

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: PRASHANT SARAN, WHOLE TIME MEMBER**

ORDER

Under Regulation 28(2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008

In respect of M/s Parsoli Corporation Limited, Member, National Stock Exchange and Member, Bombay Stock Exchange, Depository Participant of Central Depository Services (India) Limited

(SEBI Registration No. – INB/INF 230806837)

(SEBI Registration No. – INB/INF 010806835)

(SEBI Registration No. – IN-DP-CDSL-341-2006)

Date of hearing: December 19, 2012

Appearances

For the noticee: Mr. Raj Das Gupta, Chief Operating Officer

For SEBI: Mr. Krishnanand Raghavan, Deputy General Manager
Ms. Anitha Anoop, Deputy Legal Adviser
Mr. Pradeep Kumar, Assistant Legal Adviser
Mr. Gajanan Nabar, Manager

1. Securities and Exchange Board of India (hereinafter referred to as 'SEBI') received certain complaints from the shareholders of Parsoli Corporation Limited (hereinafter referred to as 'Parsoli') about the introduction of fake shares of Parsoli in the market. Parsoli was a company listed on the Bombay Stock Exchange (hereinafter referred to as 'BSE') (now suspended) and is registered with SEBI as a stock broker of National Stock Exchange (hereinafter referred to as 'NSE') and BSE bearing SEBI registration numbers INB/INF 230806837 and INB/INF 010806835 respectively. Parsoli was also registered with SEBI as a Depository Participant (hereinafter referred to as 'DP') of Central Depository Services (India) Limited (hereinafter referred to as 'CDSL') bearing registration number IN-DP-CDSL-341-2006.
2. SEBI conducted an investigation into these complaints and issued a series of orders as against Parsoli and its whole time directors. The last of these orders was SEBI order

dated July 27, 2010. This order contained the following directions:

- a. Parsoli and its whole time directors namely Mr. Zafar Yunus Sareshwala and Mr. Uves Yunus Sareshwala were restrained from buying, selling or dealing in securities market in any manner whatsoever or accessing the securities market directly or indirectly for a period of seven years.
 - b. Mr. Zafar Yunus Sareshwala and Mr. Uves Yunus Sareshwala were also restrained from holding the position of Director in any listed company for a period of seven years.
 - c. The whole time directors of Parsoli, Mr. Zafar Yunus Sareshwala and Mr. Uves Yunus Sareshwala were also directed to make a public offer to acquire the shares from public shareholders within three months.
3. Parsoli and its promoter group entities challenged this order of SEBI before the Hon'ble Securities Appellate Tribunal (hereinafter referred to as 'SAT') vide separate appeals. Hon'ble SAT vide its common order dated January 12, 2011, dismissed these appeals and upheld the order of SEBI dated July 27, 2010.
4. In the meantime, SEBI initiated the Enquiry proceedings in terms of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as 'Intermediaries Regulations'), by appointing a Designated Authority under Regulation 24 of the Intermediaries Regulations vide order dated February 03, 2011 in respect of Parsoli, being a registered intermediary. The Designated Authority enquired into the alleged violation of the provisions of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 (hereinafter referred to as the 'Broker Regulations') and the SEBI (Depositories and Participants) Regulations, 1996 (hereinafter referred to as the 'DP Regulations') submitted his Report dated March 28, 2011 (hereinafter referred to as the 'Enquiry Report') under the Intermediaries Regulations, finding him not fulfilling the 'fit and proper' criteria and therefore, recommending a penalty of cancellation of the Certificates of Registration of Parsoli with respect to its membership of BSE, NSE and as a DP of CDSL for the violation of Regulation 5 and 5A of the Brokers Regulations, Regulation 6A and Regulation 19 of the DP Regulations and Schedule II of the Intermediaries Regulations.

5. Subsequently, a show cause notice dated April 11, 2011 was issued to Parsoli, to show cause as to why action as recommended by the Designated Authority, should not be imposed against it. Parsoli was advised to reply to the show cause notice together with the documents that it may choose to rely upon, in support of its reply within twenty one days from the date of the receipt thereof. It was also informed that in case of failure, it would be presumed that Parsoli had no explanation to offer and the matter would be proceeded with, on the basis of the evidence available on record. Parsoli was also advised to indicate whether it desired a personal hearing in the matter. A copy of the Enquiry Report was also forwarded to Parsoli along with the said show cause notice.

