

Before the
Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai – 400051
held on June 2, 2022
In the matter of the Trading Member M/s. Angel One Limited

CORAM:

Ms Mona Bhide	- Chairperson
Mr K Narasimha Murthy	- Committee Member
Ms Anuradha Rao	- Committee Member
Mr Ranganayakulu Jagarlamudi	- Committee Member
Mr Vikram Limaye	- Committee Member

ALSO PRESENT:

Ms Priya Subbaraman	- Chief Regulatory Officer
Dr Dinesh Kumar Soni	- Senior Vice President – Regulatory
Mr Suresh Nair	- Vice President – Enforcement

BACKGROUND

1. **M/s Angel One Limited ("Angel One")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled in Capital Market ("**CM**") segment since November 1994, Futures & Options ("**F&O**") segment since June 2001, and Currency Derivatives ("**CD**") segment since February 2021.
2. The Exchange conducted a limited purpose inspection of the books of accounts and records of Angel One in February 2022 covering the period from April 9, 2018, to November 12, 2020. Post-inspection, the Exchange issued a letter of observation dated May 23, 2022 ("**LO**") to Angel One for the observed non-compliances with the regulatory provisions. Angel One, vide email dated May 27, 2022, replied to the LO.

INSPECTION OBSERVATIONS/ALLEGED VIOLATIONS

3. The observations/alleged violations mentioned in the LO are summarised hereunder:
 - 3.1 Non-maintenance of appropriate evidence regarding orders placed by the client
 - 3.2 Non-adherence to the guidelines concerning Authorized Persons as per SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 6, 2009

REGULATORY PROVISIONS

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

- 4.1 Regulation 3.2.1 of NSEIL Regulations (CM Segment) and Regulation 3.4.1 of NSEIL Regulations (F&O Segment)

Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placing an order on the system and shall keep relevant records or documents of the same and the completion or otherwise of these orders thereof.

Notwithstanding the above, wherever the order instructions are received from clients through the telephone, Members shall mandatorily use a telephone recording system to record the instructions and maintain telephone recordings as part of its records.

- 4.2 SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 6, 2009

7. *Obligations of Stockbroker*

- (e) *Stock broker shall conduct periodic inspection of branches assigned to authorized persons and records of the operations carried out by them.*
 - (g) *On noticing irregularities, if any, in the operations of authorized person, stockbroker shall seek withdrawal of approval, withhold all money due to authorized person till resolution of investor problems, alert investors in the location where an authorised person operates, file a complaint*

with the police, and take all measures required to protect the interest of investors and market.

4.3 Exchange Circular No. NSE/INSP/35929 dated September 27, 2017

All brokers shall execute trades of clients only after keeping evidence of the client placing such order; it could be, inter alia, in the form of:

- a. Physical record written & signed by client*
- b. Telephone recording*
- c. Email from authorised email id*
- d. Log for internet transactions*
- e. Record of messages through mobile phones*
- f. Any other legally verifiable record.*

Further, wherever the order instructions are received from clients through the telephone, the stockbroker shall mandatorily use a telephone recording system to record the instructions and maintain telephone recordings as part of its records.

When a dispute arises, the burden of proof will be on the broker to produce the above records for the disputed trades.

4.4 Exchange Circular No. NSE/INSP/42448 dated October 18, 2019

Member's attention is drawn to SEBI Circular MIRSD/ DR-1/Cir-16/09 dated November 06, 2009, and Exchange Circulars NSE/INSP/3685 dated October 17, 2002, & NSE/INSP/28434 dated December 24, 2014, on the supervisory framework with respect to Member's branches and Authorized Persons (AP) network.

Members have been formerly issued guidelines regarding monitoring and reviewing the trading activities of the APs & branches, including periodic inspection of branches assigned to APs and records of the operations carried out by them.

CONSIDERATION & FINDINGS

5. The observations/alleged violations, the reply of Angel One and the findings of the Committee, are as under:

5.1 **Non-maintenance of appropriate evidence regarding orders placed by the client**

