

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 28(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 AGAINST KARDAM FINANCIAL SERVICES PRIVATE LIMITED

1. The Securities and Exchange Board of India (hereinafter referred to as SEBI) had received a reference (dated September 9, 1998) from the office of Additional Deputy Commissioner of Police, Crime Branch, New Delhi which *inter alia* stated that Mr. B. B. Sharma, the promoter of the Hoffland Group of Companies (hereinafter referred to as the Hoffland Group) had been arrested and that he had disclosed the details of certain stock exchange memberships held by him in different names including Kardam Financial Services Private Limited (hereinafter referred to as the Broker), member, the Cochin Stock Exchange Limited (hereinafter referred as CoSE). The aforesaid letter further stated that the amount utilized for the purpose of the stock exchange memberships was diverted from the money collected from the public by the Hoffland Group. Thereafter, SEBI carried out an investigation to *inter alia* find nexus, if any, between certain entities including the Broker and the Hoffland Group. The aforesaid investigation conducted by SEBI *prima facie* revealed that the Broker was a front company of the Hoffland Group and was not a “fit and proper person” in terms of the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004 (hereinafter referred to as the Fit and Proper Regulations). It was also found that the Broker had defaulted paying turnover fees to SEBI. Subsequently, SEBI, vide order dated October 22, 2008 read with a subsequent order dated December 7, 2008 initiated an enquiry in terms of the provisions of the Securities and Exchange

Board of India (Intermediaries) Regulations, 2008 (hereinafter referred to as the Intermediaries Regulations) to enquire into the alleged violations of Regulations 5(A), 5(e), 6(A)(a) and 6A(d) of the Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations 1992 (hereinafter referred to as the Broker Regulations) read with Regulation 38(3) along with Schedule II of the Intermediaries Regulations. The Designated Authority (hereinafter referred to as the Enquiry Officer), vide Report dated March 25, 2010, while recommending the cancellation of the certificate of registration of the Broker observed that the Broker had contravened Regulation 5(e) (read with 5A) and 6A(d) of the Broker Regulations.

2. Thereafter, SEBI sent a notice dated April 15, 2010 to the Broker advising it to file its written representation within twenty one days as to why action as recommended by the Enquiry Officer should not be imposed against it. The said notice was sent through CoSE. Thereafter, SEBI had also sent the show cause notice on July 9, 2010 to the Broker through CoSE. The CoSE sent the aforesaid notice of SEBI to the Broker by registered post with acknowledgement due and the acknowledgement received from the Broker was forwarded to SEBI by CoSE, vide letter dated September 6, 2010. Subsequently, an opportunity of hearing was also afforded to the Broker on December 3, 2010. CoSE also forwarded the said letter to the Broker and acknowledgement received from the Broker was forwarded to SEBI by CoSE, vide letter dated November 2, 2010. However, the Broker did not appear on the said date. As the Broker did not file its submissions despite various opportunities, I do not consider it necessary to grant another opportunity to it and the present enquiry proceeding is considered and disposed of on the basis of the available material on record. One of the allegations leveled against is that the Broker is not a "*fit and proper person*" for the following reasons:-

- a. The Broker was a benami company of Hoffland Group and the said group had defaulted payments to various investors.
- b. The conduct of the Hoffland Group had been investigated by the police and several prosecution cases had been initiated against it.
- c. The Broker had not paid SEBI turnover fees of ₹28,992/- including an interest of ₹34,575/-. (As on November 23, 2010, the principal amount outstanding was ₹28,993/- and the interest was ₹ 47,991/- (total ₹76,984/-)

3. As per information obtained from CoSE, the directors of the Broker were the following:

Sl. No.	Name of the Director	Address
1.	Mr. Kardam Karan Singh	C-42, Gaurav Apartments, Patparganj, Delhi - 110 092.
2.	Smt. Shakuntala Devi, W/o Sh. Kardam Karan Singh	C-42, Gaurav Apartments, Patparganj, Delhi - 110 092.

Mr. Kardam Karan Singh (during the recording of statement before SEBI on December 19, 2003), stated that he used to work for Hoffland Remedies Limited. He had also produced an appointment letter dated August 10, 1991 and a copy of his relieving letter dated April 23, 1994. Thereafter, he had worked for Kaneri Electronic Industries Limited for 7-8 months. According to him, he had nothing to do with the Broker and that he had never signed any document giving consent for any kind of directorship or shareholding in the said company. On being shown the application for membership of CoSE, he stated that the signatures in the documents were neither his nor that of his wife. The relevant extracts of his statement (as reproduced from the Enquiry report) are as under

" None of the signature shown as mine have been done by me. I deny seeing these documents before or having signed them. I can give you copy of letter obtained from my bankers after verification of my bank account opened in 1988. This was my personal account with State Bank of India, 'C' Block Market, Vasant Vihar, New Delhi. This letter was obtained on 22.5.2002. Copy of this letter is enclosed. As is apparent from the signature from the application form for Kardam Financial my signature is different from that has been signed with bankers and are mine. It is clear that my signature was forged and fraudulently used as director of Kardam Financial Services. I can assure you that I had never signed any cheque or any other document as a director of Kardam Financial Services Pvt. Ltd. My name was misused by Hoffland group to show me as a director of Kardam Financial Services Pvt. Ltd. I am also

providing of an opinion given by Sh.V.C. Mishra a hand writing expert wherein he clearly states that the signatures at the two places are of different persons."

4. During the recording of his statement, Mr. Kardam Karan Singh had also provided copies of two internal notes and it is noted from the said notes that the company, Kardam Financial Services Private Limited was promoted on the instruction of Mr. B.B. Sharma, Chairman of the Hoffland Group. In one of the notes, it is stated that the registration fees of ₹5,900/- for Kardam Financial Services Private Limited to be paid to the Registrar of Companies was to be borne by Mr. B.B. Sharma. Further, from the letter dated July 28, 2003 received by SEBI from Mr. N C Pandey, director of Bharatendu Financial Services Private Limited (another Hoffland group entity) that Broker was one of the entities in whose name the membership of stock exchanges was acquired. This had been confirmed by Mr. B. B Sharma, Chairman Hoffland Group before the police. Thus, it is clearly establishes that there were close linkages between the Broker and the Hoffland Group. It is also observed that the modus operandi in the instant case was similar to that followed by Hoffland group in acquiring other memberships around that time. I note that the conduct of the Hoffland Group has been investigated by the Police and that it is learnt that several prosecution cases have been initiated against it. Further, the Hoffland Group has defaulted in payments to its investors. CoSE, vide letter dated June 17, 2003 informed SEBI that Broker had been declared a defaulter and that it had not heard of the Broker since November 2, 1998.

5. From the foregoing, it stands established that the Broker does not fulfill the basic parameters such as financial Integrity, good reputation, character, etc to be considered as "Fit and proper Person" for the purpose of acting as a registered stock broker with SEBI. It is thus established that the Broker is not a fit and proper person as required under 5(e) of the Broker Regulations which required the member to be a "Fit and Proper Person". The Broker is not a fit and proper person in terms of the Fit and Proper Person Regulations as well as the

Intermediaries Regulations and failed to comply with the requirements of Regulation 5(A) and 5(e) of the Broker Regulations read with Regulation 38(3) along with Schedule II of the Intermediaries Regulations. It was further observed by the Enquiry Officer that the Broker has violated Regulation 6A(d) of the Broker Regulations, as it had not paid the turnover fees including the interest, as mentioned above in this order. On the basis of the above findings, linkages of the entity with the Hoffland Group, incriminating facts pertaining to the Hoffland Group, available evidence, facts and circumstances of the case and applicable provisions of law, I conclude that the Broker is not a "Fit and proper Person" in terms of the Broker Regulations read with the provisions of the Intermediaries Regulations. Though, sufficient opportunities were provided to the Broker it did not avail of the same and instead kept itself away from the enquiry proceeding. Such a person, in the facts and circumstances deserves no leniency.

6. In view of the foregoing, I in exercise of the powers conferred upon me under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28 of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby cancel the certificate of registration granted to the stock broker, Kardam Financial Services Private Limited (Registration no. INB 090917434), Member, Cochin Stock Exchange Limited.

7. This Order shall come into force immediately on expiry of twenty one days from the date of this order.

**DR. K. M. ABRAHAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**

**PLACE: MUMBAI
DATE: MARCH 8, 2011**