under the provisions of clause 8 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021;

(e.) It did not incorporate any clauses pertaining to Conflict of Interest arising from its transactions or dealings with related parties.

44. In this regard, Noticee 1 submitted that a separate, relevant Risk Management Policy, covering the aforesaid aspects, was shared with SEBI inspection team vide e-mail dated November 30, 2024 and that the said policy was applicable during the IP.

45. In this context, from the material on record, it is noted that when the aforesaid findings were communicated to Noticee 1 by SEBI inspection team, Noticee 1 vide e-mail dated November 30, 2024, submitted that a separate risk management process is in place for monitoring of the risk aspects of OBPP and provided a copy thereof. However, Noticee 1 failed to furnish any documentary evidence to demonstrate that the said separate risk management framework was in existence during the IP. Consequently, the inspection team did not accept the same. This aspect was specifically highlighted in the SCN. Despite this, Noticee 1 reiterated the submissions in the present proceedings but once again failed to substantiate its claims with any cogent evidence that the risk management policy was in force during the IP. In absence of such proof, the contention appears to be an afterthought and is therefore not acceptable.

46. With respect to the observation in the PIA that even separate Risk Management Policy submitted by the Noticee 1 to the inspection team did not incorporate the mechanisms prescribed by SEBI under clause 7.2 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021, Noticee 1 submitted that clause 3 of the said Risk Management Policy provided mechanisms to ensure that there is no unfair and unauthorized access to Platform and further submitted that relevant provisions regarding conflict of interest formed part of the document titled *"Rights And Obligations of Stock Brokers, Sub-Brokers and Clients as prescribed by SEBI and Stock Exchanges*" which was provided to its clients.

47. In this regard, as discussed in preceding paragraphs, Noticee 1 failed to furnish any evidence to establish that the alleged separate Risk Management Policy for its OBPP as submitted by Noticee 1 was in force during the IP. Consequently, the said policy cannot be considered in the present proceedings. Accordingly, any observations or contentions based on its provisions does not merit any consideration.

48. The Noticee 1 further contended that the SCN was contradictory as it simultaneously alleged absence of a Risk Management Policy and deficiencies within such non-existent Policy, which could lead to multiple penalties and was therefore unsustainable. In this regard, it is pertinent to note that the SEBI NCS Master Circular requires certain aspects to be incorporated within the Risk Management Framework of an OBPP through distinct provisions, such as mechanisms under clauses 7.1, 7.2, 7.3 and 8. However, as discussed above, such mechanisms were not found in the Risk Management Policy submitted by the Noticee 1 to the inspection team. Hence, the deficiencies observed lead to violation of multiple provisions of the regulatory framework. Further, the SCN did not allege non-existence of Risk Management Policy rather stated that the Risk Management Policy furnished by the Noticee 1 to the inspection team did not cover the aspects mandated under the SEBI NCS Master Circular. Therefore, submission of Noticee 1 regarding contradiction in the SCN is unfounded and without merit.

49. With regard to the allegation of violation of clause 9 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021, Noticee 1 submitted that the said clause stipulated a requirement for the OBPP to make disclosure of all instances relating to conflict of interest arising from its transactions or dealings with related parties and during the IP, no such transactions were undertaken with related parties and therefore, no disclosure was warranted. Noticee 1 further submitted that the said clause does not specifically require “conflict of interest” to be included as part of Risk Management Policy.

50. In this regard, reference is drawn to clause 9 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021 which held as under:

> *"The entity undertakes to identify and disclose on its OBP, all instances of conflict of interest, if any, arising from its transactions or dealings with related parties."*

51. From the perusal of the aforesaid clause, it is noted that clause 9 stipulates the requirement to disclose, on the OBP, the instances of conflict of interest arising from transactions or dealings with related parties. Therefore, I am inclined to accept the submission of Noticee 1 that this clause does not specifically mandate inclusion of "conflict of interest" as part of the Risk Management Policy. In fact, this aspect has been dealt with separately under clause 7.2.2 of Annex-XXI-A of Chapter XXI of the SEBI NCS Master Circular dated August 10, 2021, which requires the OBPP to have a mechanism to *"prevent unfair access and avoid all actual, potential or perceived conflicts of interest"*. Further, as regards the submission of Noticee 1 that during the IP no such related party transactions requiring disclosure had occurred, I note that the material on record does not specify or identify any such instance. Hence, I am inclined to extend the benefit of doubt to Noticee 1. Accordingly, the allegation of violation of clause 9 of Annex-XXI-A of Chapter XXI of the SEBI NCS Master Circular dated August 10, 2021 does not stand established.

