BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/JS/RJ/2026-27/32864-32865]

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:

Sr. No.	Noticee Name	PAN
1.	KFin Technologies Limited	AAGCK6303B
2.	Motilal Oswal Financial Services Ltd.	AAECM2876P

In the matter of Vanita Krishnakant Gandhi

BACKGROUND OF THE CASE

1. A Writ Petition was filed by Ms. Vanita Krishnakant Gandhi (hereafter referred to as "**Petitioner**") before the Hon'ble Bombay High Court wherein it was, *inter alia,* alleged that 54,000 bonus shares of a listed company, viz., Balkrishna Industries Limited, held in the name of petitioner(s) were allegedly fraudulently issued to another person who was impersonating one of the petitioner(s). In the course of proceedings, the petitioner, vide representation dated January 28, 2025 read with May 02, 2024 requested that Securities and Exchange Board of India (hereinafter referred to as "**SEBI"**) may examine her allegations against SEBI registered market intermediaries, i.e., registrar to issue and share transfer agent (hereinafter referred to as "**RTA**"), KFin Technologies Ltd. (hereafter referred to as "**Noticee No. 1**") and depository participant (hereafter referred to as "**DP**") and stock broker, Motilal Oswal Financial Services Ltd. (hereafter referred to as "**Noticee No. 2**") in the alleged fraudulent dematerialization of 54,000 bonus shares of Balkrishna Industries Ltd. held by the petitioner(s) in folio no. V00019. In this context, the Hon'ble Bombay High Court, vide order dated July 29, 2026 observed as under:

> "*3. .....on instructions, SEBI shall dispose of the complaints/ representations dated 28th January 2025 read with 2nd May 2024 within a period of six weeks from today. The statement is accepted.*"

2. Against the aforesaid background, the instant matter was examined by SEBI to ascertain whether the concerned SEBI-registered market intermediaries, while processing the abovementioned request(s), had complied with the applicable SEBI regulations, circulars, and the extant regulatory framework.

3. Based on the examination so undertaken, it was alleged that the Noticees have violated the following provision of law:

   (i) Noticee No. 1, in its capacity as RTA:

   (a) Clauses II.13 and II.14 of Annexure to SEBI Circular No. SEBI/HO/MIRSD/DOP1/CIR/P/2018/73 dated April 20, 2018 (hereafter referred to as "**SEBI Circular dated April 20, 2018**") read with clauses II.12 and II.13 of Annexure 6 of Section XII- Annexures to SEBI Master Circular No. HO/38/13/(4)2026-MIRSD-POD/I/4298/2026 dated February 06, 2026 (hereafter referred to as "**SEBI Circular dated February 06, 2026"**); and

   (b) Clause 3 of Code of Conduct under Schedule III under regulation 13 of SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 (hereafter referred to as "**RTA Regulations, 1993"**) read with clause 3 of Code of Conduct under Schedule III under regulation 15 read with regulation 38 of SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 2025 (hereafter referred to as "**RTA Regulations, 2025"**).

   (ii) Noticee No. 2, in its capacity as DP:

   (a) Clause 11 read with clause 13 of SEBI circular SEBI/HO/MIRSD/DoP/P/CIR/2022/46 dated April 06, 2022 (hereafter referred to as "**SEBI Circular dated April 06, 2022**") read with clause 2 of SEBI circular no. SEBI/HO/MIRSD/DOP/P/ CIR/2022/89 dated June 24, 2022 (hereafter referred to as "**SEBI Circular dated June 24, 2022**") read with clause 3 of SEBI circular SEBI/HO/MIRSD/SEC-5/P/CIR/2022/100 dated July 27, 2022 (hereafter referred to as "**SEBI Circular dated July 27, 2022**"); and

   (b) Clause 4 of Code of Conduct for participants under part A of Third Schedule read with regulation 37 of Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018 (hereafter referred to as "**Depositories Regulations**").

   (iii) Noticee No. 2, in its capacity as stock broker:

(a) Clause 11 read with clause 13 of SEBI circular dated April 06, 2022 read with clause 2 of SEBI Circular dated June 24, 2022 and clause 3 of SEBI Circular dated July 27, 2022; and

(b) Clause A(2) of Schedule II of Code of Conduct read with regulation 9(f) of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 (hereafter referred to as "**Stock Brokers Regulations, 1992**") read with regulations 36(2)(a) and 51 of Securities and Exchange Board of India (Stock Brokers) Regulations, 2026 (hereafter referred to as "**Stock Brokers Regulations, 2026**").

APPOINTMENT OF ADJUDICATING OFFICER

4. The undersigned was appointed as the Adjudicating Officer, vide communique dated September 18, 2026 under section 15-I of SEBI Act, 1992 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 the aforesaid alleged violations committed by Noticees.

SHOW CAUSE NOTICE, REPLY AND HEARING

5. A Show Cause Notice dated September 30, 2026 (hereinafter referred to as '**SCN**') was issued to the Noticees to show cause as to why an inquiry should not be initiated against them, and penalty, if any, should not be imposed upon them under the provisions of section 15HB of SEBI Act for the violations alleged to have been committed by the Noticees.

6. The SCN, *inter alia,* alleged the following:

(i) In 2016, Balkrishna Industries Ltd. had appointed Karvy Computershare Pvt. Ltd. (hereinafter referred to as "**KCPL**") as its RTA. Later in 2017, the RTA business of KCPL was acquired by a newly incorporated company, KCPL Advisory Services Pvt. Ltd. which was later renamed as KFin Technologies Pvt. Ltd. and is now known as KFin Technolgies Ltd. (Noticee No. 1).

(ii) It is observed that the shares of Balkrishna Industries Ltd. in folio no. V00019 bearing share certificate no.00453 were jointly held by shareholders, viz., Vanita Krishnakant Gandhi (1st Shareholder) and Sudha B Gandhi (2nd Shareholder). The address of the said shareholders as per Register of Members (hereinafter referred to as "**ROM**") maintained by the Noticee No. 1

was C-**,***, Borivali (W), Mumbai- 400103[1]. It was also informed by Noticee No. 1 in the course of examination that at the time of migration of the said folio, the KYC and signature were not updated in the folio.

(iii) In 2017, Balkrishna Industries Ltd. offered a bonus in the ratio of 1:1. The bonus share certificate bearing no. 126349 was issued for 54,000 equity shares and dispatched to the registered address of the concerned shareholders.

(iv) Subsequently, a demat request form along with the death certificate of Ms. Sudha Bharatbhai Gandhi was received by the Noticee No. 1 on December 23, 2022 through the DP, i.e., Noticee No. 2 requesting for part-dematerialization of shares. It was observed that the dematerialization request was limited to the 54,000 bonus shares issued in 2017 under share certificate no. 126349 and no demat request was received for the remaining 54,000 shares under share certificate no. 00453 at that time. The said demat request form was accompanied with the relevant documents, including original bonus share certificates, ISR-1, ISR-2, PAN card, Aadhaar Card of Vanita Krishnakant Gandhi, affidavit for change of signature, CML attested copy by DP, transmission cum demat form authenticated by DP. It was observed that the address of the shareholder mentioned on the address proof was "B-***,***, Vadodara, Pin – 390020"[2] which was different from the address as per the records of the Noticee No. 1.

(v) The said demat request was processed by the Noticee No. 1 and the shares were credited into the demat account no. 1201070000594599 on January 05, 2023.

(vi) Thereafter, in October 2023, Noticee No. 1 received a duplicate/ demat share request for the 54,000 original shares (share certificate no. 00463) from two separate claimants, i.e., (i) Vanita Krishnakant Gandhi (PAN: CORPG2723R) with address: B-***,*** , Vadodara, Pin – 390020[3] and (ii) Vanita Krishnakant Gandhi (PAN: AADPG6289J) with address: 1501, *****, Mumbai - 400049[4].

(vii) Considering that two competing requests relating to the same folio/ shareholding were received with different address details and supporting information, Noticee No. 1, as a precautionary measure, placed the request for issuance of duplicate share certificates on hold pending further verification and investigation.

(viii) Subsequently, a criminal complaint was also registered by one, Vanita Gandhi. In this regard, Economic Offences Wing, Mumbai (hereinafter referred to as "**EOW**") declared Vanita Gandhi, bearing PAN AADPG6289J, as the legitimate investor. Accordingly, 54,000 original equity shares that were under caution stop were released and got dematerialized and credited to the demat account no. 1201070000594599 on January 11, 2025.

[1] Details excised for privacy.
[2] *Ibid.*
[3] *Ibid.*
[4] *Ibid.*



Allegations against Noticee No. 1

A. Allegation regarding due diligence

(i) The RTA Regulations, *inter alia,* require an RTA to exercise due diligence at all times. In the present case, it is stated in the examination report that the concerned RTA, i.e., Noticee *No*. 1, was required to exercise enhanced due diligence while processing the demat/ name deletion request received on December 23, 2022 in view of the following circumstances:

(a) PAN/bank details/KYC/signature was not available/updated in the folio. Accordingly, the folio should have been marked for enhanced due diligence (hereinafter referred to as "**EDD**") as per SEBI Circular dated April 20, 2018 and EDD ought to have been exercised while processing any request in respect of the said folio.

(b) There was an address mismatch between the address in the documents submitted with the demat request, namely, *"B-***,*** , Vadodara, Pin – 390020"*[5] and the registered address of the shareholder in the records of the RTA, namely, *C-**,***, Borivali (W), Mumbai- 400103*[6].

(c) Multiple dividend warrants sent to the registered address had returned undelivered since 2016.

(d) The value of 54,000 shares lodged for dematerialization at the time of dematerialization requests was approximately Rs. 11.19 crore.

(e) Name mismatch in the second holder name as per the documents submitted (Mrs. Sudha Bharatbhai Gandhi) vis-à-vis the records of the RTA (Mrs. Sudha B. Gandhi) in relation to the name deletion request submitted along with the dematerialization request.

(f) RTA's dematerialization SOP applicable at the time of receipt of request, *inter alia,* provided for an escalation mechanism depending on the lodgment status in doubtful cases. In the present matter, a part-dematerialization request was lodged, inasmuch as the request pertained only to 54,000 bonus shares under share certificate no. 126349, and not to the remaining 54,000 shares standing in the folio under share certificate no. 00453. It is stated that despite the aforesaid circumstance, the shares were dematerialized without raising any objection or undertaking re-verification, as required under the Noticee No. 1's SOP.

(ii) In this background, it was observed that the said dematerialization request dated December 23, 2022 was processed despite there being a mismatch between the address appearing in the documents submitted along with the request and the address of the shareholder as recorded in the records of Noticee No. 1. It was further observed that the said request was processed without seeking additional documentation/ clarification with respect to the name mismatch observed in the second holder name as per the documents submitted vis-à-vis the records of Noticee No. 1.

(iii) In this regard, it was alleged that Noticee No. 1 failed to exercise due diligence and ensure proper care while processing the said demat cum name deletion request, which was received on December 23, 2022. It is further alleged that

[5] *Ibid.*
[6] *Ibid.*

Noticee No. 1 failed to take cognizance of the address mismatch (mismatch between the address in the documents submitted alongside the demat request and the registered address of the shareholder in its records) and mismatch in the second holder name. Further, Noticee No. 1 allegedly failed to seek clarification from the investor or raise objection with respect to the same, along with the other deficiencies in the demat request referred above.

(iv) In view of the above, it was alleged that Noticee No. 1 failed to exercise adequate due diligence while processing the request in accordance with clause 3 of Code of Conduct under Schedule III under regulation 13 of RTA Regulations, 1993 read with clause 3 of Code of Conduct under Schedule III under regulation 15 read with regulation 38 of RTA Regulations, 2025.

B. Allegation regarding EDD

(i) Clauses II.13 and II.14 of Annexure to SEBI Circular dated April 20, 2018, *inter alia*, require RTA to exercise EDD in cases where PAN/ Bank account details are not available in the folio. In terms of the said Circular, for the purpose of exercising EDD, issuer companies and/ or RTAs shall call for documents related to proof of identity/ address, PAN and bank details, and such other additional procedures that would enable the issuer company/ RTA to reasonably satisfy itself about the genuineness of the request.

(ii) It was observed in the course of inspection that EDD was not exercised by the Noticee No. 1 while processing the aforementioned demat request received by Noticee No. 1 on December 23, 2022 considering that PAN/ Bank details/ KYC was not available/ updated in the folio. Further, considering the address mismatch observed between the address in the request, the dividend warrants sent to the registered address returned undelivered, the high value of the transaction involved, and other risk metrics mentioned in the paragraphs above, Noticee No. 1 should have exercised the greater due diligence. It was further stated that Noticee No. 1's dematerialization SOP applicable at the time of receipt of the request, also had provision for undertaking additional due diligence for doubtful cases. However, it was alleged that Noticee failed to exercise EDD in the matter, as it failed to seek additional clarifications/ documents/ conduct procedures to ensure genuineness of the request.

(iii) Accordingly, Noticee No. 1 was alleged to have violated clauses II.13 and II.14 of Annexure to SEBI Circular dated April 20, 2018 read with clauses II.12 and 13 of Annexure 6 of section XII- Annexures to SEBI Circular dated February 06, 2026 along with clause 3 of Code of Conduct under Schedule III under regulation 13 of RTA Regulations, 1993 read with clause 3 of Code of Conduct under Schedule III under regulation 15 read with regulation 38 of RTA Regulations, 2025.

<u>Allegations against Noticee No. 2</u>

(i) During the course of examination, the account opening form and KYC details pertaining to the demat account of Vanita Krishnakant Gandhi were obtained from the Noticee No. 2. From the documents furnished by the Noticee No. 2, it was observed that a request for modification of address was submitted on December 07, 2022.

(ii) In this regard, CDSL, vide email dated August 25, 2026, *inter alia*, informed that demat account no. 1201070000594599, standing in the name of Vanita Krishnakant Gandhi, was opened by the Noticee No. 2 in its capacity as a DP on August 01, 2022. It was further observed that the first upload of KYC in CVL KRA was made on August 02, 2022, i.e., on the day immediately following the opening of the demat account, and that the said KYC request was rejected by CVL KRA on January 07, 2023. Further, CVL KRA, vide email dated August 31, 2026, stated that the aforesaid KYC validation request had initially been put on hold on September 20, 2022 on account of *"Proof of Address Not Legible and Aadhaar Number Should Be Blackout From Aadhaar Copy",* and was thereafter rejected on January 07, 2023 on the very same grounds.

