

**SECURITIES AND EXCHANGE BOARD OF INDIA, MUMBAI  
CORAM: M. S. SAHOO, WHOLE TIME MEMBER**

**IN THE MATTER OF IPO IRREGULARITIES – DEALINGS BY PRAVIN RATILAL  
SHARE AND STOCK BROKERS LTD. (PRSSBL), DEPOSITORY PARTICIPANT  
OF NSDL**

**Date of Hearing:** May 5, 2010

**Appearances:**

**For Noticees:** Mr. Jigen P. Sharedalal, Director, PRSSBL  
Mr. Mayukh Pandya, Consultant  
Mr. Kayur Shah, PRSSBL  
Mr. Bobby D'coste, PRSSBL

**For SEBI:** Mr. Murugan N., Assistant Legal Adviser (Presenting Officer)  
Mr. B. J. Dilip, Deputy General Manager  
Mr. Pradip Bhowmick, Assistant General Manager  
Mr. Sisir Mondal, Manager, and  
Ms. Kshama P. Wagherkar, Assistant Legal Adviser.

**ORDER**

**UNDER REGULATIONS 28(2) READ WITH REGULATION 38(2) OF THE  
SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES)  
REGULATIONS, 2008**

1. On completion of investigations into the IPO irregularities, SEBI had appointed an Enquiry Officer (EO) to enquire into the alleged irregularities committed by Pravin Ratilal Share and Stock Brokers Ltd. (PRSSBL), a Depository Participant (DP). After conducting an enquiry in accordance with the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (Enquiry Regulations), the EO submitted the enquiry report on January 28, 2010 with the recommendation of warning. SEBI issued a show cause notice (SCN) dated March 9, 2010 enclosing therewith a copy of the enquiry report and calling upon PRSSBL to show cause as to why appropriate penalty, including the penalty as recommended by the EO, should not be imposed.

2. PRSSBL, vide letter dated April 6, 2010, replied to the SCN. It appeared for personal hearing before me on May 5, 2010 and made submissions. It also made additional written submissions dated May 5, 2010 at the time of hearing. I have carefully considered the enquiry report, the SCN and the written and oral submissions made by PRSSBL.

3. It has been alleged in the SCN that it is the implied responsibility of a DP to have internal systems and controls to monitor, review and evaluate abnormal transactions and take timely measures to protect the integrity of the system and the interests of investors. However, PRSSBL failed to have effective systems, controls and procedures to identify irregular and abnormal transactions in the accounts of its clients. Therefore, it failed to notice and understand credits of shares of a particular company from 553 and 686 demat accounts to the accounts of two key operators, viz., Opee Stock Vision Ltd. and Deepak Shantilal Jain respectively. This act is in violation of clause 1 of the code of conduct specified in third schedule and regulation 46 of the SEBI (Depository Participant) Regulations, 1996 (DP Regulations).

4. PRSSBL has submitted that no rules, regulations, circulars or guidelines require a DP to notice, check or prevent abnormal transactions. There is no law which requires a DP to have effective systems, controls and procedures to identify irregular or abnormal transactions in the accounts of clients.

5. PRSSBL has not contested the credits of the same shares from several hundred accounts to the accounts of the two key operators. Its only contention is that as a DP, it is not under obligation to have systems and procedures to identify irregular or abnormal transactions.

6. The only issue that needs to be determined is: Is a DP under obligation to have systems to identify irregular or abnormal transactions that may have potential to affect the market integrity or interests of investors, as happened in the instant case. I find that clause 1 of the code of conduct requires a DP to make all efforts to protect the interests of investors. Identification of irregular or abnormal transactions would certainly constitute part of the efforts to protect the interests of investors. Regulation 46 requires a DP to have adequate mechanism for the purpose of reviewing, monitoring and evaluating the participant's internal accounting controls and systems. For what purpose would a DP have a mechanism for reviewing, monitoring and evaluating, if it were not to identify irregular or abnormal transactions? Besides, DP, being a part of the regulatory infrastructure, has a duty to notice irregular or abnormal transactions and take appropriate actions in the interest of investors / market integrity. Therefore, a DP is under obligation to do everything, it can, including systems and procedures to identify irregular or abnormal transactions, in the interest of investors. Refusing to do so would mean utter disregard for regulatory discipline. If Depositories, DPs and other registered market participants claim that they have no obligation to notice irregular transactions or to take remedial measures if they notice, there would be no securities market. Therefore, I find that PRSSBL has failed to comply with the clause 1 of the code of conduct and regulation 46 of the Depository Regulations.

7. I note that pursuant to the notification of the SEBI (Intermediaries) Regulations, 2008, the Enquiry Regulations have been repealed and in terms of regulation 38(2) of the Intermediaries Regulations, notwithstanding such repeal, any enquiry commenced under the Enquiry Regulations shall be deemed to have been commenced under the corresponding provisions of Intermediaries Regulations.

8. Taking into account the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Section 19 of the SEBI Act, 1992, read with regulation 28 (2) of the SEBI (Intermediaries) Regulations, 2008, hereby warn M/s. Pravin Ratilal Share and Stock Brokers Ltd. to be careful in conduct of its business as a DP by adhering to and complying with all relevant statutory provisions and exercising due diligence as expected of a registered market participant.

9. A copy of this Order shall be served on NSDL of which PRSSBL is a DP.

**DATE: May 14, 2010**  
**PLACE: MUMBAI**

**M.S. SAHOO**  
**WHOLE TIME MEMBER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**