52. In view of the aforesaid discussion, it is held that Noticee 1 has failed to provide any justifiable reasons in respect of the alleged violations, except for clause 9 of Annex-XXI-A of Chapter XXI of the SEBI NCS Master Circular dated August 10, 2021. Accordingly, it stands established that Noticee 1 has violated the provisions of clauses 7.1, 7.2, 7.3 and 8 of Annex-XXI-A of Chapter XXI of the SEBI NCS Master Circular dated August 10, 2021.

Issue VII. Whether Noticee 1 indulged in mis-selling of AT-1 instruments and Tier II bonds and thereby, violated the provisions of regulation 4(1) read with regulation 4(2)(s) of PFUTP Regulations?

53. It was observed that the online bond platform of Noticee 1 disclosed the collections of bonds under separate tabs which, *inter alia*, included "Bonds for Senior Citizens" and

"Ultra Safe Bonds". The collection of "Bonds for Senior Citizens" and "Ultra Safe Bonds" had the following description:

Bonds for Senior Citizens
"A collection of bonds issued by public sector companies or guaranteed by state govt. and giving monthly or quarterly interest payments.
- *Perceived levels of risk are very low*
- *The investors can earn regular cash flow (quarterly or monthly)*
- *Typically, these bonds provide a higher return than bank FD."*

Ultra Safe Bonds
"A collection of bonds which are rated 'AAA' by credit rating agencies such as CRISIL, ICRA, etc.
- *The 'AAA' rating indicated a higher level of safety associated with these bonds.*
- *The perceived levels of risk in these bonds are very low.*
- *Ideal for senior citizens seeking higher regular income than bank FD."*

54. It was further observed that AT-1 instruments of State Bank of India and Bank of Baroda were being offered to the investors registered as clients on its OBP, under the collection of "Bonds for Senior Citizens" and Tier II bonds of Tata Capital Financial Services Limited were being offered to the investors under the collection of "Ultra Safe Bonds".

55. It was observed that due to the complete write-off feature of these bonds/instruments at the discretion of the issuer, the risk levels associated with these bonds are much higher than debt securities. Hence, it was alleged that offering of such instruments as ideal for senior citizens as well as labelling them as ultra-safe bonds tantamount to mis-selling of AT-1 instruments and Tier II bonds.

56. In response, Noticee 1 submitted that regulation 4(2)(s) of PFUTP Regulations defines mis-selling as involving a false or misleading statement, concealment or omission of material facts, concealment of associated risk or failure to take reasonable care to ensure suitability of the securities. According to Noticee 1, none of these requirements have been demonstrated by SEBI and there is no nexus between the observations and the allegation of mis-selling.

57. In this regard, it is pertinent to refer regulation 4(2)(s) of PFUTP Regulations that states as under:

(2) Dealing in securities shall be deemed to be a manipulative fraudulent or an unfair trade practice if it involves any of the following: —
……..
(s) mis-selling of securities or services relating to securities market;
Explanation- For the purpose of this clause, "mis-selling" means sale of securities or services relating to securities market by any person, directly or indirectly, by—
(i) knowingly making a false or misleading statement, or
(ii) knowingly concealing or omitting material facts, or
(iii)knowingly concealing the associated risk, or
(iv) not taking reasonable care to ensure suitability of the securities or service to the buyer;

58. From the above, it is evident that for an allegation of “mis-selling” to sustain, there must be a demonstrable element of knowledge in making a false or misleading statement, concealing or omitting material facts or associated risk or a failure to exercise reasonable care as to ensure suitability. However, in the present case, the PIA does not identify which of these specific elements of the said regulation were breached by Noticee 1. Accordingly, each of these elements is examined below.

59. As per Noticee 1, the platform contained a specific link titled “Download Term Sheet”, allowing investors to access the information memorandum (IM) containing detailed risk factors and salient features of each bond. From the material on record, it is noted that such a link was available on the platform and the PIA is silent on whether the linked IM was inaccessible or deficient in disclosing material facts/risks. In the absence of any such finding, I am inclined to accept the submission of Noticee 1 that investors had access of the IM that contained risk factors and salient features of each bond. The PIA also does not record any finding that the descriptions given for the bonds labelled as “Bonds for Senior Citizens” and “ Ultra Safe Bonds” as mentioned in paragraph 53 of this order, were factually incorrect or misleading in themselves. Headings/labels of a statement, when read in isolation without considering the accompanying descriptions that follows such labelling/heading appears to be inconsistent with the observations of Hon’ble SAT in the matter of Bull Research Investment Advisors Pvt. Ltd. v. SEBI (Appeal No. 62 of 2022 dated February 06, 2023), wherein Hon’ble SAT held as under:

“we find that WTM has cherry picked a word "target" to come to a prima facie finding that this amounts to an assured returns without considering the words "not

assured /not guaranteed" and without considering the contention that the Company does not provide any guarantee or assured returns. Such non-consideration of the entire sentence and cherry picking a single word from the sentence in our opinion is unwarranted."