(iii) It was also observed that the DP, i.e., Noticee, received the dematerialisation request on December 12, 2022 and generated the Demat Request Number (hereinafter referred to as "**DRN**") on December 21, 2022 for 54,000 equity shares of Balkrishna Industries Ltd. (hereinafter referred to as "**BKT**")under ISIN INE787D01026. Thereafter, the said securities were credited to the BO account on January 05, 2023.

(iv) It was further noted that CDSL, vide email dated August 31, 2026, informed that while the initial KYC uploaded by Noticee No. 2 was rejected by CVL KRA on January 07, 2023, transactions in the said demat account in respect of the aforesaid 54,000 equity shares of Balkrishna Industries Limited were nevertheless executed during the period from January 05, 2023 to May 30, 2023.

(v) Noticee No. 2, vide emails dated September 1, 2026 and September 2, 2026, *inter alia*, submitted that it had furnished the KYC records/documents to the KRA in its capacity as an intermediary, both in respect of the trading account maintained with the stock broker and the demat account maintained with the DP. Noticee No. 2 further submitted that, subsequent to the rejection of the KYC by the KRA, the client sold the equity shares through the trading account via online mode. It was also submitted that Noticee No. 2, in its capacity as stock broker, had instructed the DP to release the shares lying in the client's demat account so as to enable the client to meet the settlement obligations (pay-in) towards the stock exchange. Noticee No. 2 further submitted that the client had sold 46,185 shares of Balkrishna Industries Ltd. through online mode during the period from January 5, 2023 to May 29, 2023 in the equity segment.

(vi) SEBI Circular dated April 06, 2022, *inter alia*, provided that KYC records of new clients who had used Aadhaar as an Officially Valid Document (hereinafter referred to as "**OVD**") were required to be validated by the KRAs within two

days of receipt of the KYC records. The said Circular further stipulated that clients whose KYC records were not found to be valid by the KRA upon completion of the validation process were to be permitted to transact in the securities market only after their KYC was duly validated and stated that the validation of all KYC records, whether of new or existing clients, would commence from July 01, 2022. Thereafter, SEBI Circular dated June 24, 2022 extended the implementation timeline of the aforesaid requirements. Subsequently, SEBI Circular dated July 27, 2022 provided that the validation of all KYC records, including those of existing clients who had used Aadhaar as an OVD, would commence from November 01, 2022, and that such existing clients were to be validated within 180 days from November 01, 2022.

(vii) In view of the aforesaid, it is mentioned in the examination report that upon rejection of the KYC of the aforesaid client by, CVL KRA on January 07, 2023, the Noticee No. 2, being the DP, ought not have permitted any transaction in the said demat account unless and until the KYC was duly validated. However, it was alleged that transactions in respect of the aforesaid 54,000 equity shares of Balkrishna Industries Limited were allowed in the said demat account during the period from January 05, 2023 to May 30, 2023, on and after January 07, 2023, i.e., the date on which the KYC stood rejected by CVL KRA. Therefore, it is alleged that the Noticee No. 2 failed to exercise the requisite due diligence and failed to ensure compliance with the applicable KYC validation requirements, as mandated under the aforesaid SEBI Circulars.

(viii) Further, during the course of examination, CVL KRA, vide email dated August 31, 2026, stated that it had not received any KYC modification for PAN request from any intermediary including Noticee No. 2.

(ix) In this regard, it was observed that the said modification was not intimated to CVL KRA by Noticee No. 2. As per regulation 16(b) of Securities and Exchange Board of India {KYC (Know Your Client) Registration Agency} Regulations, 2011:

> *"When the client approaches another intermediary subsequently, the intermediary shall verify and download the client's details from the system of KRA:*
> *Provided that upon receipt of information on change in KYC details and status of the clients by the intermediary or when it comes to the knowledge of the intermediary, at any stage, the intermediary shall be responsible for uploading the updated information on the system of KRA and retaining the physical documents".*

(x) In view of the same, it was alleged that the Noticee No. 2, in the capacity of stock broker as well as DP, failed to upload the updated details on the system of CVL KRA in respect of the aforesaid entity.

(xi) In view of above, it was observed that by allowing transactions in aforesaid trading and demat account without KYC records validation with CVL KRA, Noticee No. 2 in the capacity of stock broker and DP, had allegedly violated clause 11 read with clause 13 of SEBI Circular dated April 06, 2022 read with clause 2 of SEBI Circular dated June 24, 2022 read with clause 3 of SEBI

Circular dated July 27, 2022. Further, Noticee No. 2, in the capacity of stock broker, was alleged to have violated clause A(2) of Schedule II of Code of Conduct read with regulation 9(f) of Stock Brokers Regulations, 1992 read with regulations 36(2)(a) and 51 of Stock Brokers Regulations, 2026 and Noticee No. 2, in the capacity of DP, violated clause 4 of code of conduct for participants under part A of Third Schedule read with regulation 37 of Depositories Regulations.

7. Noticee No. 1 submitted its reply vide email dated October 27, 2026 wherein it stated as under:

(i) Examination Report prepared by SEBI itself recorded, at paragraph 3, that the underlying writ proceedings *prima facie* involved disputes relating to title and ownership of shares and allegations of fraud and forgery which did not fall within SEBI's purview to adjudicate, and that the examination was accordingly confined to examining compliance by the concerned registered intermediaries with the applicable SEBI regulations, circulars and extant regulatory framework. Without prejudice to anything else stated therein, Noticee No. 1 submitted that if SEBI was not adjudicating which claimant was the genuine original shareholder and as such entitled to the shares, and was leaving the same to be adjudicated by other authorities/Courts, it could hardly be contended that Noticee No. 1 ought to have been able to investigate and unravel the fraud. Further, since SEBI was leaving the said issue of ownership to be adjudicated by other authorities/Courts, the issue as to whether any part of the conduct of Noticee No. 1 lacked adequate due diligence also ought to have been left to be determined by the same other authority/Court.

(ii) It was submitted that it is settled law that only the law, regulations, circulars, etc. as applicable at the relevant time of the impugned events had to be applied to adjudicate whether there was any lack of due diligence as alleged against a party, and subsequent amendments were irrelevant.

(iii) SCN alleged that EDD was required to be exercised by Noticee No. 1 in view of the facts as narrated in paragraphs 13 and 14 of the SCN. It was further alleged that Noticee No. 1 did not undertake the required EDD as set out in the SEBI Circular dated April 20, 2018 (“2018 Circular”), and thereby, *inter alia,* failed to comply with the generally stated due diligence obligations under the RTA Regulations and the Code of Conduct thereunder as set out in paragraph 31 of the SCN.

(i) The relevant extract of the aforesaid 2018 Circular was also reproduced in paragraph 31 of the SCN at pages 9–10. Some of the criteria for exercise of EDD as set out therein did in fact apply to the facts of the present case. For example: (a) dividend had remained unclaimed for many years and had been transferred to IEPF; and (b) PAN and bank details were not available in the folio. Consequently, Noticee No. 1 was required to apply the EDD criteria as extracted at page 10 of the SCN, namely:

"In case any request for transactions is received from such folios, the Issuer Company and RTAs shall exercise enhanced due diligence. For the purpose of exercising enhanced due diligence, Issuer Companies and/or RTAs shall call for documents related to proof of identity/address, PAN and bank details, and such other additional procedures that would enable the Issuer Company/RTA to reasonably satisfy itself about the genuineness of the request."

(ii) Consequently, the aforesaid EDD was required to be applied and was in fact applied by Noticee No. 1 at the time of the aforesaid applications/requests received from the alleged imposter, *inter alia,* as mentioned above and summarized below:

(a) Noticee No. 1, by its email dated March 16, 2022 in response to the alleged imposter's email dated March 15, 2022, *inter alia,* specifically pointed out that dividend warrants had been returned undelivered; that no bank account details or PAN or other KYC details had been updated in the folio; and that all such particulars were required.

(b) Noticee No. 1, by its email dated August 24, 2022 in response to the alleged imposter's email dated August 17, 2022, again called for, *inter alia,* physical request forms duly signed by the shareholders along with self-attested PAN card and address proof.

(c) Noticee No. 2, on December 23, 2022, *inter alia,* forwarded the numerous documents mentioned hereinabove in detail, including the self-attested PAN card, self-attested Aadhaar card, SEBI prescribed Forms ISR-1 and ISR-2, along with bank account details certified by the concerned bank, which had also certified the shareholder's signature, along with a cancelled cheque. Pertinently, clause 2.4(a) and clause 2.5.1 of the SEBI Circular dated November 3, 2021 and Form ISR-1 prescribed thereunder mandated that the PAN card was sufficient proof of identity and the CML of the demat account was sufficient proof of address of the shareholder. Further, the Aadhaar card was also normally accepted proof of address and, as per Form ISR-1, it was to be linked with the PAN of the shareholder.

(d) Noticee No. 2 had provided its duly authenticated CML.

(e) Even the original bonus share certificate of BKT was submitted to Noticee No. 1.

(f) A copy of the death certificate of the original second shareholder was also duly furnished.

(g) As aforesaid, at least 7 dividend warrants issued to Mrs. Vanita Krishnakant Gandhi were encashed in Vadodara during the period from February 23, 2017 to December 5, 2022, which included 5 dividend warrants encashed at the Union Bank of India branch at Vadodara, the particulars of which corresponded to the bank branch whose details were furnished along with the dematerialisation request dated December 23, 2022.

(h) All the said KYC documents were duly verified and cross-checked by Noticee No. 1 in the manner set out hereinabove, and there was nothing to arouse any suspicion as to the authenticity and legitimacy of the identity of the party or any of the documents submitted.

(iii) As regards the "additional procedures" referred to in the said Circular dated April 20, 2018, it was noted that, in response to a representation made by the Registrars Association of India (RAIN), by a letter dated January 11, 2022, SEBI clarified that dematerialization requests were not subjected to the KYC compliances required by the SEBI Circular dated November 3, 2021. However, as aforesaid, Noticee No. 1 in fact complied even with the requirements of the said SEBI Circular dated November 3, 2021, and collected PAN and KYC details as per ISR-1 and ISR-2 as prescribed by the said circular.

(iv) It therefore formed part of the admitted record that Noticee No. 1 had received/collected all the requisite documentary proof of all the requisite details as per the EDD requirement. It, in fact, did "call for documents related to proof of identity/address, PAN and bank details, and such other additional procedures that would enable the Issuer Company/RTA to reasonably satisfy itself about the genuineness of the request" as required by SEBI Circular dated April 20, 2018, and therefore it could not be alleged that there was any lack of due diligence by Noticee No. 1.

(v) Without prejudice to anything stated hereinabove, as regards the allegations, *inter alia,* in paragraph 14 of the SCN, about the alleged mismatch in the address and the alleged "name mismatch" in respect of the second shareholder, it was submitted:

(a) There was bound to be an address mismatch when an application was made for change of address. In fact, even the original shareholder had made an application for change of address as aforesaid. In both cases, the new addresses were duly recorded and certified with requisite documentary proof as mentioned above.

(b) There was no "name mismatch" in respect of the second shareholder as alleged. As per the records obtained from the previous RTA, her name was "Sudha B. Gandhi". Both the original share certificate and the bonus share certificate referred to the second shareholder's name only as "Sudha B. Gandhi". As per the death certificate submitted by the alleged imposter, the full name was "Sudha Bharatbhai Gandhi" and in the "Transmission-cum-Dematerialisation" Form on the letterhead of Noticee No. 2/MOFSL, her name was shown as "Mrs. Sudha B. Gandhi". Therefore, it could not be alleged that there was any "name mismatch". In any event, EDD was duly complied with as aforesaid.

(c) Without prejudice to the aforesaid, it was pertinent to note that the SEBI Circular dated November 3, 2021, *inter alia,* stipulated that:

"2.3. Mismatch in name

a) For minor mismatch in name between any two set of documents presented by holder / claimant for any service request, the RTA shall additionally obtain any one of the following documents, explaining the difference in names;

- *Unique Identification Number (UID) (Aadhaar)*
- *Valid Passport*
- *Driving license*
- *PAN card with photograph*
- *Identity card / document with applicant's Photo, issued by any of the following: Central / State Government and its Departments, Statutory / Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions.*
- *Marriage certificate*
- *Divorce decree"*

As aforesaid, the self-attested and duly verified PAN and Aadhaar card were in fact submitted to and collected by Noticee No. 1.

(d) It is pertinent to note that in the facts of the present case, it appeared that all documents furnished by the imposter as well as all the documents furnished by the original shareholder were in fact legitimate and genuine documents and there was no finding by any authority that any of these documents were bogus, forged or fabricated. Pertinently, even the SCN and the Examination Report did not identify what further EDD Noticee No. 1 should have undertaken which could have enabled it to uncover the alleged fraud of the imposter.

(vi) In view of the aforesaid, it was clear that when the imposter's specific dematerialisation request was actually received and processed, Noticee No. 1 received identification and supporting documents along with the complete dematerialisation request, including PAN, Aadhaar, address documentation, the relevant original share certificate pertaining to the subject shares, the prescribed forms and a Client Master List duly authenticated by the DP, namely Noticee No. 2. As stated above, Noticee No. 1 undertook verification of the documents furnished as required by SEBI. The documents were considered collectively and were found to be mutually corroborative. There was, on the information then available, no apparent competing claim, impersonation, identity substitution or other circumstance establishing that the person submitting the request was not the person whose identity was represented by the documents.

(vii) Further, the dematerialisation request was accompanied by original Bonus Share Certificate No. 126349. As reflected in the records of the Issuer Company and the RTA, the said bonus share certificate had originally been issued and dispatched to the registered Borivali address recorded in the folio. Production of the original certificate therefore constituted a material corroborative circumstance supporting the apparent genuineness of the request. At the time of processing, there was no material before Noticee No. 1 suggesting that the certificate had been procured unlawfully or that the person presenting it was not entitled to be in possession thereof.

(viii) Noticee No. 1 further acted with prompt due diligence and froze the folio when it received the subsequent requests for dematerialization, change of address etc. from the competing claim of the original shareholder, so as to preserve the status quo till the EOW identified the legitimate shareholder as the one having PAN: AADPG6289J and directed transfer of shares in her favour. It was only thereafter that Noticee No. 1 acted upon the said communication and dematerialized the original 54,000 shares accordingly into her demat account.

Submissions with regard to allegation no. 1

(i) Noticee No. 1 denied the allegation that it failed to exercise due diligence while processing the demat-cum-name deletion request received on December 23, 2022. The dematerialization request was received through Noticee No. 2, a SEBI-registered DP operating within the depository ecosystem. The request was accompanied by the original share certificate, duly completed dematerialisation request form, proof of identity/proof of address and CML, all routed through and verified by the concerned DP. In fact, as stated above, the documents collected and verified by Noticee No. 1 while processing the bonus shares dematerialisation request of the imposter were in full compliance with what was required under law and SEBI circulars.

(ii) While it was correct that the address appearing in the documentation accompanying the imposter's request, namely B-**,***, Vadodara – 390020[7], was different from the address appearing in the Register of Members, there was in fact an application for change of address in the prescribed format ISR-1. The application was accompanied by the requisite documentation evidencing the current address and identity of the imposter, including the Aadhaar card, CML, etc. As stated hereinabove, acceptable proof of address included Aadhaar card and Client Master List authenticated by the DP. In fact, even the ISR-2 form contained the new address and the form was verified by Union Bank of India. Admittedly, these documents were submitted along with the demat request.

(iii) The allegation in the SCN that the variation between "Sudha B. Gandhi" appearing in the RTA records and "Sudha Bharatbhai Gandhi" appearing in the documents constituted a material discrepancy was denied. Both the original share certificates and the bonus share certificates referred to the second shareholder's name only as "Sudha B. Gandhi". Thus, the variation between "Sudha B. Gandhi" appearing in the RTA records and "Sudha Bharatbhai Gandhi" appearing in the documents submitted did not constitute any discrepancy. The second holder had died and the surviving first holder had furnished the original death certificate bearing a verifiable QR code. The identity particulars were substantially consistent, and the variation was explained by the expansion of the middle name of the deceased second holder, whose full name was not available in the records of Noticee No. 1. An expansion of an

[7] *Ibid.*

abbreviated middle name, particularly in the context of a deceased joint holder whose death certificate was produced and independently verifiable, could not amount to any mismatch of name. The documents submitted did not even remotely contain any cause for suspicion, much less disclose the alleged fraud and impersonation alleged by the EOW.

(iv) The allegation in the SCN of alleged non-compliance with the EDD requirements under the 2018 Circular was factually incorrect as proved by the record. Noticee No. 1 was furnished with PAN, Aadhaar, address documentation, the original certificate, the relevant forms, the duly authenticated CML, the death certificate and other supporting material in due compliance with the EDD requirement. Noticee No. 1 undertook checks including PAN validation, Aadhaar authentication, bank account verification, verification of the QR code on the death certificate, cross-verification of date of birth and identity particulars, and examination of signatures, declarations and supporting documentation. This showed that Noticee No. 1 undertook due diligence as required of an ordinary and prudent person and as mandated by the Regulations and SEBI circulars. The steps undertaken by Noticee No. 1 duly established identity, legitimacy and genuineness of the request. Therefore, the conclusion that Noticee No. 1 undertook "no EDD" was factually incorrect inasmuch as Noticee No. 1 undertook all requisite EDD checks as aforesaid.

(v) Further, Bonus Certificate No. 126349 representing 54,000 bonus shares was issued and dispatched by Noticee No. 1 to the address on record. It was not returned undelivered. Consequently, when the dematerialisation request dated December 23, 2022 was received along with the original bonus share certificate, there was no reason to doubt the authenticity of the demat request or the identity of the applicant.

(vi) The allegation in the SCN concerning non-encashment/return of dividend warrants also showed gross negligence and total failure of due diligence by the shareholders, who never informed change of address for years, failed to claim dividend since 2006, failed to update KYC, failed to apply for dematerialization for over 25 years, and failed even to inform about the death of the second shareholder for over 17 years. If the shareholder had complied with any of the same, the fraud of the imposter in December 2022 would never have been possible. In fact, as stated aforesaid, 16 out of 23 dividend warrants between February 23, 2017 and December 5, 2022 were encashed, including 5 encashed in the same bank and same branch, particulars of which were forwarded by the alleged imposter through the dematerialisation request received on December 23, 2022.

(vii) The allegation in the SCN as regards the value of the shares was irrelevant, since there was no law, regulation or circular which prescribed any different treatment for dematerialization requests concerning shares of different values. In fact, there was no law, regulation or circular which required an RTA to check

market rates or valuation of shares before processing any request for dematerialization, change of address or updation of KYC details.

(viii) The allegations in the SCN in relation to the dematerialisation SOP of Noticee No. 1 were misconceived and devoid of particulars. The allegation in the SCN that the SOP provided for an "escalation mechanism depending on the lodgement status in doubtful cases" was misconceived because clause 7.4 of the SOP, which referred to lodgement status in doubtful cases, applied to cases where the signature of the shareholder did not match the record of Noticee No. 1. In the facts of the present case, Noticee No. 1 did not have any record of the shareholder's signature and therefore there was no question of signature mismatch. Further, the signature of the applicant was in fact certified by Union Bank of India, by Noticee No. 2 through the CML, and through the duly verified PAN card. Further, NSDL/CDSL had no records for cross-verification since the original shareholder had not dematerialized any shares for over 25 years. In any event, full EDD was duly complied with as aforesaid, including verification of the signature by the concerned bank and Noticee No. 2 and the fact that the signature tallied with the signature on the PAN card. The SOP also appeared to have been misinterpreted to mean that if only part of the shares were dematerialised, it should give rise to escalation or re-verification of KYC. In any event, since KYC particulars were missing from the folio as aforesaid, the entire KYC updation was undertaken along with the application for dematerialisation and therefore there was no failure to comply with Noticee No. 1's Dematerialisation SOP.

(ix) While reiterating that the internal SOP of Noticee No. 1 was duly complied with as aforesaid, it was submitted that even if there had been a departure from the internal SOP, the same could not be punishable with penalty under section 15HB. In any event, the reference to an escalation mechanism for "doubtful cases" could not apply to the facts of the present case since the documents submitted raised no cause for doubt and Noticee No. 1 had examined the identity and supporting documents, validated PAN and Aadhaar, verified the death certificate and considered the supporting declarations. In fact, EDD was duly complied with as aforesaid. There was no competing claimant at that stage and no evidence indicating that the claimant was an impersonator. Noticee No. 1 therefore denied that it failed to comply with its internal SOP.

(x) Further, the fact that the dematerialisation request concerned the bonus certificate and did not simultaneously seek dematerialisation of the 54,000 shares represented by the original certificate could not, in the absence of any regulatory prohibition or stipulation, constitute a contravention or even a cause for concern. The SCN did not identify any provision which required an RTA to insist that all securities held by a shareholder had necessarily to be dematerialised simultaneously. A shareholder was entitled to seek dematerialization of such quantity of shares held as he/she deemed fit. The

original certificate presented to Noticee No. 1 for dematerialization fully correlated to the dematerialization request received.

(xi) Noticee No. 1 submitted that due diligence had necessarily to be assessed with reference to the information available to Noticee No. 1 at the relevant time. The later discovery of an alleged fraud could not amount to any lack of due diligence. The documents available to Noticee No. 1 were mutually corroborative and did not disclose any discrepancy. Most pertinently, the SCN did not identify what particular further act of due diligence ought to have been taken by Noticee No. 1 at the relevant time over and above verification of all the said documentation as mentioned hereinabove. In fact, the Examination Report itself stated that disputes concerning title, ownership, fraud and forgery were outside the scope of even SEBI's examination. Therefore, there was clearly no finding by SEBI that any of the said documents presented to Noticee No. 1 were forged or fabricated. In fact, as aforesaid, all of them were duly verified and found to be genuine. It was only later, when the original shareholder finally and very belatedly came forward, that the fraud was suspected for the first time.

(xii) Therefore, the allegation that Noticee No. 1 failed to comply with clauses II.13 and II.14 of the 2018 Circular was specifically denied. Although the 2026 Master Circular could not retrospectively apply, the corresponding provisions therein were in fact identical to the 2018 Circular. It was denied that Noticee No. 1 failed to exercise due diligence while processing the said dematerialisation request in accordance with clause 3 of the Code of Conduct under Schedule III to regulation 13 of the RTA Regulations, 1993 read with clause 3 of the Code of Conduct under Schedule III to regulation 15 read with regulation 38 of the RTA Regulations, 2025.

Submissions with regard to allegation no. 2

(i) As aforesaid, the EDD framework required the RTA to obtain and verify specified information and undertake such additional procedures as were reasonably necessary to satisfy itself as to the genuineness of the request. The record demonstrated that Noticee No. 1 did comply with all that was mandated by collecting and examining the identity documentation, validating PAN and Aadhaar, verifying the death certificate through its QR code, cross-checking identity particulars and examining the signatures and declarations, which were also certified by the CML of Noticee No. 2 and Union Bank of India. In fact, all documents required under law and SEBI circulars to establish proof of identity and proof of address were indeed collected and verified by Noticee No. 1.

(ii) The allegation in the SCN was that the address mismatch, returned dividend warrants, high value and name variation collectively made the dematerialization request “doubtful” and therefore EDD ought to have been complied with as per the 2018 Circular. However, as aforesaid, the EDD requirements were in fact fully complied with and all requisite documents were obtained and verified. Therefore, there was no lack of due diligence by Noticee No. 1 as incorrectly

alleged in the SCN. It was therefore denied that Noticee No. 1's conduct amounted to any failure to safeguard investor interests.

(iii) Noticee No. 1 had in fact acted with all requisite due care, diligence and independent professional judgment in accordance with the requirements set out in the Code of Conduct under the RTA Regulations, 1993/RTA Regulations, 2025. It was also denied that Noticee No. 1 failed to comply with its own internal SOP.

(iv) Noticee No. 2 drew reference to the scope and standard of "due diligence" as held in the following judgments.

(a) In *Chander Kanta Bansal v. Rajinder Singh Anand* [(2008) 5 SCC 117], the Hon'ble Supreme Court was concerned with amendment of pleadings under the Code of Civil Procedure, and placed reliance on the following definitions of "due diligence":

"16. The words 'due diligence' has not been defined in the Code. According to Oxford Dictionary (Edn. 2006), the word 'diligence' means careful and persistent application or effort. 'Diligent' means careful and steady in application to one's work and duties, showing care and effort. As per Black's Law Dictionary (18th Edn.), 'diligence' means a continual effort to accomplish something, care; caution; the attention and care required from a person in a given situation. 'Due diligence' means the diligence reasonably expected from, and ordinarily exercised by a person who seeks to satisfy a legal requirement or to discharge an obligation. According to Words and Phrases by Drain-Dyspnea (Permanent Edn. 13-A) 'due diligence', in law, means doing everything reasonable, not everything possible. 'Due diligence' means reasonable diligence; it means such diligence as a prudent man would exercise in the conduct of his own affairs."

(b) Placing reliance on the observation of the Hon'ble Supreme Court in the above matter, the Hon'ble SAT in Almondz Global Securities Limited v. SEBI (2016 SCC OnLine SAT 47), while discussing the scope of "due diligence" to be exercised by merchant bankers, made the following observation:

"52. This takes us once again to the very principle of due diligence. The diligentia that is expected of a Merchant Banker in a given case is such care as would be taken by a reasonable person. It would be the diligence or care a reasonable person would employ in a given situation. Degree of such care or diligence would, undoubtedly, differ from case to case and no straight-jacket formula can be prescribed by law. As already noted, the principle of due diligence is, by nature, incapable of being defined in precise terms and has, therefore, been left open or flexible to be determined in each case as per the existing facts and circumstances. Hon'ble Supreme Court in the case of Chander Kanta Bansal Vs. Rajender Singh Anand reported in (2008) 5 SCC 117 held that due diligence in law means reasonable diligence and doing 'everything reasonable, not everything possible'."

(c) In fact, it was noted that SEBI itself applied the test of a reasonable person, as observed by the Hon'ble Securities Appellate Tribunal

(hereinafter referred to as "**SAT**") in *Sharedeal Financial Consultants Private Limited v. Chairman, SEBI* [(2003) 4 CompLJ 148 (SAT)]:

"'Due skill, care and diligence' has not been defined in the Act or in the regulations, obviously for the reason that it is not amenable to a precise definition. Due skill, care and diligence, to a larger extent is a matter of subjectivity. However, according to the enquiry officer 'Due skill and care as used in clause A(2) of Schedule II of SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 would mean, at least such care and skill as a man of ordinary prudence would exercise under similar circumstances'. He had applied the said test while assessing the conduct of the Appellant."

(v) In view of the above, it had to be noted that the settled legal standard for due diligence was premised on whether the entity concerned did everything reasonable to discharge its legal obligation and not everything possible. Noticee No. 1 had adopted all reasonable due diligence as a person of ordinary prudence would in his own case.

(vi) Accordingly, there was no violation of clause 3 of the Code of Conduct under Schedule III to regulation 13 of the RTA Regulations, 1993 read with clause 3 of the Code of Conduct under Schedule III to regulation 15 read with regulation 38 of the RTA Regulations, 2025.

(vii) The Hon'ble SAT, while considering the appeal of an auditor against the order of SEBI in *Price Waterhouse & Co & Ors. v. SEBI* (Appeal No. 6 of 2018, Order dated September 9, 2019), in relation to, *inter alia*, the required level of due diligence, referred to and relied on the following judgments on hindsight bias:

(a) In *Bolam v. Friern Hospital Management Committee* [1957] 1 WLR 582, it was, *inter alia,* held that:

"No matter what profession it may be, the common law does not impose on those who practice it any liability for damage resulting from what in the result turn out to have been errors of judgment, unless the error was such as no reasonably well-informed and competent member of that profession could have made."

(b) In *Eckersley & Others v. Binnie & Others*, the Court of Appeal (Civ Div), *inter alia,* held that:

"In deciding whether a professional man has fallen short of the standards observed by ordinarily skilled and competent members of his profession, it is the standards prevailing at the time of his acts or omissions which provide the relevant yardsticks. He is not, as the learned Judge in this case correctly observed, to be judged by the wisdom of hindsight. This of course means that knowledge of an event which happened later should not be applied when judging acts and omissions which took place before that event..."

(viii) In *Citigroup Inc. Shareholder Derivative Litigation* (964 A.2d 106 (2009)), the Delaware Chancery Court strictly warned against the consequences of hindsight bias, or evaluation by adjudicatory bodies with the benefit of hindsight. In that case, the plaintiffs sought to impose oversight liability on the directors of Citigroup Inc. for failure to monitor the corporation's exposure to excessive risk

in relation to the problems in the subprime mortgage market, which was rejected by the court on account of hindsight bias.

(ix) In light of the facts and judicial precedents cited above, it was submitted that there had been no violation or lack of due diligence by Noticee No. 1 and SEBI ought not to have made any adverse observations against Noticee No. 1 or penalized Noticee No. 1.

(x) In view of the foregoing, Noticee No. 1 submitted that the allegations in the SCN did not establish any failure by Noticee No. 1 to comply with the applicable regulatory framework and requirements of due diligence. The dematerialisation request was supported not only by the prescribed identity and supporting documentation and a duly authenticated CML, but also by the original bonus share certificate which had been issued and dispatched to the registered address maintained in the RTA records in respect of the said folio. The request was received through a regulated DP and was subjected to substantive verification. The subsequent competing claim arose only in October 2023, well after the dematerialisation had been processed, and Noticee No. 1 thereafter acted cautiously by placing the matter/folio on hold, preserving the status quo and acting only upon the determination communicated by the competent investigating authority.

(xi) Noticee No. 1 therefore submitted that the proceedings initiated against it under section 15HB of the SEBI Act ought to be dropped with no adverse observations.

8. Noticee No. 2 submitted its reply vide email dated October 27, 2026 wherein it stated as under:

<u>Response to the allegation regarding failure to upload updated KYC documents</u>

(i) It uploaded the KYC documents of Vanita Gandhi on the CVL KRA portal on August 02, 2022, immediately after account opening.

(ii) Under clause 8 of SEBI Circular dated April 06, 2022, KRAs were mandated to validate KYC records within 2 days of receipt. It was further an admitted position that CVL KRA failed to take any action within the prescribed two-day window and placed the record on hold only on September 20, 2022, after an unexplained delay of 49 days, on the ground of address illegibility and unmasked Aadhaar number. Even thereafter, CVL KRA waited until January 07, 2023 to reject the KYC on the same grounds, taking a total of 158 days from the upload of documents by Noticee No. 2. Therefore, Noticee No. 2 could not be held liable for systemic delay and regulatory inaction on the part of the KRA.

(iii) As regards the allegation concerning failure to upload the modified address details under regulation 16(b) of the KRA Regulations, the record showed that the client submitted an address modification request on December 07, 2022, while KYC validation was still pending with CVL KRA.

(iv) Upon verification, Noticee No. 2 promptly updated the new address in its internal operational records. Under regulation 16(b) of the KRA Regulations,

when a change in KYC details came to the knowledge of the intermediary, the intermediary was responsible for uploading the updated details on the KRA system and retaining physical documents. While the physical documents were retained, the KRA portal architecture prohibited upload of modification requests when the initial KYC remained unverified or on hold. This technological barrier was expressly confirmed by CDSL in its email to SEBI dated August 31, 2026.

(v) CDSL, in the aforesaid email, stated in writing that "*CVL KRA has confirmed that modification is not permitted where the initial KYC has not been verified by the KRA."* Therefore, since the initial upload was placed on hold and later rejected, Noticee No. 2 was unable to make the modification request for change of address on the KRA portal.

(vi) Noticee No. 2 therefore could not have been penalized for omission of an act that the KRA infrastructure itself made impossible.

Response to the allegation regarding permitting Vanita Krishnakant Gandhi to execute trades without valid KYC authorization

(i) SCN asserted that Noticee No. 2 violated clause 11 read with clause 13 of SEBI Circular dated April 06, 2022. Clause 13 of the said Circular initially required validation to commence on July 01, 2022. However, by Circular dated June 24, 2022, SEBI extended the effective commencement date to August 01, 2022. Thereafter, upon specific request of KRAs, SEBI granted a further extension by Circular dated July 27, 2022, deferring commencement of validation of all KYC records to November 01, 2022. Clause 3.1 permitted existing client records to be validated within a transition window of 180 days from November 01, 2022.

(ii) When Vanita Krishnakant Gandhi opened the account on August 01, 2022, the KYC validation period had already been extended by SEBI to commence on November 01, 2022, in terms of the Circular dated July 27, 2022.

(iii) With respect to the trading activities carried out by Vanita Krishnakant Gandhi, Noticee No. 2 had already clarified through its email communications dated September 1, 2026 and September 2, 2026 that, in its capacity as stockbroker, it provided an automated online trading platform to the client. The client placed the online sell orders directly through the internet-based trading facility without broker intervention.

(iv) Upon execution of the trades on the stock exchange platform, binding settlement pay-in obligations arose against the broker and accordingly, to meet exchange obligations and prevent trade default, Noticee No. 2 instructed release of shares. In such circumstances, Noticee No. 2 could not be held liable for trades executed by the client on her own accord, without intervention from the broker.

(v) The account of Vanita Krishnakant Gandhi was opened on August 01, 2022 and her KYC documents were uploaded on the CVL KRA system on August 02, 2022. Both events took place before November 01, 2022, the date from which validation of KYC records, both new and existing, was to commence

under clause 3.2 of the Circular dated July 27, 2022. Her record therefore constituted the record of an existing client as on November 01, 2022, and under clause 3.1 of the said Circular the KRA had a period of 180 days from November 01, 2022 to validate it.

(vi) The 54,000 bonus shares were credited to the demat account on January 05, 2023 and the client began placing sell orders on the same day. CVL KRA rejected the KYC record only on January 07, 2023. On January 05, 2023, there was no finding by the KRA that the record was invalid, and clause 11 of the Circular dated April 06, 2022 therefore could not apply to transactions of that day, although the period alleged in the Show Cause Notice began on that date.

(vii) Clause 11 of the Circular dated April 06, 2022 provided that clients whose KYC records were not found valid by the KRA after the validation process were to be allowed to transact only after their KYC was validated. Read as a whole, the Circular placed its obligations on the KRAs. Clause 4 required the KRAs to develop systems and mechanisms for validation in consultation with SEBI, and clause 6 required the KRAs to promptly inform intermediaries of any deficiency observed in the KYC documents. Clause 11 did not set out any step to be taken by the intermediary, any timeline for such step, or any mechanism such as blocking of the trading or demat account. Therefore, no penalty could have been founded on an obligation that the Circular did not place on the intermediary in clear terms.

(viii) The rejection dated January 07, 2023 was based on the same two grounds on which the record had been kept on hold, namely legibility of the address and the unmasked Aadhaar number. Both grounds related to the form of the documents uploaded. By that time, the client had already submitted an address modification request to Noticee No. 2 on December 07, 2022 along with original Aadhaar verification and, as stated in paragraph 6 above, the KRA system did not permit upload of this modification while the initial KYC remained unverified.

(ix) The date from which unvalidated records were to be treated as invalid was itself extended. By communiqué no. CVL/OPS/INTERM/GENRL/23-166 dated May 23, 2023, CVL KRA informed intermediaries that under its earlier communiqué no. CVL/OPS/INTERM/GENRL/23-165 they had been asked to get clients' KYC validated by May 22, 2023 so that deficient records would not be treated as invalid. The same communiqué recorded that SEBI, on representations from market participants regarding difficulties faced by intermediaries in validating KYCs, extended this timeline to August 18, 2023. A deficient record therefore was not to be treated as invalid before August 18, 2023. The entire period alleged in the Show Cause Notice, from January 05, 2023 to May 30, 2023, fell before that date, and the client's last sale of shares of Balkrishna Industries Limited took place on May 29, 2023.

(x) SEBI subsequently reviewed the framework under the Circular dated April 06, 2022. By Circular dated August 11, 2023, SEBI recorded in clause 1 that the provisions were reviewed on the basis of stakeholder feedback and for ease of

onboarding of clients. Clause 2 of that Circular defined the KYC process as obtaining proof of identity and proof of address of the client, and clause 4 allowed the client to open an account and transact as soon as the KYC process was completed. Verification by the KRA under clauses 5 to 8 was a later step under the risk management framework. Clause 13 rescinded the Circular dated April 06, 2022 with effect from September 01, 2023. In the present case, Noticee No. 2 completed the KYC process before opening the account, including In-Person Verification and scrutiny of the original documents, as recorded at Sr. No. 1 of the chronology in paragraph 5 above.

(xi) For existing records based on OVDs other than Aadhaar, clause 14 of the Circular dated August 11, 2023 allowed 90 days from September 01, 2023 for verification. As recorded in NDML KRA circular no. NDML/POLICY/2023-0012 dated December 29, 2023, this deadline was extended to December 31, 2023 by the SEBI Master Circular dated October 12, 2023, and thereafter to March 31, 2024 by SEBI email dated December 28, 2023. By communiqué no. CVL/OPS/INTERM/GENRL/23-184 dated December 28, 2023, CVL KRA advised intermediaries to ask investors to rectify deficiencies in their KYC records relating to PAN, email id, mobile number or OVD by March 31, 2024. Records not rectified by that date were to be put on hold and treated as invalid, and only thereafter were such investors to be stopped from transacting.

(xii) After May 29, 2023, the client's only transaction in Balkrishna Industries Limited was a purchase on September 08, 2023, and her last trade in any scrip in the trading account took place on February 01, 2024. All of these dates fell before March 31, 2024. Noticee No. 2 froze the client's account on November 27, 2024 on the basis of the police complaint.

(xiii) The root cause of Vanita Krishnakant Gandhi's grievance lay entirely in the processing of the demat request by Noticee No. 1. The Examination Report documented that the RTA failed to conduct EDD under SEBI Circular dated April 20, 2018. The RTA further failed to reconcile the address on the demat request with the registered address in its Register of Members and overlooked discrepancies between the second holder's name and its internal records. Noticee No. 2 had no access to the Register of Members or historical physical records. Noticee No. 2 therefore could not be held responsible for the RTA's failure to discharge its statutory Enhanced Due Diligence duties.

(xiv) Insofar as imposition of penalty on Noticee No. 2 for the violations mentioned in the SCN was concerned, the Adjudicating Officer was required to consider the factors set out under section 15J of the SEBI Act, 1992, reproduced below:

(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.

(xv) SEBI did not allege anywhere in the SCN that any disproportionate gain or unfair advantage, wherever quantifiable, was made by Noticee No. 2 as a result of the alleged defaults. As regards the question of loss to the investor, namely Vanita Krishnakant Gandhi, the record clearly demonstrated that the loss caused to the investor resulted from wrongful dematerialization of shares by the RTA, which failed to carry out Enhanced Due Diligence. Noticee No. 2, in its capacity as intermediary, carried out the necessary due diligence before submitting the request to the KRA. In fact, the factual position showed that Noticee No. 2 itself was defrauded by the impersonator, as a result of which loss was caused to the rightful investor. It was also not SEBI's case in the Show Cause Notice that there had been findings against Noticee No. 2 in respect of similar allegations in the past. Therefore, on these grounds as well, no penalty ought to have been imposed on Noticee No. 2.

9. Pursuant to the request made by Noticee No. 1, an inspection of documents was conducted on October 28, 2026.

10. An opportunity of hearing was granted to the Noticees on October 28, 2026. On the said date, Mr. Peshotaman Modi and Mr. Rushin S. Kapadia, authorised representatives of Noticee No. 1, attended the hearing and reiterated the submissions already made on its behalf. Further, Mr. Ravichandra Hegde, Ms. Mitravinda Chunduru, Ms. Richa Seth, Mr. Brijesh Bhatt, and Mr. Neeraj Agarwal, authorised representatives of Noticee No. 2, attended the hearing. At the request of Noticee No. 2, time was granted until October 29, 2026 for filing additional submissions.

11. Subsequently, Noticee No. 2, vide email dated October 29, 2026, submitted its additional reply wherein it reiterated its submissions made vide letter dated October 27, 2026.

12. Further, Noticee No. 1, vide email dated November 12, 2026, submitted an additional reply in relation to the inspection of documents. In response, additional documents were furnished to Noticee No. 1 vide email dated November 16, 2026, and further time was granted to make additional submissions, if any. Thereafter, Noticee No. 1 submitted its response vide email dated November 20, 2026.

CONSIDERATION OF ISSUES AND FINDINGS

13. 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 No. 1 failed to exercise adequate due diligence while processing the request and thereby violated clause 3 of Code of Conduct under Schedule III under regulation 13 of RTA Regulations, 1993 read with clause 3 of Code of Conduct under Schedule III under regulation 15 read with regulation 38 of RTA Regulations, 2025?

II. Whether Noticee No. 1 failed to exercise EDD and thereby violated clauses II.13 and II.14 of Annexure to SEBI Circular dated April 20, 2018 read with clauses II.12 and 13 of Annexure 6 of Section XII- Annexures to SEBI Circular dated February 06, 2026 along with clause 3 of Code of Conduct under Schedule III under regulation 13 of RTA Regulations, 1993 read with clause 3 of Code of Conduct under Schedule III under regulation 15 read with regulation 38 of RTA Regulations, 2025?

III. Whether Noticee No. 2 failed to upload the updated details on the system of CVL KRA and thereby violated clause A(2) of Schedule II of Code of Conduct read with regulation 9(f) of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with regulations 36(2)(a) and 51 of Stock Brokers Regulations, 2026 along with clause 4 of code of conduct for participants under part A of Third Schedule read with regulation 37 of Depositories Regulations, 2018?

IV. Whether Noticee No. 2 allowed transactions in aforesaid trading and demat account without KYC records validation with CVL KRA and thereby violated clause 11 read with clause 13 of SEBI Circular dated April 06, 2022 read with clause 2 of SEBI Circular dated June 24, 2022 read with clause 3 of SEBI Circular dated July 27, 2022?

V. Does the violation, if any, on the part of Noticees attract a monetary penalty under section 15HB of the SEBI Act?

VI. If so, what would be the monetary penalty that can be imposed upon Noticees taking into consideration the factors stipulated in section 15J of the SEBI Act?

14. The text of the abovementioned alleged provisions is given below:

RTA Regulations, 1993

"13. To abide by Code of Conduct.— Every registrar to an issue and share transfer agent holding a certificate shall at all times abide by the Code of Conduct as specified in Schedule III.

Code of Conduct under Schedule III

A Registrar to an Issue and Share Transfer Agent shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment."

RTA Regulations, 2025

"15. Every registrar to an issue and share transfer agent shall at all times abide by the Code of Conduct as specified in Schedule III.

38.(1) On and from the commencement of these regulations, the Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 shall stand repealed.

(2) Notwithstanding such repeal, anything done or any action taken or purported to have been done or taken including any observation made in respect of inspection, any enquiry or investigation commenced or show cause notice issued in respect of the said Regulations shall be deemed to have been done or taken under the corresponding provisions of these regulations.

(3) After the repeal of Securities and Exchange Board of India (Registrar to an Issue and Share Transfer Agents) Regulations, 1993, any reference thereto in any other regulations made, guidelines or circulars issued thereunder by the Board shall be deemed to be a reference to the corresponding provisions of these regulations.