- a. The Exchange observed that Angel One did not maintain appropriate evidence regarding orders placed by its clients. The details are as under:
- i. CM Segment – 145 out of 148 instances / 32 out of 35 clients / 31 out of 33 dates
 - ii. F&O Segment – 128 out of 132 instances / 23 out of 27 clients / 23 out of 25 dates
 - iii. CD Segment – 56 out of 59 instances / 20 out of 23 clients / 22 out of 25 dates.
- b. In reply to the LO, Angel One submitted that it suspended Mr. Mohan Raghavendran, the Authorized Person on December 31, 2019, and deactivated the trading terminals allocated to Mr. Mohan Raghavendran on January 3, 2020, based on the complaints received. Angel One provided logs in support of its claim.
- c. The Committee finds as under:
- i. Angel One restricted its reply by stating that it suspended the registration of Mr. Mohan Raghavendran and deactivated the trading terminals allocated to Mr. Mohan Raghavendran based on the complaints received. It did not submit its reply concerning the non-maintenance of evidence of orders placed by its clients. In the absence of a concrete reply, the violation persists.
 - ii. As per Regulation 3.2.1 of NSEIL Regulations (CM Segment), Regulation 3.4.1 of NSEIL Regulations (F&O Segment), Exchange Circular No. NSE/INSP/35929 dated September 27, 2017, Trading Members must maintain appropriate evidence regarding the orders placed by its clients, including voice recording where orders are received through telephone. Thus, Angel One violated the regulatory provisions mentioned above by failing to maintain appropriate evidence regarding the orders placed by its clients.
 - iii. Exchange Circular No. NSE/INSP/47457 dated February 25, 2021, regarding penalty/disciplinary action for non-maintenance of appropriate

evidence for orders placed by clients is applicable with effect from the date of the said circular. Since the instance occurred prior to February 25, 2021, the said circular is not applicable to Angel One.

- d. In view of the above, the Committee directed Angel One to undertake an audit of the top 3000 Authorized Persons (in terms of the number of active clients) to verify the maintenance of pre-order confirmation and provide an audit report to the Exchange within 3 months from the date of the order.

5.2 Non-adherence to the guidelines concerning Authorized Persons as per SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 6, 2009, and Exchange Circular No. NSE/INSP/42448 dated October 18, 2019

- a. As per SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 6, 2009, on noticing irregularities, if any, in the operations of the Authorized Person, the Trading Member shall seek withdrawal of approval, withhold all monies due to the Authorized Person till resolution of investor problems, alert investors in the location where the Authorized Person operates, file a complaint with the police, and take all measures required to protect the interest of investors and market.

The Exchange observed that Angel One had not taken the following actions against Mr. Mohan Raghavendran even though Angel One was aware that Mr. Mohan Raghavendran had entered into an agreement which was in the nature of a portfolio management scheme.

- i. Cancelling the registration of the Authorized upon receiving the complaint
 - ii. Alerting the investors in the location where the Authorized Person operates
 - iii. Filing a police complaint
- b. In reply to the LO, Angel One submitted that it undertook corrective actions as under:
 - i. Cancelled the registration of Mr. Mohan Raghavendran on March 14, 2022.
 - ii. Transferred all the clients registered with Mr. Mohan Raghavendran on March 2, 2022, to Head Office and intimated the same to the clients.
 - iii. Withheld the funds pertaining to Mr. Mohan Raghavendran.

c. The Committee finds as under:

- i. As per SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 6, 2009, a Trading Member shall be responsible for all acts of omission and commission of the Authorized Person. Further, all acts of omission and commission of the Authorized Person shall be deemed to be those of the Trading Member.
- ii. The Trading Member shall ensure that their Authorized Persons are engaged only in permitted activities and do not undertake any business that is disallowed under the Byelaws, Rules and Regulations of the Exchange and circulars issued by SEBI/Exchange, including operating any schemes of unauthorized collective investments/portfolio management, promising indicative/guaranteed/fixed returns etc.
- iii. In the instant case, Mr. Mohan Raghavendran had entered into the following three types of agreements with the clients to provide portfolio management services and assured returns:
 1. Contract / Agreement of Service
 2. General Guarantee
 3. Agreement for submission of collateral to indemnify contract
- iv. As per the Contract / Agreement of Service dated July 8, 2019, Mr. Mohan Raghavendran provided a capital protection guarantee of the funds invested by the clients. Further, it guaranteed to pay the clients a minimum of Rs.7 lakhs interest.
- v. Based on the complaints received, Angel One de-activated the trading terminals allocated to Mr. Mohan Raghavendran on January 3, 2020, but cancelled the registration of Mr Mohan Raghavendran on March 14, 2022. As per SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 6, 2009, and Exchange Circular No. NSE/INSP/42448 dated October 18, 2019, Angel One was required to immediately cancel the registration of Mr. Mohan Raghavendran and alert the investors in the location where Mr. Mohan Raghavendran operates. Further, Angel One did not completely follow the guidelines stipulated under the said circulars on noticing irregularities in the operations of Mr. Mohan Raghavendran. Thus, Angel One violated the regulatory provisions mentioned above by failing to

adhere to the guidelines concerning Mr. Mohan Raghavendran as per the said circulars.

- d. In view of the above, the Committee decided to warn Angel One to henceforth strictly adhere to the guidelines stipulated under the SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 6, 2009, and Exchange Circular No. NSE/INSP/42448 dated October 18, 2019.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
K. Narasimha Murthy
(Committee Member)

Sd/-
Anuradha Rao
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Sd/-
Vikram Limaye
(Committee Member)

Date: June 29, 2022