6. Parsoli through its authorized representatives filed a reply to the show cause notice vide its letter dated July 11, 2011 and sought for personal hearing. The submissions in brief are:
 - There has been no finding of any wrongdoing of Parsoli as a market intermediary in the SEBI order dated July 27, 2010 and the same relates to the wrongful transfer of shares by its promoters/ officers.
 - The allegation in the SEBI order dated July 27, 2010 is limited to 80,800 shares relating to 252 shareholders i.e., 0.5% of the total shareholding of Parsoli in the year 2005. These shares represent 0.68% of the total promoter holding in the year 2005.
 - There is no allegation of any loss caused to any shareholder as the promoters of Parsoli, upon detecting the erroneous transfers Parsoli has fully compensated every shareholder whose shares were wrongly transferred.
 - The SEBI order dated July 27, 2010 has not taken into account the facts that the records of Parsoli were destroyed during January, 2001 earthquake and February, 2002 riots, which took place in Gujarat, where the main office of Parsoli is located.
 - Declaring Parsoli to be not a “fit and proper person” based on the SEBI order dated July 27, 2010 is wrong and based on incorrect facts.

7. While proceeding further in the matter, an opportunity of personal hearing was granted to Parsoli on October 07, 2011. Subsequently, the hearing dates had to be rescheduled due to administrative exigencies and the matter was finally heard on December 19, 2012. During the personal hearing on December 19, 2012, the authorized representative

of Parsoli submitted that Parsoli has no intention of contesting the recommendations made by the Designated Authority. The same was later confirmed vide letters dated December 19, 2012 and January 07, 2013. Parsoli vide a subsequent letter dated January 07, 2013 also requested SEBI to unfreeze its beneficiary demat accounts which have been frozen since the year 2009 by CDSL. It has also requested SEBI to permit squaring off of its positions in the frozen demat accounts and to withhold the proceeds, till all legal proceedings and other procedures are completed.

8. I have considered the material available on record such as report of the Designated Authority, the show cause notice issued to Parsoli, the reply received, submissions made etc. Having considered the above, the issue that arises for my consideration is: Whether Parsoli has violated the provisions of Regulations 5(e) read with Regulation 5A of Broker Regulations and Regulation 19(cc) read with Regulation 6A of DP Regulations and is a fit and proper person to act as a market intermediary?

9. **Whether Parsoli has violated the provisions of Regulations 5(e) read with Regulation 5A of Broker Regulations and Regulation 19(cc) read with Regulation 6A of DP Regulations and is a fit and proper person to act as a market intermediary?**
 - a. A brief background about the actions taken against Parsoli by SEBI is discussed below. SEBI on receipt of the complaints regarding the rejection of the demat/ share transfer requests had conducted an inspection of the records of Parsoli in respect of its share transfer activities and processing the demat requests of the shareholders. The inspection *prima facie* revealed that that the promoters of Parsoli had transferred the shares to themselves in fraudulent manner from the shareholders, the signatures on the transfer deed were different from the signature of the investors available with Parsoli as per its records and also that Parsoli had rejected the requests for dematerialization of the shares from many investors on the pretext that the shares were already in demat form in the system. The findings of the inspection were communicated to Parsoli vide show cause notice dated August 22, 2008. Parsoli vide its letter dated October 10, 2008, replied to the show cause notice.

Thereafter, SEBI vide its order dated February 20, 2009 restrained Parsoli, its whole time directors namely Mr. Zafar Yunus Sareshwala and Mr. Uves Yunus Sareshwala and its associates/ group companies from accessing the securities market, till further orders. They were also prohibited from buying, selling or dealing in securities in any manner directly or indirectly, till further orders. Parsoli in the capacity as a stock broker and DP were restricted from adding new clients. The order further directed Parsoli to remove Pinnacle Shares Registry Private Limited as its Registrar and Transfer Agent and directed it to appoint another Registrar and Transfer Agent (hereinafter referred to as 'RTA') within a period of six months from the date of order as it was found to have failed in its duty to exercise due diligence as expected from a prudent RTA.

- b.** Based on the findings of investigation into the dealings in the scrip of Parsoli, a fresh show cause notice was issued dated December 02, 2009 to Parsoli alleging non-fulfillment of the announcement (*decision to recommend dividend*), not communicating the change in decision, non-cooperation during the investigation and attempts to mislead the investigations. Subsequent to a personal hearing afforded to Parsoli, SEBI had restrained Parsoli vide order dated June 28, 2010, from buying, selling or dealing in securities market in any manner whatsoever or accessing the securities market directly or indirectly for a period of one year from the date of the order.

Further, as Parsoli had failed to remove Pinnacle Shares Registry Private Limited as its RTA and to appoint another RTA within six months in accordance with the direction contained in the order of SEBI dated February 20, 2009, SEBI vide another order dated July 22, 2010, restrained Parsoli from buying, selling or dealing in securities market in any manner whatsoever or accessing the securities market directly or indirectly for a period of six months.

- c.** I also note that SEBI had issued another show cause notice dated June 10, 2009 to Parsoli based on the investigation into the fraudulent transfer of shares of Parsoli. Subsequent to an opportunity of personal hearing to Parsoli, SEBI vide its order dated July 27, 2010, debarred Parsoli along with its two directors viz., Zafar Yunus Sareshwala and Uves Yunus Sareshwala from buying, selling or dealing in securities

market in any manner whatsoever or accessing the securities market directly or indirectly for a period of seven years. The aforesaid two directors were also restrained from holding the position of director in any listed company for a period of seven years. I note that this restraint order of SEBI was on account of Parsoli and its two directors for violating the provisions of the SEBI Act, 1992, DP Regulations, 1996 and SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 1995. This order of SEBI was challenged by Parsoli and its promoter group entities before Hon'ble SAT. Hon'ble SAT vide order dated January 12, 2011 dismissed the appeals of Parsoli and its directors.