Code of Conduct under Schedule III

3. A Registrar to an Issue and Share Transfer Agent shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment."

Depositories Regulations

"37. The participant holding a certificate of registration shall, at all times, abide by the Code of Conduct as specified in Part A of Third Schedule.

Part A of Third Schedule

4. A participant shall be prompt and diligent in opening of a beneficial owner account, dispatch of the dematerialisation request form, rematerialisation request form and execution of debit instruction slip and in all the other activities undertaken by him on behalf of the beneficial owners."

SEBI Circular dated April 06, 2022

"11. Clients whose KYC records are not found to be valid by KRA after the validation process shall be allowed to transact in securities market only after their KYC is validated.

…

13. The validation of all KYC records (new and existing) shall commence from July 01, 2022."

SEBI Circular dated June 24, 2022

"2. SEBI has received requests from the KRAs to extend the timelines for applicability of the clause 9 and clause 13. After consideration, it has been decided that:

2.1.KYC records of all existing clients (who have used Aadhaar as an OVD) shall be validated within a period of 180 days from August01, 2022.

2.2. The validation of all KYC records (new and existing) shall commence from August 01, 2022."

SEBI Circular dated July 27, 2022

"… 3. In this regard, considering the KRA's request for extension of the timeline for applicability of the said clauses 9 and 13, it has been decided that:

3.1. KYC records of all existing clients (who have used Aadhaar as an OVD) shall be validated within a period of 180 days from November 01, 2022.

3.2. The validation of all KYC records (new and existing) shall commence from November 01, 2022. …"

Stock Broker Regulations, 1992

"9. Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely,-

…

(f) he shall at all times abide by the Code of Conduct as specified in Schedule II;

Schedule II

A. General

…

(2) Exercise of due skill and care: A stock-broker shall act with due skill, care and diligence in the conduct of all his business. …"

Stock Broker Regulations, 2026

"36. … (2) Diligence, honesty and fairness: A stock broker shall–

(a)act honestly, fairly and with due skill, care and diligence and in the interest of investors while conducting its business ….

51. (1) On and from the commencement of these regulations, the Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 shall stand repealed.

(2)Notwithstanding such repeal–

(a)anything done or any action taken or purported to have been done or taken including registration or approval granted, fees collected, registration or approval, suspended or cancelled, inspection, any adjudication, any enquiry or investigation commenced or show cause notice issued under the repealed regulations, prior to such repeal, shall be deemed to have been done or taken under the corresponding provisions of these regulations;

(b)any application made to the Board under the repealed regulations, prior to such repeal, and pending before it shall be deemed to have been made under the corresponding provisions of these regulations;

(c)the previous operation of the repealed regulations or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the repealed regulations, any penalty incurred in respect of any violation committed against the repealed regulations, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty as aforesaid, shall remain unaffected as if the repealed regulations has never been repealed.

(3)After the repeal of the Securities and Exchange Board of India (Stock Brokers) Regulations, 1992, any reference thereto in any other regulations, guidelines or circulars issued thereunder by the Board shall be deemed to be a reference to the corresponding provisions of these regulations."

SEBI Circular dated April 20, 2018

"II. 13. The Issuer Company and RTAs shall exercise enhanced due diligence in following cases:

i. Where dividend/interest/redemption remains unpaid for three years & above

ii. PAN / bank account details not available in the folio.

iii. Unclaimed suspense account constituted pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations.

iv. IEPF suspense account set up pursuant to Companies Act 2013.

v. Any other stringent criteria as decided by the Issuer Company and the RTAs.

RTAs shall maintain a list of such account folios and share with the Issuer Company at the end of every quarter of a financial year.

II. 14. RTAs shall have system based alerts for processing of all transactions in such account folios referred above in para 13. In case any request for transactions is received from such folios, the Issuer Company and RTAs shall exercise enhanced due diligence. For the purpose of exercising enhanced due diligence, Issuer Companies and/or RTAs shall call for documents related to proof of identity/address, PAN and bank details, and such other additional procedures that would enable the Issuer Company/RTA to reasonably satisfy itself about the genuineness of the request.

SEBI Circular dated February 06, 2026

"12.The Issuer Company and RTAs shall exercise enhanced due diligence in following cases:

a. Where dividend/interest/redemption remains unpaid for three years & above

ii. PAN/bank account details not available in the folio.

iii. Unclaimed suspense account constituted pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations.

iv. IEPF suspense account set up pursuant to Companies Act 2013.

v. Any other stringent criteria as decided by the Issuer Company and the RTAs.

RTAs shall maintain a list of such account folios and share with the Issuer Company at the end of every quarter of a financial year

13. RTAs shall have system based alerts for processing of all transactions in such account folios referred above in para 12. In case any request for transactions is received from such folios, the Issuer Company and RTAs shall exercise enhanced due diligence. For the purpose of exercising enhanced due diligence, Issuer Companies and/or RTAs shall call for documents related to proof of identity/address, PAN and bank details, and such other additional procedures that would enable the Issuer Company/RTA to reasonably satisfy itself about the genuineness of the request."

15. The issues raised in this matter are dealt in the following paragraphs.

Preliminary Objection

16. Before dealing with the issues involved, I would like to address the preliminary submissions made by Noticee No. 1. Noticee No. 1 submitted that SEBI, having declined to adjudicate which of the competing claimants is the genuine shareholder and having left that question to the competent authorities or courts, cannot reasonably expect Noticee No. 1 to have investigated and uncovered the alleged fraud. It was contended that the determination of title is a prerequisite to any finding of fraud or forgery, and that, absent such a determination, no standard of diligence can fairly be applied to Noticee No. 1's conduct. It was therefore submitted that, if the issue of ownership is reserved for determination by another forum, the related question of whether Noticee No. 1 failed to exercise due diligence should likewise be left to be decided by that same forum, so as to avoid inconsistent findings.

17. Upon perusal of the material on record, it is evident that the dispute concerning title and ownership of the shares, together with the allegations of fraud and forgery, is not the subject matter of the present proceedings. The scope of the present proceedings is confined to examining whether the SEBI-registered market intermediaries concerned complied with the applicable SEBI regulations, circulars and the extant regulatory framework while processing the request(s) in question. This proceeding does not depend on the adjudication of competing claims to title. Accordingly, matters pertaining to the dispute on title or ownership of the shares, and to the allegations of fraud or forgery, do not fall within the purview of the present proceedings, and no finding on them is recorded herein. Any observation made in this order is limited to the regulatory compliance of the intermediaries and shall not prejudice the determination of those issues by the appropriate forum.

18. Noticee No. 1 further stated that the emails dated June 09, 2026, July 30, 2026 and August 3, 2026 along with reply to email dated June 09, 2026 were not provided during inspection. I note that the emails dated June 09, 2026, July 30, 2026 and August 3, 2026 along with reply to email dated June 09, 2026 are internal correspondence between various departments of SEBI whereby forming part of its internal process and have not been relied upon in the SCN. In this regard, I take note of the decision of the Hon'ble SAT in the matter of *Madhyam Agrivet Industries Ltd. v. SEBI*[8] wherein it was, *inter alia,* held as under:

> *"…. Similarly, internal notings and inter-departmental transfers are part of a process within the Board which culminates in the Investigation Report and finally leads to issuance of the show cause notices. …"*

19. I note that all available documents were provided to Noticee No. 1 along with the SCN, during the course of inspection and vide email dated November 16, 2026. Considering the aforesaid, I note that all the documents that are relied upon and/or relevant for the Noticee No. 1 to prepare its defense against the allegations in the SCN have been provided to it, and no prejudice has been caused.

20. Accordingly, I find the instant submission of Noticee No. 1 lacks merit and is rejected. I shall now proceed to deal with the issues involved on merits.

[8] Appeal No. 258 of 2024.

I. **Whether Noticee No. 1 failed to exercise adequate due diligence while processing the request and thereby violated clause 3 of Code of Conduct under Schedule III under regulation 13 of RTA Regulations, 1993 read with clause 3 of Code of Conduct under Schedule III under regulation 15 read with regulation 38 of RTA Regulations, 2025?**

II. **Whether Noticee No. 1 failed to exercise EDD and thereby violated clauses II.13 and II.14 of Annexure to SEBI Circular dated April 20, 2018 read with clauses II.12 and 13 of Annexure 6 of Section XII- Annexures to SEBI Circular dated February 06, 2026 along with clause 3 of Code of Conduct under Schedule III under regulation 13 of RTA Regulations, 1993 read with clause 3 of Code of Conduct under Schedule III under regulation 15 read with regulation 38 of RTA Regulations, 2025?**

21. It was alleged in the SCN that Noticee No. 1, was required to exercise EDD while processing the demat/ name deletion request received on December 23, 2022 (hereinafter referred to as "**request dated December 23, 2022**") in view of the following circumstances:

    (i) PAN/bank details/KYC/signature was not available/updated in the folio. Accordingly, the folio should have been marked for EDD as per SEBI Circular dated April 20, 2018 and EDD ought to have been exercised while processing any request in respect of the said folio.

    (ii) There was an address mismatch between the address in the documents submitted with the demat request.

    (iii) Multiple dividend warrants sent to the registered address had returned undelivered since 2016.

    (iv) The value of 54,000 shares lodged for dematerialisation at the time of dematerialisation requests was approximately Rs. 11.19 crore.

    (v) Name mismatch in the second holder name as per the documents submitted (Mrs. Sudha Bharatbhai Gandhi) vis-à-vis the records of the RTA (Mrs. Sudha B. Gandhi) in relation to the name deletion request submitted along with the dematerialisation request.

    (vi) RTA's dematerialisation SOP applicable at the time of receipt of request, *inter alia,* provided for an escalation mechanism depending on the lodgment

status in doubtful cases. In the present matter, a part-dematerialisation request was lodged, inasmuch as the request pertained only to 54,000 bonus shares under share certificate no. 126349, and not to the remaining 54,000 shares standing in the folio under share certificate no. 00453. It is stated that despite the aforesaid circumstance, the shares were dematerialized without raising any objection or undertaking re-verification, as required under the Noticee No. 1's SOP.

22. The record shows that Noticee No. 1 was in possession only of the following particulars: (i) the names of the shareholders; and (ii) the address in respect of the relevant folio. It is further noted from the record that the said folio did not contain certain critical particulars, including PAN details, bank details, KYC particulars, and specimen signatures. Consequently, it was expected that Noticee No. 1 would exercise EDD by calling for documents related to proof of identity/ address, PAN and bank details, and such other additional procedures that would enable it to reasonably satisfy itself about the genuineness of the request in terms of clauses II.13 and II.14 of Annexure to SEBI Circular dated April 20, 2018.

23. It is not in dispute that the request dated December 23, 2022, was not a simpliciter dematerialisation request, but, in substance, a transmission-cum-dematerialisation request. The material available on record further reflects that the said request was confined exclusively to the 54,000 bonus shares allotted in the year 2017. It is further evident from the record that the said request was accompanied by, *inter alia*, the following supporting documents:
    (i) Original bonus shares certificates,
    (ii) ISR-1 (Register/Change PAN & KYC Details),
    (iii) ISR-2 (Confirmation of Signature of securities holder by Bank),
    (iv) PAN card,
    (v) Aadhaar Card of Vanita Krishnakant Gandhi,
    (vi) Affidavit for change of signature,
    (vii) CML attested copy by DP,
    (viii) Death certificate of Sudha Bharatbhai Gandhi, and
    (ix) Transmission cum demat form authenticated by DP.

24. It is an admitted position that the address furnished in the request dated December 23, 2022 did not correspond to the address registered in the records. Furthermore, the name of the second holder as stated in the documents read as Mrs. Sudha Bharatbhai Gandhi while the name recorded with Noticee No. 1 was Mrs. Sudha B. Gandhi.

25. With respect to the discrepancy in the address, Noticee No. 1 contended that the request for change of address was duly supported by the requisite documents. In this regard, I note that the remit of the present proceedings is not to examine whether the forms submitted, or the documents furnished in support of the request dated December 23, 2022, suffered from any material deficiency on their face. Rather, the remit of the present proceedings is to examine whether Noticee No. 1 exercised the requisite due diligence while processing the said request. The mere fact that the request was accompanied by supporting documents does not, by itself, inexorably lead to the conclusion that Noticee No. 1 had acted with due diligence. The issue, here, extends to whether, in the facts and circumstances of the case, the request was processed with the degree of care, caution, and scrutiny expected of a registered intermediary. In this regard, I take note of paragraph 2.5 of SEBI Circular No. SEBI/HO/MIRSD/MIRSD_RTAMB/P/CIR/2021/655 dated November 03, 2021[9], titled "Common and Simplified Norms for processing investor's service request by RTAs and norms for furnishing PAN, KYC details and Nomination", which reads as under:

> *"2.5.* ***Documents for Proof of Address***
> *2.5.1.The RTA shall obtain any one of the following documents from the holder / claimant, if the address is not available in the folio or for processing the request for its change;*
> *a) Valid Passport/ Registered Lease or Sale Agreement of Residence/ Driving License/ Flat Maintenance bill.*
> *b) Utility bills like Telephone Bill (only land line), Electricity bill or Gas bill -Not more than 3 months old.*
> *c)Identity card / document with address, issued by any of the following: Central/State Government and its Departments, Statutory / Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions*
> *d)For FII / sub account, Power of Attorney given by FII / sub-account to the Custodians (which are duly notarized and / or apostilled or consularised) that gives the registered address should be taken.*
> *e) The proof of address in the name of the spouse.*

[9]Available at https://www.sebi.gov.in/legal/circulars/nov-2021/common-and-simplified-norms-for-processing-investor-s-service-request-by-rtas-and-norms-for-furnishing-pan-kyc-details-and-nomination_53787.html

f) Client Master List (CML) of the Demat Account of the holder / claimant, provided by the Depository Participant.
2.5.2. RTAs shall forthwith send intimation about the request for change in address to the holder at both the old and new addresses by Speed post, providing, timeline of 15 days for raising objection, if any.
a)In the absence of any objection, the request shall be processed.
b) If any one of the letter returns undelivered or if there is an objection, the RTA shall obtain any one of the documents mentioned above reflecting the old address as available in the folio or counterfoil of dividend warrant received from the company or bank statement showing credit of dividend.…" (Emphasis supplied)

26. In the present case, I note that the request dated December 23, 2022 was, *inter alia,* accompanied by the CML furnished by Noticee No. 2 and Aadhaar card of Ms. Vanita Krishnakant Gandhi. However, paragraph 2.5.2 of SEBI Circular dated November 03, 2021, unequivocally required Noticee No. 1, before acting upon the request, to send an intimation inviting objections to both the existing address and the proposed new address. This requirement is not merely procedural in nature. A change of address affects a foundational detail in the investor's records and, therefore, warrants a heightened degree of care and verification. In the instant matter, Noticee No. 1 has neither contended nor demonstrated that any such intimation was sent to either of the two addresses. It is equally not its case that any clarification was sought or any further document was called for before the request was processed. Such omission, in the face of an express regulatory requirement, cannot be brushed aside especially when the folio warranted EDD. The reliance placed on the CML, the Aadhaar card, and the documents stated to have been verified by Union Bank of India did not obviate compliance with the then express regulatory mandate. In these circumstances, I am of the considered view that Noticee No. 1 was required to issue the prescribed intimation or seek clarification or additional supporting documents before processing the request for change of address. Its failure to do so militates against the standard of due diligence expected of a registered intermediary. Had Noticee No. 1 complied with clause 2.5.2 of the said Circular, it is possible that the intimation sent to the recorded address might have returned undelivered or an objection might have been received. In either case, Noticee No. 1 would then have been compelled to obtain one of the documents contemplated under the Circular. These could include a document reflecting the old address as recorded in the folio, the counterfoil of a dividend warrant received from the company, or a bank statement showing credit of dividend. They were substantive verification measures and were meant to establish

a clear link between the request and the original shareholder. In this context, the contention advanced by Noticee No. 1 is liable to be rejected.

27. Noticee No. 1 denied that the difference between "Sudha B. Gandhi" in the RTA records and "Sudha Bharatbhai Gandhi" in the submitted documents was a material discrepancy. It stated that the share certificates used "Sudha B. Gandhi," and "Sudha Bharatbhai Gandhi" was only the expanded form of the abbreviated middle name. It added that the second holder had died and the first holder had provided the original death certificate with a verifiable QR code. It further argued that the identity details were substantially consistent and that the name variation did not amount to a mismatch or indicate fraud or impersonation.

28. At this stage, it would be apposite to refer once again to the SEBI Circular dated November 03, 2021, which, *inter alia*, stipulates as under:

> *"… **2.3. Mismatch in name***
> *a) For minor mismatch in name between any two set of documents presented by holder / claimant for any service request, the RTA shall additionally obtain any one of the following documents, explaining the difference in names;*
> *Unique Identification Number (UID) (Aadhaar)*
> *Valid Passport*
> *Driving license*
> *PAN card with photograph*
> *Identity card / document with applicant's Photo, issued by any of the following: Central / State Government and its Departments, Statutory / Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions.*
> *Marriage certificate*
> *Divorce decree*
> *The existing norms of the Depositories, to process demat request where there is a minor mis-match on account of initials not being spelt out fully, or put after or prior to surname, provided the signature in the Demat Request Form (DRF) matches with the signature card with the RTA, shall continue to be in force. …"* (Emphasis supplied)

29. On a plain construction of the aforesaid provision, it is clear that the said SEBI Circular does not equate a minor mismatch with the complete absence of any mismatch. It is noted that the SEBI Circular recognises minor mismatch including initials not being spelt out in full as a distinct category and requires RTA to undertake additional steps explaining the difference in the name. The use of the word "shall" shows that the requirement is not discretionary rather it is obligatory and mandatory.

30. Applying the aforesaid mandate to the facts of the present case, I note that there was a minor mismatch in the name of the second shareholder, as reflected in the

share certificates and the records of Noticee No. 1, viz., “Sudha B. Gandhi”, vis-à-vis the name appearing in the death certificate, viz., “Sudha Bharatbhai Gandhi”. The submissions of Noticee No. 1 themselves reinforce this position. The mere repetition of the abbreviated name in the transmission-cum-demat form does not cure the discrepancy, nor does it discharge the independent obligation of due diligence cast upon Noticee No. 1 under the extant regulatory framework. The said form, by itself, cannot establish that both names pertained to one and the same person. It is further noted that the latter part of the relevant paragraph of the Circular is predicated upon the signature on the DRF matching the specimen signature card available with the RTA. In the instant case, however, it is an admitted position that Noticee No. 1 did not have the specimen signature card for the said folio. It is also not its case that any such verification was undertaken. Therefore, the relaxation contemplated under the said paragraph was not available to Noticee No. 1. In the circumstances, I am of the considered view that the requirement under paragraph 2.3(a), insofar as it required an explanatory document to address the discrepancy, applied in full to the present case. Accordingly, the contention of Noticee No. 1 that there was no mismatch at all is liable to be rejected.

31. Viewed in the above background, it is an admitted position that Noticee No. 1 did not obtain any additional document or clarification to explain or reconcile the discrepancy in the name of the second shareholder, namely, “Sudha B. Gandhi”. It is also not the case of Noticee No. 1 that the PAN and Aadhaar obtained by it pertained to the said second shareholder. At best, the documents relied upon by Noticee No. 1 establish the identity of the person who presented them, i.e., Vanita Krishnakant Gandhi. However, the documents so adduced do not establish that the deceased named in the death certificate and the second holder recorded in the folio were one and the same person. In the facts of the present case, particularly when the folio required EDD as it contained no material particulars beyond the names and address of the shareholders, Noticee No. 1 was expected to act with a high degree of prudence and care. Its failure to seek the requisite supporting documentation or clarification, therefore, leads to the conclusion that the conduct of Noticee No. 1 fell short of the standard of due diligence expected of a registered

intermediary. Accordingly, the present submission of the Noticee No. 1 cannot be accepted.

32. Noticee No. 1 further stated that the bonus share certificate had been issued and delivered to the recorded address and was never returned undelivered, so receiving the original certificate with the dematerialisation request gave it no reason to doubt the request's authenticity or the applicant's identity. Further, it was submitted that at least seven dividend warrants issued in the name of Mrs. Vanita Krishnakant Gandhi were encashed in Vadodara between February 23, 2017 and December 5, 2022, including five at the Union Bank of India branch whose particulars matched the bank details furnished with the dematerialisation request dated December 23, 2022. The issue in the present case is confined to whether Noticee No. 1 exercised the requisite due diligence while processing the request dated December 23, 2022. The mere production of the original bonus share certificate, or the fact that certain dividend warrants were encashed through the same bank account, could not dispense with the regulatory obligation to undertake the prescribed due diligence. That obligation was mandatory in nature. As noted in the preceding paragraphs, Noticee No. 1 has not established compliance with the applicable due diligence requirements. I further note that it is not the case of Noticee No. 1 that the dividend encashment details, furnished as Annexure F to its reply, were available with it at the time of processing the transmission-cum-demat request. There is no contemporaneous material to show that such details were considered while processing the request. *Prima facie*, these encashment details appear to have been obtained subsequently to support its plea of due diligence. It is pertinent to mention that Noticee No. 1's reply is also silent on how these encashment details were obtained. Furthermore, the bank account details furnished with the request dated December 23, 2022 related to a bank account opened in July 2021 and reflected the address of Vanita Krishnakant Gandhi, which was inconsistent with the address recorded in the ROM. In view of this discrepancy, and particularly having regard to the fact that the folio was subject to EDD, Noticee No. 1 was required to call for additional documents or clarification before acting upon the request which admittedly was not done in the present case. Accordingly, the aforesaid contention does not merit further consideration.

33. Noticee No. 1 sought to attribute the lapse to the alleged negligence of the shareholders, on the ground that they failed over the years to intimate change of address, encash dividends, update KYC particulars, seek dematerialisation, or report the death of the second shareholder. I note that the obligation cast upon Noticee No. 1, as a SEBI registered RTA, to exercise due diligence while processing investor service requests is an independent and non-delegable regulatory obligation. Such obligation cannot be diluted by pointing to alleged lapses on the part of the shareholders. I further note that the scope of the present proceedings is confined to examining whether Noticee No. 1 discharged the obligations cast upon it under the applicable regulatory framework. The question whether any other intermediary or the shareholders themselves may also have been at fault does not fall for determination herein and is wholly irrelevant to the adjudication of the conduct of Noticee No. 1. The attempt to deflect attention from its own regulatory failure by imputing negligence to the shareholders is, therefore, liable to be rejected. Further, I place reliance on the observations made by the Hon'ble SAT in the matter of *Systematix Shares & Stocks (India) Limited v. SEBI*[10], wherein it was, *inter alia*, held that:

> *"...It is true that the Board has taken action selectively against a few entities involved in the alleged wrong doing. According to the appellant the Board should have proceeded against all wrong doers and the action against the appellant and a few entities alone is also discriminatory. We cannot subscribe to this view since the Board has set its own benchmark in selecting cases for action and, in any case, the appellant cannot plead himself innocent or his trades as lawful."*

34. Furthermore, in respect of the contention of the Noticee No. 1 that their liability stands mitigated on the ground that there were lapses, if any, by the shareholders or Noticee No. 2, I take note of the judgment of the Hon'ble Supreme Court in the matter of *Kotak Mahindra Asset Management Company Limited v. SEBI*[11], wherein it was, *inter alia*, held that:

> "*This contention must be and is rejected in its entirety, as has been rightly done by the WTM and the TRIBUNAL. Apart from the established principle that negative equality cannot be claimed, there is ex facie violation of the 1996 Regulations. KOTAK AMC can neither seek shelter under the alleged violations of others to justify its own breach nor would existence of other violations, if at all, absolve KOTAK AMC of its own liability....."*

35. Therefore, the fact that there may or may not have been delay on the part of the shareholders does not absolve Noticee No. 1 of its independent statutory

[10] Appeal No. 21 of 2012.
[11] 2026 INSC 681.

obligations under the securities laws. The liability of Noticee No. 1 falls to be assessed on the basis of its own acts of omission and commission, and not by reference to any alleged lapse on the part of the shareholders or Noticee No. 2. Accordingly, the said contention of Noticee No. 1 cannot be accepted.

36. Noticee No. 1 argued that the SCN does not identify any provision which required an RTA to insist that all securities held by a shareholder must necessarily be dematerialised simultaneously. In this regard, I note that it is trite law that no charge can be sustained unless it is anchored in a specific legal obligation, and the principles of natural justice mandate that such obligation be expressly delineated in the SCN so that the Noticee is fully apprised of the case it has to meet. A perusal of the SCN reveals that it does not identify any statutory or regulatory mandate requiring Noticee No. 1 to insist upon the simultaneous dematerialisation of the bonus share certificate together with the original share certificate. Section 5 of the Depositories Act, 1996 reads as under:

> *"Any person, through a participant, may enter into an agreement, in such form as may be specified by the bye-laws, with any depository for availing its services."*

37. Section 6(1) of the Depositories Act, 1996 further stipulates:

> *"Any person who has entered into an agreement under section 5 shall surrender the certificate of security, for which he seeks to avail the services of a depository, to the issuer in such manner as may be specified by the regulations."*

38. A plain reading of section 6(1) makes it evident that the obligation to surrender applies strictly to the specific certificate of security *"for which he seeks to avail the services of a depository."* Consequently, the process of dematerialisation is voluntary in nature, initiated solely at the option of the security holder, and extends only to those specific certificates that the holder elects to surrender. Therefore, it falls outside the statutory remit of an RTA to compel a security holder to dematerialise additional certificates, or to dictate the sequence or timing thereof. In the absence of any statutory or regulatory provision casting such a duty upon the RTA, Noticee No. 1 cannot be held liable for not insisting upon the simultaneous dematerialisation of the primary share certificate along with the bonus share certificate. The contention of Noticee No. 1 is accordingly accepted.

39. Noticee No. 1 argued that the SCN has misinterpreted its SOP on dematerialisation as the clause 7.4 applies only to signature-mismatch cases. It submitted that no

such case arose here, since no specimen signature was available. It has further contended that the applicant's signature was otherwise verified through Union Bank of India, Noticee No. 2, the CML, and the PAN card. It has also stated that no NSDL/CDSL record was available for cross-verification. According to Noticee No. 1, full due diligence was nevertheless undertaken, including KYC updation. Accordingly, it submitted that there was no violation of its SOP. In this background, clause 7.4 of Noticee No. 1's SOP, titled "Approved Cases – Checker" is reproduced below:

> *"For Signature matching cases, we verify the DRN details with the NSDL/CDSL downloaded data to ensure whether electronic request is raised. For doubtful cases, we verify for the lodgment status (part / full shares), paid status of dividend, any counterclaims etc. If any discrepancy is found, the documents are escalated to the next level for marking an objection / re-verification."*

40. Upon a plain reading of the aforesaid clause, I find that it operates at the checker stage in respect of requests that have already crossed the maker-level scrutiny after signature verification. The expression "doubtful cases" occurring therein cannot, in my view, be read in a constricted or pedantic manner so as to confine its operation only to cases involving signature-related concerns. Such an interpretation would be contrary both to the text and the scheme of the clause. Accordingly, the expression "doubtful cases" must be given a purposive construction so as to include all approved requests that, on the basis of attendant facts or discrepancies, call for further verification, objection, or escalation.

41. In the facts of the present case, the absence of material particulars in the folio, called for closer scrutiny at the checker stage. The position was, therefore, not free from doubt. In such circumstances, a higher degree of caution was expected. Therefore, the said clause of the SOP does not assist Noticee No. 1. On the contrary, it supports the conclusion already reached that the request ought to have been subjected to further verification and heightened scrutiny. It also does not detract from, or dilute, the independent legal obligation cast upon Noticee No. 1 under the applicable regulatory framework. Accordingly, the contention advanced by Noticee No. 1 does not merit further consideration.

42. Noticee No. 1 contended that the reference to an escalation mechanism for "doubtful cases" is inapplicable to the facts of the present case, on the ground that the documents submitted did not disclose any circumstance giving rise to doubt. In

this regard, I note that as discussed in the preceding paragraphs, the request was accompanied by multiple features warranting caution, including the absence of material particulars in the folio, the mismatch in address, and the discrepancy in the name of the second holder. These were not trivial or inconsequential irregularities that could be disregarded merely because supporting documents had been submitted. They were rather circumstances that called for closer scrutiny, further verification, and, where necessary, escalation in terms of the applicable SOP and regulatory framework. In the face of such circumstances, and in the absence of the requisite due diligence, Noticee No. 1 cannot be permitted to contend that the case did not fall within the category of a “doubtful case”. The said contention is, therefore, untenable and rejected.

43. Noticee No. 1 argued that, even if there was any departure from its internal SOP, such departure cannot by itself be made the basis for penalty under section 15HB of the SEBI Act. In this regard, I note that the SOP has not been referred to as a standalone source of liability. It has been relied upon only as one of the surrounding factors showing that the facts of the case called for greater caution and necessary due diligence on the part of Noticee No. 1. It is also not the case in the SCN that violation of the SOP, by itself, constitutes the contravention alleged against Noticee No. 1. Therefore, the instant submission of the Noticee No. 1 lacks merit and hence, cannot be accepted.

44. Noticee No. 1 further contended that the value of the shares is irrelevant. It submitted that no law, regulation or circular prescribes different treatment of dematerialisation requests based on share value. I note that the SCN does not cite any provision imposing such a requirement. However, this does not, by itself, render share value irrelevant to the due diligence allegation. I note that the SCN refers to the value of the shares as a contextual circumstance, not as an independent basis for liability. Its relevance must therefore be assessed within the scope of the due diligence obligation alleged in the SCN. A high-value holding may indicate greater potential loss to the rightful holder. That circumstance may be considered alongside the other facts when assessing the care reasonably expected of the RTA. Whether Noticee No. 1 failed to exercise the required due diligence must be determined separately on the evidence and under the provisions

applicable at the relevant time. Share value cannot substitute for proof of that failure. Accordingly, the contention is not accepted insofar as it seeks to exclude share value altogether from the assessment of due diligence. However, this conclusion does not prejudge the merits of the alleged breach.

45. Noticee No. 1 submitted that due diligence must be assessed with reference to the information available at the relevant time, and not in light of a subsequently detected fraud. According to it, the documents then available were mutually corroborative, disclosed no discrepancy, and were duly verified as genuine. It further contended that the SCN did not specify what additional step of due diligence ought to have been undertaken beyond such verification. Noticee No. 1 submitted that issues relating to title, ownership, fraud, and forgery fall outside the scope of SEBI's examination, and that no finding has been returned that the documents produced before it was forged or fabricated. According to Noticee No. 1, the suspicion of fraud arose only subsequently, when the original shareholder came forward after considerable delay.

46. In this regard, it is crucial to take note of the observation of the Hon'ble Supreme Court of India in the matter of *Chander Kanta Bansal v. Rajinder Singh Anand*[12] wherein it was stated by the Hon'ble Supreme Court that:

> *"…According to Oxford Dictionary (Edn. 2006), the word "diligence" means careful and persistent application or effort. "Diligent" means careful and steady in application to one's work and duties, showing care and effort. As per Black's law Dictionary (18th Edn), "Due Diligence" means the diligence reasonably expected from, and ordinarily exercised by, a person who seeks to satisfy a legal requirement or to discharge an obligation. According to Words and Phrases by Drain-Dyspnea (Permanent Edn. 13-A) "due diligence", in law, means doing everything reasonable, not everything possible. "Due Diligence" means reasonable diligence; it means such diligence as a prudent man would exercise in the conduct of his own affairs…"*

47. Similarly, I have taken note of the decision of the Hon'ble SAT in the matter of *Sharedeal Financial Consultants Private Limited v. Chairman, SEBI*[13], *Almondz Global Securities Limited v. SEBI*[14] and *Price Waterhouse & Co & Ors. v. SEBI*[15] which further reinforces the aforesaid view.

[12] AIR 2008 SC 2234.
[13] Appeal No.111 of 2002.
[14] Appeal No. 275 of 2014.
[15] Appeal No. 6 of 2018.

48. Applying the aforesaid principle to the facts of the present case, I note that the issue at hand is not whether Noticee No. 1 was required to detect every possible fraud. The issue is whether it exercised the degree of care and caution that a prudent intermediary was expected to exercise in the given circumstances. Due diligence does not demand the impossible. It demands reasonable care. In the present case, as noted above, several circumstances called for greater scrutiny. These included the mismatch in address, the discrepancy in the name of the second holder and the absence of material particulars in the folio. These conditions ideally should have been sufficient to put Noticee No. 1 on alert. In such a situation, Noticee No. 1 was expected to seek clarification, call for additional supporting documents, and take the further steps mandated under the applicable circulars and its own SOP. Its failure to do so falls short of the standard of due diligence expected of a registered intermediary. The defence that the documents were otherwise genuine, or that the fraud came to light only later, does not answer the charge. The present proceedings are not founded on a failure to detect fraud in the abstract. They concern the failure to exercise reasonable care when the circumstances clearly warranted it. Therefore, the contention of the Noticee No. 1 lacks merit and hence, rejected.

49. Noticee No. 1 submitted that, at the relevant stage, there was no competing claimant and no material to indicate that the claimant was an impersonator. I note that the question in the present matter is not whether a competing claim had arisen at that stage, but whether Noticee No. 1 exercised the requisite due diligence while processing the request dated December 23, 2022. The obligation to undertake necessary due diligence is independent and mandatory. It arises at the time of processing every request. It does not depend upon the existence of a competing claimant or an express allegation of impersonation. The absence of such factors does not relieve Noticee No. 1 of the duty to follow the prescribed verification requirements. Accordingly, the fact that no competing claimant had emerged at that stage has no bearing on the issue under consideration.

50. In view of the foregoing, I find that the request dated December 23, 2022 was processed by Noticee No. 1 without the requisite due diligence. The address furnished did not correspond to the registered address, the name of the second

holder was at variance with the records, and the folio lacked material particulars, including PAN, bank, KYC and specimen signature details. Despite these circumstances, Noticee No. 1 neither issued the intimation nor obtained any additional document. Accordingly, it is concluded that Noticee No. 1 failed to exercise the standard of due diligence expected of a registered intermediary.

51. In view of the above, it is established that Noticee No. 1 failed to exercise adequate due diligence while processing the request in accordance with clause 3 of Code of Conduct under Schedule III under regulation 13 of RTA Regulations, 1993 read with clause 3 of Code of Conduct under Schedule III under regulation 15 read with regulation 38 of RTA Regulations, 2025.

52. Clauses II.13 and II.14 of Annexure to SEBI Circular dated April 20, 2018 underscore the importance of EDD. They identify folios that call for heightened care. These include folios where dividend remains unpaid for three years and above, and folios where PAN or bank account details are not available. For such folios, RTAs are required to have system based alerts. Where any request is received in respect of such a folio, EDD must be exercised. EDD requires the RTA to call for documents related to proof of identity/ address, PAN and bank details. It also requires such additional procedures as would enable the RTA to reasonably satisfy itself about the genuineness of the request. Hence, EDD is a safeguard for the investor. Accordingly, EDD has to be construed as a mandatory obligation and not a matter of discretion. In the present case, the folio of Noticee No. 1 lacked PAN and bank details. It therefore squarely called for EDD.

53. Based on the reasoning above and in light of the importance of EDD discussed in the preceding paragraph, it is also established that Noticee No. 1 failed to exercise EDD in the matter, as it failed to seek additional clarifications/ documents/ conduct procedures to ensure genuineness of the request. Accordingly, Noticee No. 1 has violated clauses II.13 and II.14 of Annexure to SEBI Circular dated April 20, 2018 read with clauses II.12 and 13 of Annexure 6 of Section XII- Annexures to SEBI Circular dated February 06, 2026 along with clause 3 of Code of Conduct under Schedule III under regulation 13 of RTA Regulations, 1993 read with clause 3 of Code of Conduct under Schedule III under regulation 15 read with regulation 38 of RTA Regulations, 2025.

III. Whether Noticee No. 2 allowed transactions in aforesaid trading and demat account without KYC records validation with CVL KRA and thereby violated clause 11 read with clause 13 of SEBI Circular dated April 06, 2022 read with clause 2 of SEBI Circular dated June 24, 2022 read with clause 3 of SEBI Circular dated July 27, 2022?

54. The SCN alleged that Noticee No. 2 permitted the operation of the demat account without validation of the KYC records by CVL KRA.

55. It is not in dispute that Noticee No. 2 opened the account of Vanita Gandhi on the CVL KRA portal on August 02, 2022 and uploaded the KYC documents of the said entity on the CVL KRA portal on August 02, 2022. In this regard, the timeline of the material events is set out below:

Table 1

Date	Event
August 02, 2022	KYC documents of Vanita Gandhi on the CVL KRA portal.
December 12, 2022	Noticee No. 2 received the dematerialisation request and generated the DRN on December 21, 2022 for 54,000 equity shares of Balkrishna Industries Limited.
January 05, 2023 to May 30, 2023	54,000 equity shares of Balkrishna Industries Limited sold.
January 07, 2023	KYC request was rejected by CVL KRA.

56. As borne out from the table above, the KYC record of the client was rejected by CVL KRA on January 07, 2023. However, the client continued to sell shares during the period from January 05, 2023 to May 30, 2023. Evidently, the majority of these sale transactions occurred post January 07, 2023, despite the rejection of her KYC record.

57. Noticee No. 2 submitted that its role was confined to providing Vanita Krishnakant Gandhi with an automated online trading platform, through which the client independently placed sell orders without any intervention on the part of the broker. In support of this submission, it relied upon its emails dated September 01, 2026 and September 02, 2026. Noticee No. 2 further contended that the framework under the SEBI Circular dated April 06, 2022, which was initially to commence from July 01, 2022, was subsequently deferred by SEBI through Circulars dated June 24, 2022 and July 27, 2022. According to Noticee No. 2, the latter circular provided that validation of all KYC records would commence only from November 01, 2022, and that existing clients were to be validated within 180 days thereafter.

Furthermore, it submitted that, once the trades were executed on the exchange platform, binding pay-in obligations arose against the broker, thereby requiring Noticee No. 2 to release the shares in order to meet settlement obligations and avoid a settlement default. On this basis, Noticee No. 2 contended that no liability could be fastened upon it for trades independently executed by the client.

58. As regards the scope and applicability of the SEBI Circular dated April 06, 2022, I note that clause 11 of the said Circular states that if a client's KYC record is not found valid by the KRA after validation, the client can be allowed to transact in the securities market only once the KYC is validated. Under clause 13 of the same circular, this validation process for all new and existing KYC records was set to begin on July 01, 2022. While SEBI extended the start date to August 01, 2022 (via its Circular dated June 24, 2022) and later to November 01, 2022 (via its Circular dated July 27, 2022), those extensions only pushed back the operational timeline provided in clauses 9 and 13 of the SEBI Circular dated April 06, 2022. The core requirement under clause 11 that a client without a validated KYC cannot be permitted to trade remained completely unchanged. Therefore, from November 01, 2022 onwards, the validation framework was fully in force and binding on all intermediaries, including Noticee No. 2. In the present case, the KRA rejected the client's KYC on January 07, 2023, i.e., after the validation regime had come into force. From that date onwards, Noticee No. 2 was under a clear obligation not to permit the client to transact until her KYC stood duly validated. Despite this, the client continued selling shares until May 30, 2023, indicating that a large portion of her trades took place after her KYC had already been rejected. Noticee No. 2's argument that the client placed these orders independently through an automated online platform does not absolve it from responsibility. The trading platform was owned, controlled, and administered by the stockbroker, and client access is entirely within the broker's control. Noticee No. 2 was required to have proper system controls in place to immediately block or restrict any client whose KYC was rejected by the KRA. A broker cannot take shelter behind the automation of its own platform to avoid a compliance duty that rests upon it. Had Noticee No. 2 acted promptly on the KRA's rejection, the client would never have been able to place those orders in the first place. I note that a party cannot rely on a situation created by its own non-compliance as an excuse to justify that very lapse. The duty to

prevent these trades arose at the stage of order placement, and Noticee No. 2 failed to fulfil it. Accordingly, I find that instant contention of the Noticee No. 2 cannot be accepted.

59. *Arguendo*, even assuming that the contention of Noticee No. 1 that the applicable framework provided for commencement of validation of all KYC records from November 01, 2022 and allowed a period of 180 days thereafter for validation of existing clients is accepted, the outer limit for compliance would still have expired by April 30, 2023. It is an admitted position that trading in the said demat account continued until May 30 2023, i.e., even after the expiry of the said period. Therefore, even on the Noticee's own interpretation of the circular framework, the continuation of trading beyond April 30, 2023 cannot be justified.

60. Noticee No. 2 submitted that, by communique dated May 23, 2023, CVL KRA informed intermediaries that the earlier validation deadline of May 22, 2023 had been extended by SEBI to August 18, 2023. Accordingly, it contended that, during the period alleged in the SCN, i.e., January 05, 2023 to May 30, 2023, the client's KYC record could not yet have been treated as invalid. I note that the extension referred to in CVL KRA's communiqué dated May 23, 2023 merely deferred the outer timeline for completion of KYC validation. In this regard, it is crucial to take note of the following extract of the CVL KRA's communiqué dated May 23, 2023:

> *"Further to the representation by Market Participants to SEBI regarding challenges faced by intermediaries in validating the KYCs, pending validation, SEBI has extended the timeline for getting such KYCs validated to 18th August 2023."* (Emphasis supplied)

61. On perusal of the said clause, it is evident that the extension was limited in scope and applied only to one category, i.e., KYCs pending validation. Further, akin to SEBI's earlier extensions vide SEBI Circulars dated June 24, 2022 and July 27, 2022, it affected only the operational timelines under the applicable framework. It did not dilute or override the substantive requirement under clause 11 of the SEBI Circular dated April 06, 2022 that a client whose KYC record is not validated cannot be permitted to transact. In the present case, the client's KYC record was not merely awaiting validation. It had already been examined and rejected by the KRA on January 07, 2023. Once such rejection had taken place, a subsequent extension of the validation timeline could not have the effect of reviving or validating the rejected record. It is also material to note that the communique relied upon by

Noticee No. 2 was issued only on May 23, 2023, whereas the period alleged in the SCN commenced much earlier. It could not, therefore, have furnished any basis for permitting the client to transact from January 07, 2023 onwards. Accordingly, the submission advanced by Noticee No. 2 is rejected.

62. Noticee No. 2 submitted that the release of shares was necessitated since there were binding pay-in obligations which arose on execution of the trades and that it cannot be held liable for trades executed by the client on her own accord. I note that the said pay-in obligations arose solely because Noticee No. 2 permitted a client whose KYC was rejected on January 07, 2023, to continue trading on its platform. The obligation under clause 11 of the SEBI Circular dated April 06, 2022 attached at the threshold of allowing a client to transact, rather than at the stage of settlement, and a broker could not rely on a situation created by its own non-compliance to justify that default. Moreover, the client could trade only through the facility Noticee No. 2 provided and controlled. The absence of manual intervention pointed to a failure of its internal systems and controls, not a ground for exoneration. Notably, the client continued selling shares until May 30, 2023 (nearly five months after the rejection) without any restriction from Noticee No. 2. The submission is, therefore, rejected.

63. Noticee No. 2 contended that the SEBI Circular dated April 06, 2022 places its obligations on the KRAs, and clause 11 does not prescribe any specific step, timeline, or mechanism for the intermediary, meaning no penalty could be founded on it. I note that clause 11 provides that a client whose KYC is not validated may be allowed to transact only after validation. Since a KRA neither permits nor executes transactions in the securities market, only an intermediary such as a stockbroker can allow a client to transact. The obligation under clause 11 can therefore be discharged only by the intermediary, and reading it as applicable solely to KRAs would render the provision meaningless. The overall scheme of the Circular further reinforces this interpretation. Clause 6 requires KRAs to promptly inform intermediaries of deficiencies in KYC records precisely so that the intermediaries can act on them. In this framework, the KRA's role is to validate and communicate, whereas the intermediary's role is to ensure that a client with an unvalidated KYC does not transact. Moreover, the absence of a prescribed

mechanism, such as blocking accounts, does not dilute this duty. Clause 11 is an outcome-based mandate, and the choice of means to comply with it rests entirely with the intermediary. Considering the same, I note that restricting a client's access to its own trading platform was fully within the control of Noticee No. 2 and no separate timeline was required since the prohibition operates from the moment the KYC is found invalid. The submission of Noticee No. 2 is, therefore, rejected.

64. Noticee No. 2 relied upon the SEBI Circular dated August 11, 2023 (which rescinded the Circular dated April 06, 2022) and subsequent timeline extensions up to March 31, 2024 for KYC verification and rectification. At the outset, I note that the extensions relied upon by Noticee No. 2 pertained to records pending verification or rectification, and not to a record that had already been examined and rejected by the KRA. It is also an admitted position that the SEBI Circular dated August 11, 2023 does not operate retrospectively. The said Circular, and the subsequent communications issued thereunder, therefore have no bearing on the determination of the present issue. Even under the revised framework[16], unrectified records were liable to be treated as invalid, and such investors were not to be permitted to transact. The regulatory position has, thus, remained consistent in prohibiting transactions by clients whose KYC records were invalid. The reliance placed by Noticee No. 2 on the aforesaid Circular and subsequent extensions is, therefore, misplaced, and the submission is rejected.

65. In this background, it stands established that by allowing transactions in aforesaid trading and demat account without KYC records validation with CVL KRA, Noticee No. 2 in the capacity of stock broker and DP, has violated clause 11 read with clause 13 of SEBI Circular dated April 06, 2022 read with clause 2 of SEBI Circular dated June 24, 2022 read with clause 3 of SEBI Circular dated July 27, 2022.

IV. Whether Noticee No. 2 failed to upload the updated details on the system of CVL KRA and thereby violated clause A(2) of Schedule II of Code of Conduct read with regulation 9(f) of Securities and Exchange Board of India (Stock Brokers) Regulations, 1992 read with regulations 36(2)(a) and 51 of Stock Brokers Regulations, 2026 along with clause 4 of code of conduct for

[16] Clause 8 of the SEBI Circular dated August 11, 2023.

participants under part A of Third Schedule read with regulation 37 of Depositories Regulations, 2018?

66. It was alleged that Noticee No. 2 failed to upload the updated KYC details on the system of CVL KRA.

67. Regulation 16(b) of the KYC Regulations, 2011, provides that:

> *"When the client approaches another intermediary subsequently, the intermediary shall verify and download the client's details from the system of KRA:*
> *Provided that upon receipt of information on change in KYC details and status of the clients by the intermediary or when it comes to the knowledge of the intermediary, at any stage, the intermediary shall be responsible for uploading the updated information on the system of KRA and retaining the physical documents".* (Emphasis supplied)

68. From the material on record, it is noted that a request for change of address was submitted on December 07, 2022. CVL KRA, during the course of examination, stated that it had not received any request for modification of KYC particulars in respect of the PAN from any intermediary, including Noticee No. 2. Noticee No. 2 has also admitted that it did not intimate the KRA of the updated address.

69. *Per contra*, Noticee No. 2 submitted that the delay in validation and eventual rejection of the KYC record was attributable to CVL KRA, which did not act within the prescribed timeline and took several months to place the record on hold and thereafter reject it on the same grounds. In this background. Noticee No. 2 contended that it could not be held liable for such delay or inaction on the part of the KRA. In this regard, I note that even assuming that CVL KRA had delayed the validation process or failed to act within the prescribed timeline, such delay or inaction on the part of the KRA does not absolve Noticee No. 2 of its own independent regulatory obligations. A regulated intermediary cannot justify its own non-compliance by pointing to the alleged lapse of another entity. In this context, reference is again made to the judgment of the Hon'ble Supreme Court in *Kotak Mahindra Asset Management Company Limited v. SEBI*[17], wherein it was held that a Noticee cannot seek shelter under the alleged violations of others to justify its own breach, nor can the existence of such violations absolve it of its own liability. Accordingly, the contention that Noticee No. 2 cannot be held liable because of delay or inaction on the part of CVL KRA is rejected.

[17] *supra* no. 17.

70. Noticee No. 2 contended that, upon receiving the client's address modification request on December 07, 2022, it updated its internal records and retained the physical documents, but was unable to update the KRA record since the portal did not permit modifications in respect of profiles that were unverified or placed on hold. In this regard, I note that regulation 16(b) of the KYC Regulations, 2011 casts a continuing obligation upon the intermediary to upload updated client information to the KRA system. The existence of a portal restriction did not, by itself, absolve Noticee No. 2 of that obligation, particularly when no material has been placed on record to show that the updated address was intimated to CVL KRA through any alternative mode, including written communication. It is also material to note that the portal restriction arose because the client's initial KYC record had been placed on hold, *inter alia*, on account of illegible address proof. Once Noticee No. 2 had obtained fresh address documents on December 07, 2022, it was expected to take appropriate steps to cure the underlying deficiency by furnishing legible and updated proof to the KRA. Had the Noticee No.2 acted in such manner, it would have addressed both the hold status and the change in address. Having failed to do so, Noticee No. 2 cannot rely on such inaction as a defence. Accordingly, the submission advanced by Noticee No. 2 is rejected.

71. In view of the same, it stands established that Noticee No. 2, in the capacity of stock broker as well as DP, failed to upload the updated details on the system of CVL KRA in respect of the aforesaid entity.

72. Accordingly, I find that Noticee No. 2, in the capacity of stock broker, violated clause A(2) of Schedule II of Code of Conduct read with regulation 9(f) of Stock Brokers Regulations, 1992 read with regulations 36(2)(a) and 51 of Stock Brokers Regulations, 2026 and Noticee No. 2, in the capacity of DP, violated clause 4 of code of conduct for participants under part A of Third Schedule read with regulation 37 of Depositories Regulations, 2018.

V. Does the violation, if any, on the part of Noticees attract a monetary penalty under section 15HB of the SEBI Act?

VI. If so, what would be the monetary penalty that can be imposed upon Noticees taking into consideration the factors stipulated in section 15J of the SEBI Act?

73. From the previous paragraphs, it has been established that Noticees have violated:

(i) Noticee No. 1 has violated clauses II.13 and II.14 of Annexure to SEBI Circular dated April 20, 2018 read with clauses II.12 and 13 of Annexure 6 of Section XII- Annexures to SEBI Circular dated February 06, 2026 along with clause 3 of Code of Conduct under Schedule III under regulation 13 of RTA Regulations, 1993 read with clause 3 of Code of Conduct under Schedule III under regulation 15 read with regulation 38 of RTA Regulations, 2025.

(ii) Noticee No.2 has violated clause 11 read with clause 13 of SEBI Circular dated April 06, 2022 read with clause 2 of SEBI Circular dated June 24, 2022 read with clause 3 of SEBI Circular dated July 27, 2022 along with clause A(2) of Schedule II of Code of Conduct read with regulation 9(f) of Stock Brokers Regulations, 1992 read with regulations 36(2)(a) and 51 of Stock Brokers Regulations, 2026 and clause 4 of code of conduct for participants under part A of Third Schedule read with regulation 37 of Depositories Regulations, 2018

74. As regards the contention of the Noticees that the violations are merely technical or venial, I note that the present proceedings emanate from the allegations of fraudulent dematerialisation, through impersonation, of 54,000 bonus shares of a listed company standing in the folio of the original shareholders. This is not a case of a harmless procedural lapse without consequence. In this regard, reference is made to the letter dated November 23, 2024 of EOW, Mumbai wherein it was stated as under:

> *"… The investigation has revealed that the legitimate Vanita Krishnakant Gandhi, with PAN card No. AADPG6289J and … is currently residing at 1501, **** Mumbai[18]. She is the rightful shareholder of Folio No. VO0019. The impersonator, a woman in collusion with others fraudulently sold 54,000 bonus shares from an address at Flat No, ****, Vadodara, Gujarat[19] for their wrongful gain. …"*

75. The aforesaid communication is referred solely for the purpose of placing on record the factual background in which the alleged lapses arose. It is reiterated that

[18] Details excised for privacy.
[19] *Ibid*.

present proceedings are confined to examining whether the Noticees failed to exercise the due diligence required while processing the request for dematerialisation. Even within that limited ambit, the obligation cast upon registered intermediaries to verify the identity of the holder and the genuineness of such requests constitutes a critical safeguard for the protection of investors and the preservation of the integrity of the securities market. Where deficiencies in the discharge of that obligation have enabled the dematerialisation of securities by a person other than the rightful holder (as noted from the aforesaid EOW letter), followed by their transfer in the market, such deficiencies cannot be characterised as merely technical or venial. It is further evident from the material on record that the Noticees have not disputed the findings of the EOW, Mumbai in this regard. On the contrary, it is a matter of record that the 54,000 original equity shares, which had been kept under caution stop, were released and credited to the relevant demat account on January 11, 2025 in consonance with the findings of the EOW. Having regard to the nature of the lapses, their gravity, and the consequences arising therefrom, I am unable to accept the contention advanced by the Noticees.

76. Noticees relied upon the case of *Hindustan Steel v. State of Orissa*[20] to submit that when there is a technical or venial breach of the provisions, the authority competent to impose the penalty will be justified in refusing to impose the penalty. I note that the position has since been clarified by the Hon'ble Supreme Court in its order in the case of *Chairman SEBI v. Shriram Mutual Fund & Anr.*[21], wherein it was held that decision in case of Hindustan Steel Ltd. pertained to criminal/quasi criminal proceedings and it would not apply to civil liabilities under the SEBI Act and regulations made thereunder.

77. The aforesaid violations make the Noticees liable for payment of a monetary penalty in terms of section 15HB of the SEBI Act. The text of the aforementioned section is reproduced below:

SEBI Act

"*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."*

[20] 1970 AIR 253.
[21] AIR 2006 SC 2287.

78. While determining the quantum of penalty under the aforesaid sections, the following factors stipulated in section 15J of the SEBI Act have been given due regard:

SEBI Act

"15J. While adjudging quantum of penalty under Section 15-I, 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."

79. The available records do not specify any disproportionate gain or unfair advantage made by the Noticees. It is observed that the violations by the Noticees contributed to the misappropriation of shares valued at approximately Rs. 11.19 crore as stated by EOW, Mumbai.

80. As regards the repetitive nature of the default, I note that the material on record does not disclose any instance of penalty having been imposed by SEBI in the past upon Noticee No. 1. However, in the case of Noticee No. 2, penalties have been imposed by SEBI pursuant to the following regulatory actions:

Table 2

Matter Name	Date	Penalty
Adjudication Order in the matter of Motilal Oswal Financial Services Limited	August 12, 2025	Rs. 11,00,000/- (Rupees Eleven Lakh only)
Adjudication Order in the matter of Motilal Oswal Financial Services Limited	June 09, 2025	Rs. 3,00,000/- (Rupees Three Lakh only)
Adjudication Order in the matter of Motilal Oswal Financial Services Limited	January 30, 2025	Rs. 7,00,000/- (Rupees Seven Lakh only)
Adjudication Order in the matter of Motilal Oswal Financial Services Limited	December 31, 2024	Rs. 5,00,000/- (Rupees Five Lakh only)
Adjudication Order in the matter of Motilal Oswal Financial Services Limited	April 29, 2022	Rs. 25,00,000/- (Rupees Twenty Five Lakh only)
Adjudication Order in respect of M/s Motilal Oswal Financial Services Limited (Formerly known as Motilal Oswal Securities Limited) In the matter of Inspection of Books of Motilal Oswal Financial Services Limited (Formerly known as Motilal Oswal Securities Limited)	February 28, 2020	Rs. 17,00,000/- (Rupees Seventeen Lakh only)
Adjudication order in respect of Motilal Oswal Securities Limited	January 18, 2018	Rs. 2,00,000/- (Rupees Two Lakh only)
Order in the matter of Hemant Ghai and others	March 19, 2025	Rs. 5,00,000/- (Rupees Five Lakh only)

81. The Indian securities market rests upon the fundamental premise of trust and integrity. In this framework RTAs, stock brokers, and DPs are under a regulatory obligation to act in strict compliance with the applicable legal and regulatory provisions and to exercise requisite due diligence in the discharge of their functions. In the present case, Noticee No. 1 failed to exercise the requisite due diligence and enhanced due diligence while processing the request dated December 23, 2022, and Noticee No. 2 allowed transactions in the trading and demat account despite the rejection of the client's KYC and failed to upload the updated details on the system of CVL KRA. These lapses by the Noticees not only constitute a serious departure from the expected standards of conduct, but also have the effect of undermining investor confidence and exposing the securities market and the financial system to avoidable risks.

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

ORDER

83. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in preceding paragraphs and in the exercise of powers conferred upon me under section 15-I of the SEBI Act read with rule 5 of the Rules, I, hereby, impose the following penalty on Noticees:

Table 3

Noticee Name	Charging Provision	Penalty
KFin Technologies Limited	Section 15HB of the SEBI Act	Rs. 10,00,000/- (Rupees Ten Lakh only)
Motilal Oswal Financial Services Ltd.	Section 15HB of the SEBI Act	Rs. 10,00,000/- (Rupees Ten Lakh only)

84. The said penalty is commensurate with the lapses/omissions on the part of Noticees.

85. Noticees shall remit/pay the said amount of penalty within 45 days of receipt of this order through the 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.

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

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

JAI SEBASTIAN
Digitally signed by JAI SEBASTIAN
Date: 2026.11.25 16:46:23 +05'30'

Date : November 25, 2026
Place : Mumbai

JAI SEBASTIAN
ADJUDICATING OFFICER