60. In view of the aforesaid discussions, the ingredients of making a false or misleading statement or concealing/omitting material facts or associated risks, are not established.

61. With respect to failure to exercise reasonable care as to ensure suitability, it is an admitted fact that AT-1 instruments of State Bank of India and Bank of Baroda were included under "Bonds for Senior Citizens", and Tier II bonds of Tata Capital Financial Services Limited under "Ultra Safe Bonds". However, the PIA is silent on whether any investor for whom such securities were unsuitable had invested in them due to these labelling/headings. The PIA notes that AT-1 instruments of South Indian Bank Limited were purchased by four investors, aged between 22 and 63 years, but there is no finding that these securities were offered under the same collections or that they were unsuitable based on the investors' profiles. Age alone cannot be the sole determinant of suitability of the securities to a buyer. It depends on several factors such as income, net worth, risk appetite, investment objectives, liquidity needs, investment time horizon, etc. and age is only one of such factors. In the absence of any finding showing that an investor was induced by these labelling/headings to invest in securities which were not suitable to him, I am inclined to give the benefit of doubt to Noticee 1. Hence, the element of failure to exercise reasonable care to ensure suitability is also not established.

62. While use of descriptive labelling/headings such as "Ultra Safe Bonds" and "Bonds for Senior Citizens" could have lead to some ambiguity, the overall conduct of Noticee 1 does not reveal any element of false or misleading statement, concealment of material fact or risk or lack of reasonable care to ensure suitability as envisaged under regulation 4(2)(s) of the PFUTP Regulations. The classification appears to have been based on objective parameters such as credit rating and issuer profile. It is also pertinent to note the submission of Noticee 1 that upon being pointed out by the

inspection team, the Noticee 1 promptly removed the said descriptions from its website.

63. Considering the aforesaid facts and circumstances, it can be concluded that the conduct of Noticee 1 does not fall within the definition of "mis-selling" as contemplated under regulation 4(2)(s) of the PFUTP Regulations as the essential ingredients of false or misleading statement, concealment of material fact or associated risk or failure to exercise reasonable care to ensure suitability are not established in the present matter. Accordingly, the allegation of violation of regulation 4(1) read with regulation 4(2)(s) of the PFUTP Regulations is not established against the Noticee 1. Since the violation of PFUTP Regulations is not established, other contentions raised by Noticee 1 in this regard do not merit any further consideration.

Issue VIII. Whether Noticees 2-7 being directors of Noticee 1 at the time of alleged contravention had also violated the provisions of law as mentioned in the preceding paragraphs by virtue of section 27 of the SEBI Act?

64. It was further observed that Noticees 2 to 7 were the directors of Noticee 1 at the time of alleged contravention. Hence, by virtue of section 27 of the SEBI Act, it was alleged that Noticees 2 to 7 have also violated the provisions of law as mentioned in the preceding paragraphs.

65. As it is established that Noticee 1 had violated the provisions of clauses 3.2, 3.4.1, 3.6.2, 3.6.3, 4, 7.1, 7.2, 7.3 and 8 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021, I will now proceed to deal with the liability of Noticees 2 to 5 by virtue of section 27 of SEBI Act.

Noticees 2 to 5

66. In this regard, Noticees 2 to 5, submitted that they were independent directors of Noticee 1 during the IP and being non-executive independent director of Noticee 1, they were not in charge of the day-to-day affairs of Noticee 1. They further submitted that there is no material on record that shows their involvement in the operations of the OBPP in any manner.

67. In this regard, it is noted that Noticees 2 to 5 were non-executive independent directors of Noticee 1 during the IP and there is no material on record to demonstrate that they were in charge of the OBPP operations of Noticee 1 or the contraventions established against Noticee 1 were with the consent or connivance of, or is attributable to any neglect on the part of these Noticees.

68. In this context, reference is also drawn to the Judgment of Hon'ble Supreme Court in the matter of N. Narayanan v. SEBI (Civil Appeal Nos. 4112-4113 of 2013) wherein Hon'ble Supreme Court held that:

> *"25.…When we interpret the provisions of the SEBI Act and the Regulations relating to a company registered under the Companies Act, the provisions of the Companies Act have also to be borne in mind".*

69. In view of the above, reference is drawn to the provisions of section 143(12) of the Companies Act, 2013 that held as under:

> *"(12) Notwithstanding anything contained in this Act,—*
> *(i) an independent director;*
> *(ii) a non-executive director not being promoter or key managerial personnel,*
> *shall be held liable, only in respect of such acts of omission or commission by a company which had occurred with his knowledge, attributable through Board processes, and with his consent or connivance or where he had not acted diligently."*

70. Reference is also drawn to the Circular dated March 02, 2020, issued by Ministry of Corporate Affairs ("MCA") that states as under:

> *"Section 149 (12) is a non obstante clause which provides that the liability of an independent director (ID) or a non-executive director (NED) not being promoter or key managerial personnel would be only in respect of such acts of omission or commission by a company which had occurred with his knowledge, attributable through Board processes, and with his consent or connivance or where he had not acted diligently. In view of the express provisions of section 149(12), IDs and NEDs (non-promoter and non-KMP), should not be arrayed in any criminal or civil proceedings under the Act, unless the above mentioned criteria is met."*

71. In view of the aforesaid discussion and in the absence of any material on record evidencing the role of the Noticees 2 to 5, I am inclined to give benefit of doubt to Noticees 2 to 5. Accordingly, the allegation against Noticees 2 to 5 does not stand

established. As the allegations against these Noticees had not been established, I do not find it necessary to deal with the other issues raised by these Noticees.

Noticees 6 and 7

72. Noticee 6 submitted that he was whole time director (WTD) and Chief Financial Officer (CFO) of Noticee 1 during the IP and his role was confined and focused on accounts and treasury functions of the Noticee 1. He further submitted that he was not involved in the day-to-day operations, internal functioning and management of the OBPP. He also argued that there is no material on record that shows his involvement in the operations of the OBPP in any manner.

73. Noticee 7 submitted that he was Chief Executive Officer (CEO) and Managing Director (MD) of Noticee 1 during the IP and his role was limited to overseeing the overall business strategy, profitability, growth and technological revamping within the company. He further submitted that he was not involved in any of the operational and procedural aspects relating to Noticee 1's OBPP. He also argued that there is no material, information or even a specific allegation placed and/ or recorded in the SCN that would attribute his involvement or participation in relation to the allegations in any manner.

74. Noticees 6 and 7 also argued that a person cannot be held liable for each and every act of a company, merely because he/she was a director of the company and should fall within the scope of "officer in default".

75. Noticees 6 and 7 have also relied on the judgments of Hon'ble Supreme Court in the matter of Sunil Bharti Mittal v. Central Bureau of Investigation & Ors. (Criminal Appeal No. 35 of 2015), Sham Sunder and Ors. v. State of Haryana ((1989) 4 SCC 630) and SEBI v. Gaurav Varshney ((2016) 14 SCC 430), the orders of Hon'ble SAT in the matter of Sayanti Sen v. SEBI (Appeal No. 163 of 2018) and Pritha Bag v. SEBI (Appeal No. 291 of 2017) and the orders of SEBI in the matter of Quest Financial Services Limited (Order dated March 21, 2022) and Raghukul Shares India Private Limited (Interim Order dated January 24, 2020).

76. In this regard, reference is drawn to section 27 of the SEBI Act that held as under:

"Contravention by companies.
27. (1) Where a contravention of any of the provisions of this Act or any rule, regulation, direction or order made thereunder has been committed by a company, every person who at the time the contravention was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly:
Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the contravention was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such contravention."

77. From the aforesaid, it is noted that a vicarious liability has been casted upon the persons who at the time of contraventions by a company were in charge of and responsible to the company for the conduct of its business. It is an admitted that fact Noticees 6 was CFO and WTD of Noticee 1 and Noticee 7 was CEO and MD of Noticee 1 during the IP. Hence, by virtue of the office they held, Noticees 6 and 7 were in charge of and responsible for the conduct of business of Noticee 1. In this connection, it is further noted that the burden of proof is on Noticees 6 and 7 to prove that the contravention was committed without their knowledge or that they had exercised all due diligence to prevent the commission of such contravention. However, in the instant case, Noticees 6 and 7 simply denied their involvement in the OBPP operations of Noticee 1 without any supporting documents. It is also pertinent to note that Noticee 1, at the relevant point of time, had 6 directors, including Noticees 6 and 7 who were executive directors while the remaining 4 were independent directors. If, for the sake of argument, the submissions of Noticees 6 and 7 that they were not involved in the operations and functioning of the OBPP business of Noticee 1 were to be accepted, it would imply that the OBPP operations of Noticee 1 were being carried out without the involvement or oversight of any director which is highly improbable and contrary to the basic principles of corporate governance and fiduciary responsibility. Hence, the submissions of Noticees 6 and 7 in this regard cannot be accepted.

78. In this context, reference is also drawn to the Judgment of Hon'ble Supreme Court in the matter of N. Narayanan v. SEBI (supra) wherein Hon'ble Supreme Court held that:

> *"33. Company though a legal entity cannot act by itself, it can act only through its Directors. They are expected to exercise their power on behalf of the company with utmost care, skill and diligence. This Court while describing what is the duty of a Director of a company held in Official Liquidator v. P.A. Tendolkar (1973) 1 SCC 602 that* ***a Director may be shown to be placed and to have been so closely and so long associated personally with the management of the company that he will be deemed to be not merely cognizant of but liable for fraud in the conduct of business of the company even though no specific act of dishonesty is provide against him personally.*** *He cannot shut his eyes to what must be obvious to everyone who examines the affairs of the company even superficially."* (Emphasis Supplied)

79. In regard to the submissions of Noticees 6 and 7 that in order to held a person liable, it should fall within the scope of "officer in default", reference is drawn to the provisions of section 2(60) of the Companies Act, 2013 which, *inter alia*, states as under:

> *"officer who is in default", for the purpose of any provision in this Act which enacts that an officer of the company who is in default shall be liable to any penalty or punishment by way of imprisonment, fine or otherwise, means any of the following officers of a company, namely:—*
> *(i) whole-time director;*
> *(ii) key managerial personnel;"*

80. Further section 2(51) of the Companies Act, 2013, defines "key managerial personnel" which, *inter alia*, states as under:

> *"key managerial personnel", in relation to a company, means—*
> *(i) the Chief Executive Officer or the managing director or the manager;*
> *(ii) the company secretary;*
> *(iii) the whole-time director;*
> *(iv) the Chief Financial Officer"*

81. Reference is also drawn to the Circular dated March 02, 2020, issued by Ministry of Corporate Affairs ("MCA") that states as under:

> *"The term "officer who is in default" is defined under section 2(60) of the Act, wherein various officers of the company have been identified.*
>
> *2. Ordinarily, a whole-time director [WTD] and a key managerial personnel [KMP] are associated with the day-to-day functioning of the company and accordingly such WTDs and KMPs would be liable for defaults committed by a company."*

82. In view of the aforesaid discussions, it is noted that by virtue of holding positions in Noticee 1 as CFO and WTD (Noticee 6) and CEO and MD (Noticee 7), these Noticees are squarely covered under the ambit of *"officer who is in default".* Hence, the contention of these Noticees in this regard is misplaced.

83. It is noted that Noticees 6 and 7 had also referred various orders passed by the Hon'ble Supreme Court, Hon'ble SAT and the SEBI. These orders have been dealt hereunder:

(a.) In respect of Judgments of Hon'ble Supreme Court in the matter of Sunil Bharti Mittal v. Central Bureau of Investigation and Sham Sunder and Ors. v. State of Haryana, it is noted that the facts and circumstances of the present case is different from the quoted cases since in the quoted cases liability on part of the directors of the company were determined in the context of corporate criminal liability. However, in the present case, liability of these Noticees has to be determined in the context of violation of the provisions of the securities laws as alleged in the SCN. Therefore, reliance placed by these Noticees in these cases are misplaced.

(b.) In respect of Judgment of Hon'ble Supreme Court in the matter of SEBI v. Gaurav Varshney and Ors., it is noted that the facts and circumstances of the present case is different from the quoted case since in the quoted case, director had already resigned from the company before the contravention occured while in the present case these Noticees were holding the positions of CFO and WTD (Noticee 6) and CEO and MD (Noticee 7) in Noticee 1 at the time of contravention by Noticee 1. Therefore, reliance placed by these Noticees in this case is also misplaced.

(c.) In respect of orders of Hon'ble SAT in the matter of Sayanti Sen v. SEBI and Pritha Bag v. SEBI, it is noted that the facts and circumstances of the present case is different from the quoted cases. In the present case, as discussed above, Noticees 6 and 7 were covered under the ambit of *"officer who is in default"* as per Companies Act, 2013. However, in the quoted case, appellants being additional director were not involved in day-to-day affairs of the company and not covered under the ambit

of *"officer who is in default".* Therefore, reliance placed by these Noticees in these cases are also misplaced.

(d.) In respect of SEBI's Order in the matter of Quest Financial Services Limited, it is noted that in the quoted case, investigation period pertains to the period prior to March 08, 2019 and it was held that section 27 of the SEBI Act at that time did not provide for the vicarious liability of certain persons who were in charge of and was responsible to the company for civil liability of the company. It is also pertinent to note that this order specifically also mentioned that with effect from March 08, 2019, vicarious liability for civil liability of the company has been introduced by replacing the word "offence" with the word "contravention" in section 27 of the SEBI Act. However, the present case pertains to the period June 14, 2023 to March 31, 2024, i.e., after the amendment effective from March 08, 2019. Hence, the facts and circumstances of the present case is different from the quoted case and accordingly, the reliance placed in this case is misplaced.

(e.) In respect of SEBI's Order in the matter of Raghukul Shares India Private Limited, it is noted that no directions were passed against non-executive directors and independent director as they were not involved in the day-to-day affairs of the company. Even in the said case, appropriate directions were passed against executive directors. Hence, reliance placed by Noticees 6 and 7 in this case is misplaced and does not come to their aid.

84. Noticees 6 and 7 have also submitted their replies in respect of each of the findings/allegations set out in paragraph 2 of this order. It is noted that their submissions are materially similar to the submissions advanced by Noticee 1, which have already been dealt in detail in the preceding paragraphs. Accordingly, the same are not being repeated for the sake of brevity.

85. In view of the aforesaid discussions, it is noted that Noticees 6 and 7 had failed in providing any justifiable reasons to the allegations levelled against them in the SCN. Accordingly, it is established that Noticees 6 and 7 have violated the provisions of clauses 3.2, 3.4.1, 3.6.2, 3.6.3, 4, 7.1, 7.2, 7.3 and 8 of Annex-XXI-A of Chapter XXI

of SEBI NCS Master Circular dated August 10, 2021 read with section 27 of the SEBI Act.

Issue IX. Does the violation, if any, on the part of Noticees attract monetary penalty under sections 15HA and 15HB of the SEBI Act?

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

86. In the preceding paragraphs, followings violations have been established against the Noticees 1, 6 and 7:

Table 1

Sr. No.	Noticees	Violations established
1.	Noticee 1	Clauses 3.2, 3.4.1, 3.6.2, 3.6.3, 4, 7.1, 7.2, 7.3 and 8 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021.
2.	Noticees 6 and 7	Clauses 3.2, 3.4.1, 3.6.2, 3.6.3, 4, 7.1, 7.2, 7.3 and 8 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021 read with section 27 of the SEBI Act.

87. With respect to this, Noticees 1, 6 and 7 submitted that defaults, if any, on their part were technical and venial and does not merit penal consequences. They have also placed reliance on the order of Hon'ble Supreme Court in the matter of Hindustan Steel Ltd. v. State of Orissa[5] (hereinafter referred to as "Hindustan") and orders of Hon'ble SAT in the matter of Religare Securities Limited v. SEBI[6] (hereinafter referred to as "Religare"), ACML Capital Markets Ltd. v. SEBI[7] (hereinafter referred to as "ACML"), P.G Electroplast Ltd. & Ors. v. SEBI[8] (hereinafter referred to as "P.G

[5] *AIR 1970 SC 253*
[6] *Order dated June 16, 2011*
[7] *Order dated June 29, 2022*
[8] *Order dated August 02, 2019*

Electroplast"), Piramal Enterprises Limited v. SEBI[9] (hereinafter referred to as "Piramal") and ICICI Bank Ltd. v. SEBI[10] (hereinafter referred to as "ICICI").

88. In this regard, upon perusal of the aforesaid cases, it is noted that the facts, circumstances and regulatory frameworks in those matters are materially different from the present proceedings. Further, these Noticees have also failed to demonstrate how the aforesaid cases will be applicable in the instant proceedings. I shall now proceed to deal with each of aforesaid cases in the following paragraphs.

89. In respect of reliance placed by Noticees 1, 6 and 7 in the Hindustan matter, reference is drawn to the Judgment of Hon'ble Supreme Court in the matter of SEBI v. Shriram Mutual Fund and Anr.[11], wherein Hon'ble Supreme Court held that:

> *"The Tribunal has erroneously relied on the judgment in the case of Hindustan Steel Ltd. v. State of Orissa, AIR 1970 Supreme Court 253, which pertained to criminal/quasi-criminal proceeding. That Section 25 of the Orissa Sales Tax Act which was in question in the said case imposed a punishment of imprisonment up to six months and fine for the offences under the Act. The said case has no application in the present case which relates to imposition of civil liabilities under the SEBI Act and Regulations and is not a criminal/quasi-criminal proceeding."*

90. In view of the aforesaid Judgment, reliance placed by Noticees 1, 6 and 7 in the Hindustan matter is misplaced.

91. In respect of ACML case, it is noted that Hon'ble SAT, in the said matter, *inter alia*, held that:

> *"Admittedly, there has not been compliances within the stipulated period as specified in the Circular and there has been a delay but the compliances were made by the appellant when the inspection had taken place.* ***It is not a case where non-compliance was found at the time of the inspection and compliance was made thereafter.****" (Emphasis Supplied)*

92. However, in the present matter, non-compliances of SEBI Circulars as discussed in preceding paragraphs were found at the time of inspection. Further, in the ACML case,

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[9] SAT Appeal No. 466 of 2016
[10] SAT Appeal No. 583 of 2019
[11] Civil Appeal Nos. 9523-9524 of 2003 dated May 23, 2006

the Hon'ble SAT had reduced the penalty imposed by AO considering the same to be excessive. Accordingly, reliance placed by Noticees 1, 6 and 7 in the ACML case is misplaced.

93. In respect of P.G Electroplast case, the Hon'ble SAT held that AO while imposing the penalty had not factored in the order of debarment passed by whole time member of SEBI against those appellants which, as per Hon'ble SAT, is sufficient to cover the violations established against them. However, in the instant case, there is no parallel proceedings under section 11B of the SEBI Act against the Noticees for the violations alleged in the present proceedings. Accordingly, reliance placed by Noticees 1, 6 and 7 in the P.G Electroplast case is misplaced.

94. In respect of ICICI case, it is noted that Hon'ble SAT, in the said matter, *inter alia*, held that:

> *"29……Therefore, the appeal fails on merit.*
> *30……..Therefore, we are of the considered view that issuance of a penalty order against the appellant in September, 2019 for certain disclosure violations in mid-May 2010 by issuing a show cause notice on June 26, 2018 has caused prejudice to the appellant and the order suffers from laches, as held in this Tribunal's Order in the matter of Ashok Rupani (supra).*
> *……..*
> *35. Thus, in the instant case, though there are laches, that by itself in the peculiar circumstances of the case, will not vitiate the proceedings but definitely the penalty amount of Rs. 10 lakh imposed on the appellant cannot be sustained and deserves to be substituted by a lesser penalty."*

95. However, in the present matter, as noted above, inspection of Noticee 1 for the period June 14, 2023 to March 31, 2024 was carried out on May 24, 2024. Thereafter, findings of inspection were communicated to Noticee 1 by SEBI vide letter dated November 07, 2024 and Noticee 1 submitted its response vide e-mail dated November 30, 2024. After analyzing the findings of the inspection vis- à -vis the response of Noticee 1, a PIA was prepared wherein the aforementioned violations were alleged against the Noticees. Subsequently, erstwhile AO was appointed vide communiqué dated March 07, 2025 and the SCN was issued on March 10, 2025. Hence, there is no delay in the issuance of SCN in the present proceedings. Accordingly, reliance placed by Noticees 1, 6 and 7 in the ICICI case is misplaced.

96. In the Piramal case, the issue pertained to alleged lapses under the SEBI (Prohibition of Insider Trading) Regulations, 1992, particularly concerning the non-closure of the trading window during Unpublished Price Sensitive Information (UPSI) and failure to handle the same. The Hon'ble SAT, considering that the information was shared on a 'need to know' basis, found no evidence of insider trading or misuse of UPSI and treated the lapse as a technical violation. Similarly, in the Religare case, the Hon'ble SAT dealt with procedural lapses identified during an inspection of the intermediary's broking and depository operations. The Hon'ble SAT noted that the inspecting team had failed to raise queries or seek clarifications during the inspection and therefore, the benefit of doubt was extended to the intermediary.

97. In contrast, the present case involves a SEBI-registered intermediary having approval from BSE Ltd. to act as OBPP is found to have committed violations under the applicable SEBI circular. The established violations include failure to comply with the provisions of SEBI NCS Master Circular dated August 10, 2021. Moreover, unlike the Religare matter, Noticee 1 was given ample opportunity to respond to the findings made in the inspection prior to the PIA is made. It is noted that Noticee 1 had replied to the findings of the inspection vide e-mail dated November 30, 2024. Further, in the Religare matter, the Hon'ble SAT clearly added a caveat that *"This will, of course, depend on the nature of the irregularity noticed and we hasten to add a caveat that it is not being suggested that if any serious lapse is found during the course of the inspection, the Board should not proceed against the delinquent."* Accordingly, the reliance placed by the Noticees on the aforesaid cases is misplaced and not applicable to the facts and circumstances of the present matter.

98. Noticees 1, 6 and 7 further submitted that they had not made any wrongful gains, caused no investor loss, there have been no instances of investor complaints and they are not a repetitive defaulter for the alleged violations. In this regard, reference is drawn on the following judgments of Hon'ble Supreme Court and Hon'ble SAT. Further, while determining the quantum of penalty, these factors will be taken into account.

a.) In the matter of ***SEBI v. Shriram Mutual Fund***[12], Hon'ble Supreme Court held that:

"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations 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."

b.) In the matter of ***Komal Nahata v. SEBI***[13], Hon'ble SAT held that:

"Argument that no investor has suffered on account of non-disclosure and that the AO has not considered the mitigating factors set out under Section 15J of SEBI Act, 1992 is without any merit because firstly penalty for noncompliance of SAST Regulations, 1997 and PIT Regulations, 1992 is not dependent upon the investors actually suffering on account of such non-disclosure".

c.) In the matter of ***Akriti Global Traders Ltd. v. SEBI***[14], Hon'ble SAT held that:

"Argument of appellant that the delay was unintentional and that the appellant has not gained from such delay and therefore penalty ought not to have been imposed is without any merit, because, firstly, penal liability arises as soon as provisions under the regulations are violated and that penal liability is neither dependent upon intention of parties nor gains accrued from such delay".

99. In this background, the Noticees 1, 6 and 7 are liable for imposition of monetary penalty under the following provisions of the SEBI Act:

Table 2

Violations established	Penalty under section
Noticee 1: Clauses 3.2, 3.4.1, 3.6.2, 3.6.3, 4, 7.1, 7.2, 7.3 and 8 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021. **Noticees 6 and 7:** Clauses 3.2, 3.4.1, 3.6.2, 3.6.3, 4, 7.1, 7.2, 7.3 and 8 of Annex-XXI-A of Chapter XXI of SEBI NCS Master Circular dated August 10, 2021 read with section 27 of the SEBI Act.	15HB of the SEBI Act

[12] *[2006] 68 SCL 216 (SC)*
[13] *Appeal No. 5 of 2014 dated January 27, 2014*
[14] *Appeal No. 78 of 2014 dated September 30, 2014*

100. Section 15HB of the SEBI Act is reproduced below:

> *"**Penalty for contravention where no separate penalty has been provided.***
> ***15HB.** Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees."*

101. While determining the quantum of penalty under section 15HB of the SEBI Act, the following factors stipulated in section 15J of the SEBI Act are taken into account:

> *"**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: —*
> *(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."*

102. The material available on record has neither quantified the amount of disproportionate gain or unfair advantage, if any, made by Noticees 1, 6 and 7 nor the amount of loss, if any, caused to an investor/clients as a result of the default of these Noticees. As regards the repetitive nature of the default, it is noted that following penalties have been imposed against Noticee 1. Further, there is nothing on record to show that the nature of default by Noticees 6 and 7 is repetitive.

Table 3

Sr. No.	Case Name	Date of Order	Violation of provisions of Act/Regulations	Penalty imposed
1.	In the matter of 5 Paisa Capital Limited	October 31, 2024	Securities and Exchange Board of India (Stock Brokers) Regulations, 1992, SEBI Circulars, Exchange Circulars	Rs. 8,00,000/-

Sr. No.	Case Name	Date of Order	Violation of provisions of Act/Regulations	Penalty imposed
2.	In the matter of 5 Paisa Capital Limited	July 30, 2024	Securities and Exchange Board of India (Stock Brokers) Regulations, 1992	Rs. 2,00,000/-

103. The submissions of Noticees 1, 6 and 7 that Noticee 1 discontinued its OBPP services to align the existing system with SEBI's expectations have been considered as a mitigating factor while imposing penalty.

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

ORDER

105. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in preceding paragraphs and the factors mentioned in section 15J of the SEBI Act, I, in exercise of powers conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Rules, hereby impose following monetary penalty on Noticees 1, 6 and 7 under section 15HB of the SEBI Act and the adjudication proceeding initiated against Noticees 2 to 5 vide SCN dated March 10, 2025 is hereby disposed of without imposition of any penalty.

Table 4

Noticees	Penalty under section	Penalty Amount
Noticee 1	15HB of the SEBI Act	Rs. 3,00,000/- (Rupees Three Lakh Only)
Noticee 6		
Noticee 7		

106. Noticees 1, 6 and 7 are jointly and severally liable to pay the said penalty. I am of the view that the said penalty is commensurate with the lapses/omissions on the part of Noticees 1, 6 and 7.

107. Noticees 1, 6 and 7 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.

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

JAI SEBASTIAN

Digitally signed by JAI SEBASTIAN
Date: 2025.10.13 15:21:41 +05'30'

Date: October 13, 2025 **JAI SEBASTIAN**

Place: Mumbai **ADJUDICATING OFFICER**