Thereafter, Parsoli filed an appeal before the Hon'ble Supreme Court of India against the above order of Hon'ble SAT. The Hon'ble Supreme Court of India vide its order dated May 02, 2011, had set aside the order of Hon'ble SAT and directed it to pass separate orders in each of the appeals. In compliance with the order of Hon'ble Supreme Court, Hon'ble SAT reconsidered the matter and vide order dated August 12, 2011 dismissed all the appeals of Parsoli and its promoter group entities except the appeal filed by Parsoli against the order of SEBI dated July 22, 2010 regarding the non-compliance with the order of appointing another RTA within the time prescribed, which was allowed.

d. I note that as per Schedule II of the SEBI (Intermediaries) Regulations, 2008, the criteria for fit and proper person as required is as under:

“For the purpose of determining as to whether an applicant or the intermediary is a ‘fit and proper person’ the Board may take account of any consideration as it deems fit, including but not limited to the following criteria in relation to the applicant or the intermediary, the principal officer and the key management persons by whatever name called –

- (a) integrity, reputation and character;*
- (b) absence of convictions and restraint orders;*
- (c) competence including financial solvency and net worth”*

A reading of the above provisions of 'fit and proper' person, makes it clear that it is applicable to all intermediaries in the securities market and with respect to a body corporate, it shall be applicable to the persons who hold responsible positions in the body corporate and who are in a position to influence the decision making process. I

observe that, SEBI, with an objective to maintain fair and transparent securities market, in the interest of investors, has to consider the factors of adverse track record, initiation of legal proceedings, adverse perception and atmosphere of mistrust prevalent against the entity concerned, while applying the test of 'fit and proper person'.

- e. I note that, it is the duty of SEBI to keep the markets fair and free from undesirable elements. The role of the broker and the depository participant as a market intermediary is very crucial. If the applicant is allowed to continue in the market, even after it has been repeatedly found guilty of violating securities laws on more than one occasion, it will seriously prejudice the interest of investors and the safety and integrity of the securities market. In view of the above, I am of the opinion that Parsoli is not a fit and proper person to act as an intermediary in the Indian securities market.
- 10.** In the light of the above discussion, I note that Parsoli has failed to comply with the provisions of Regulation 5(e) read with Regulation 5A of the Brokers Regulations and Regulation 19(cc) read with Regulation 6A of DP Regulations. As discussed above Parsoli and its whole-time directors do not fulfill the criteria for determining 'fit and proper' person as mentioned in Schedule II of the Intermediaries Regulations. I note that the satisfaction of these criteria is not a one-time requirement and the market intermediaries are required to satisfy this criteria at all times to ensure continuity of their registration. I am therefore in agreement with the recommendations made by the Designated Authority. At this stage, I note that the registration certificate of Parsoli as a depository participant (SEBI Registration No. IN-DP-CDSL-341-2006 on CDSL) was valid till March 01, 2011 and Parsoli has not applied for the renewal of its registration as a depository participant. Therefore, Parsoli is no longer registered as a depository participant and hence cancellation of its certificate of registration may not be required.
- 11.** With respect to the request of Parsoli dated January 07, 2013 for unfreezing its beneficiary demat accounts which have been frozen since the year 2009 by CDSL, I note that the same was the consequence of SEBI's order dated July 27, 2010, passed under Sections 11(4) and 11B of the SEBI Act, whereby Parsoli was debarred from buying, selling or dealing in securities market in any manner whatsoever or accessing

the securities market directly or indirectly for a period of seven years. This order is still in operation. However, the instant proceeding is under the Intermediaries Regulations in respect of Parsoli's registration as a stock broker and a depository participant. Therefore, the consideration of the request of Parsoli for unfreezing the beneficiary account would be beyond the scope of the instant proceeding.

12. I, therefore, in exercise of the powers conferred upon me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28(2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, hereby cancel the following certificates granted by the Securities and Exchange Board of India to Parsoli Corporation Limited, as stock broker:
 - a. SEBI Registration Nos. INB/ INF 230806837 on the National Stock Exchange of India Limited
 - b. SEBI Registration Nos. INB/ INF 010806835 on the Bombay Stock Exchange Limited
13. The Stock Exchanges and Depository are directed to ensure that Parsoli surrenders the original certificates of registration granted to it by SEBI before releasing any of the deposits that Parsoli may have maintained with them.
14. This order shall come into force on expiry of twenty one days from the date of this order.

PLACE: Mumbai
DATE: July 31, 2013

PRASHANT SARAN
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA