WTM/GM/EFD1-DRA2 / 64 /2019-20

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA,

MUMBAI

ORDER

Under Regulation 28(2) of the SEBI (Intermediaries) Regulations, 2008 in respect of System Support Services ("SSS"), Category –I Registrar to an Issue ("RTI") and Share Transfer Agent ("STA") - SEBI Registration No. INR000000502

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1. Background –

1.1. The present matter emanates from a comprehensive inspection of SSS undertaken by SEBI under Regulation 16 read with Regulation 17 of the SEBI (Registrars to an Issue and Share Transfer Agent) Regulations, 1993 for the period April 01, 2013 to March 31, 2015 ("**Inspection Period**") on September 30, 2015 and October 1, 2015.

1.2. The inspection *inter alia* centered on the RTI activities, STA activities and Regulatory Compliance of the said intermediary.

1.3. In this respect, the inspection report, pursuant to such inspection made the following observations:

a. In majority of the companies, SSS had less than even 50% of the specimen signatures available with it.

b. SSS had not exercised due care and diligence while processing demat requests in order to verify their genuineness. Further, by scanning the signatures from the Demat Request Forms ("**DRFs**") and showing them to the inspection team as if they were used during the process of entertaining the demat requests, the Noticee had tried to mislead the inspection team.

c. SSS processed the transfer requests for shares without checking the genuineness of transfer requests with the specimen signatures of the sellers and/or calling for documents to ascertain genuineness of the transfer requests. Further, SSS had transferred shares even without the approval of the company.

d. SSS had not exercised due care and diligence while processing transfer requests as in some cases, date of execution of the transfer deed between the transferor and transferee was not mentioned.

e. The Noticee had missed the Record Date in respect of "Arrow coated Products Limited" in the year 2014-2015.

2. Enquiry proceedings against SSS –

2.1. Consequent to the above observations made pursuant to the inspection undertaken by SEBI, Enquiry Proceedings were initiated against SSS, a registered intermediary, in terms of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (hereinafter referred to as "**Intermediaries Regulations**"), by appointing a Designated Authority (hereinafter referred to as "**DA**") in respect

thereof, vide Communication of Order appointing Designated Authority dated September 15, 2017.

2.2. Pursuant to the said appointment, the DA issued an SCN dated October 13, 2017, which *inter alia* contained the relevant extracts of the Inspection Report. The DA enquired into the alleged violation of the following provisions of law, viz.—

a. Regulation 14(3) (c) of the SEBI (Registrars to an Issue) and Share Transfer Regulations , 1993 read with Instruction 2(vii) of Instructions to RTI/STA dated October 11,1994;

b. Clauses 1 and 3 of the Code of Conduct prescribed under Regulation 13 of SEBI (Registrars to an Issue) and Share Transfer Regulations , 1993;

c. RTI Circular No. 1 (2000-2001) dated May 09, 2001 along with Point h of the Schedule (Specific Activities) as given in the instructions to RTA dated October 11, 1994 and Clause 3 of the Code of Conduct prescribed under Regulation 13 of SEBI (Registrars to an Issue) and Share Transfer Regulations , 1993; and

d. Clause 25 of the Code of Conduct prescribed under Regulation 13 of SEBI (Registrars to an Issue) and Share Transfer Regulations, 1993.

2.3. For the violations as stated above, the DA, in his report dated January 18, 2018, found that SSS had contravened the provisions as enumerated at 2.2 (a), (b) and (c) above.

2.4. In view of the same, the DA in terms of provisions of Regulation 27 of the Intermediaries Regulations recommended that the Certificate of Registration of SSS may be suspended for a period of one month.

3. Post – Enquiry SCN dated February 05, 2018 –

3.1. After considering the Enquiry Report, post –enquiry SCN dated February 05, 2018 under Regulation 28(1) of the Intermediaries Regulations was issued to SSS (enclosing therewith a copy of the Enquiry Report), calling upon it to show cause as to why action as recommended by the DA or any other penalty should not be imposed on it in terms of Regulation 28 (1) and (2) of the Intermediaries Regulations, as deemed fit, by the Competent Authority. The above SCN was issued citing the lapses listed out in para 1.3 above.

3.2. Thereafter, an opportunity of personal hearing before the Designated Member (hereinafter referred to as the "**DM**") was granted to SSS on August 21, 2019. At the said personal hearing, Mr. Mahendra Mehta, Partner, SSS appeared for the Noticee. In the said personal hearing, the Noticee placed reliance on the reply dated December 04, 2017 submitted by it in response to the showcase notice no. EAD-2/DSR/JAK/25240/2017/1 issued by the DA. Pursuant to the said personal hearing, SSS also submitted additional written submissions in the form of an affidavit vide letter dated September 11, 2019. The oral submissions made at the personal hearing on August 21, 2019, the submissions made by SSS by way of its reply dated December 04, 2017 before the DA, to the extent relevant to the present

proceedings, and the additional written submissions dated September 11, 2019 are summarised hereunder –

a. Most of the client companies had come out with their IPOs before 1995. Such companies did not have proper procedures or adequate infrastructure for record keeping as a result of which certain signature records were not retrievable by them at the time of handing over the assignments.

b. Also, those companies had lost/ misplaced/ damaged their physical signature records due to various unforeseen incidents such as white ants/heavy rains/ change in promoters/ shifting in management of those companies. The stock exchanges revoked the suspension of those companies. No objection was raised by the exchanges or by SEBI at the time of revocation of suspension with respect to the missing signature records of the shareholders of those companies. The suspension of trading in the shares of any company is revoked by stock exchanges after carrying out due diligence and filing of various documents.

c. SEBI circular dated 11th October, 1994 provides that the specimen signatures are to be maintained by the RTA. However, the abovementioned circular fails to specify any procedure in case specimen signatures are not available in the records of the client companies at the time of handing over the records to the RTA. All attempts were made to

obtain and update the signature data from those companies and from the shareholders.

d. No undue advantage and no harm or loss has been caused to the small shareholders. In view of the same, no adverse inference should be drawn.

e. SEBI has not specified any procedure in case specimen signatures were not available in the records of the client companies. Such a procedure was provided in SEBI LODR only in 2015, and that they have been following the said procedure since.

f. Pursuant to the administrative warning dated May 12, 2014 which was issued for inspection conducted for the period April 01, 2011 to March 31, 2013, wherein the above non-compliance was pointed out, continuous follow up was started by mailing the specimen signature letters along with a prepaid envelope. However, the response was not as per expectation, and only 10% of the signatures could be updated. In view of the same, the practice of seeking bank attestation or sellers notice or approval from the company in the case of non-availability of specimen signature of a shareholder was continued.

g. Proper due diligence and necessary precaution was taken before effecting demats. All the demat requests were processed after scrutiny of all the documents.

h. The share certificate is an important document that should be in the possession of the rightful investor. DP would have opened the account of the investor only after KYC as per SEBI norms was complete & bonafide of the investor established. DP would have accepted the share certificates if and only if the name in the DP A/c and name on the share certificates exactly matched.

i. If the share certificate was lost / misplaced by the holder, then the holder should have informed the Registrar regarding the same and have applied for duplicate share certificates. Since 2001, a shareholder cannot trade in securities market, unless and until the shares are in dematerialized form. Hence, the shares were demated in the interest of the investors and so that the investors are not put to inconvenience.

j. Apart from the signature verification, other factors were taken into consideration, before processing a demat, such as folio no., certificate no., distinctive no. of shares, which have to exactly match with the master records provided by the company. Payment of applicable stamp duty on the share certificates etc. and signature was not the only criteria to effect demat of shares.

k. The stated steps of verification were followed in the shares of Dharti Protein Ltd. and it was denied that the shares of Dharti were dematted

without specimen signature and without verifying the genuineness of demat requests.

l. As suggested by the inspection team that PAN card may be procured from DP and the signature verified, the procedure to procure PAN card was put into operation immediately after the inspection was over i.e on October 3, 2015.

m. No complaint had been received with respect to the total 4797 demat requests processed during the inspection period 1st April, 2013 to 31st March, 2015 and also for more than 20,000 (app.) demat requests processed during the preceding 15 years.

n. Further documents to check genuineness of request had not been collected in around 240 cases, which was only 5% of the total demat requests received from all the client companies during the inspection period.

o. With respect to the allegation that the specimen signatures were scanned at later dates from the DRFs only, and not from any other original source, the SCN only implies and the issuing authority was not sure about this; establishing that the said SCN was issued on the basis of surmises and conjectures.

p. In so far as the admission of the Noticee before the inspection team, it was denied that any admission before the inspection team or otherwise was made. The SCN levied a serious allegation of admission, however, no documentary evidence of the same was provided to enable further comments.

q. The genesis of this allegation was due to the presence of cropped signatures along with the scanned DRFs in a common folder meant for DRF images. These cropped signatures were never part of the regular signature folder which was used for signature verification. There was a practice of scanning the DRF and cropping signatures from the DRF for future reference e.g. entertaining any correspondence or query thereof.

r. In so far as the allegation that the genuineness of transfer requests should have been ascertained from the buyer or no attempt was made to verify the genuineness of the transfer requests, the same was a false and baseless allegation without checking the facts adequately. All possible checks and balances to verify the genuineness of each transfer was carried out.

s. The transfer requests were for a period prior to the administrative warning dated May 12, 2014. The systems were improved after the said administrative warning and the process of bank attestation was put in place w.e.f June 01, 2014. The documents pointed out in the SCN pertained to the period June 01, 2013 till December 31, 2013. Apart from

the signature verification, other factors were taken into consideration before processing a transfer such as duly completed transfer deed, execution date, buyer PAN card, name and address of witness, payment of applicable stamp duty on the transfer deed, address proof etc.

t. A total of 3201 requests were received from all client companies during the period of inspection and specimen signatures were not available in 54 requests which was only 1.69%.

u. The data with respect to the allegation that in 49 cases no checks were observed during the time of processing transfer requests and that the Noticee should have ascertained the genuineness of the transfer requests by calling for further documents from the buyer was wrongly presented. Out of total 49 cases, in 44 cases, signatures were verified by the company on transfer deeds, transferors were promoters themselves and the transfers were routed through the client company.

v. In the remaining 5 cases the transfers were within family members e.g. if the shares held by 'XY' are being transferred only to 'X', and for the same verbal approval was taken from the client company and there was no violation of any regulation/ circular/ instruction.

w. No complaint from the investors either directly or through SEBI/ Depositories, investors' association etc. has been received in this regard and no legal dispute/ court case has happened in the last 23 years.

x. There were only a few cases of transfers wherein the date of execution was not entered and left blank. It was a minor mistake on the part of the staff who were directed to be more careful.

y. Verbal approval was taken from the company before transferring the shares and written approval was received from the company later on. Endorsement on the back of the certificates authenticating the transfer of shares in the name of transferees was carried out after approval from the company and then only the shares were dispatched.

z. By way of letter dated May 06, 2017 a request for surrender of the SEBI registration certificate has been made.

4. Consideration of issues and findings –

Allegation No. 1

4.1. The DA has in his findings in the enquiry report dated January 18, 2018 has stated that SSS has violated the provisions of Regulation 14(3) (c) of the SEBI (Registrars to an Issue) and Share Transfer Regulations, 1993 read with Instruction 2(vii) of Instructions to RTI/STA dated October 11, 1994 by having less than even 50% of the specimen signatures in the majority of its client companies.

4.2. The relevant provisions in this regard are as under:

Regulation 14(3) (c) of the SEBI (Registrars to an Issue) and Share Transfer Regulations, 1993:

" To maintain proper books of account, and records, etc.

14.(3) Every share transfer agent shall maintain the following records in respect of a body corporate on whose behalf he is carrying on the activities as share transfer agent namely:-

(a) list of holders of securities of such body corporate;

(b) the names of transferor and transferee and the dates of transfer of securities;

(c) such other records as may be specified by the Board for carrying out the activities as share transfer agents."

Instructions to RTA/STA dated October 11, 1994*:*

" Records to be maintained by registrar to an issue/ share transfer agent.

In pursuance of the powers conferred upon SEBI by regulation 14(2) (h) and regulation 14(3) (c) of the Regulations, it is hereby stipulated that in addition to the books, records and documents stipulated in regulation 14(1), 14(2) and 14(3) the following records and documents shall also be maintained by the RTI/STA in hard copy/magnetic media.

Records and documents to be maintained by STA

(i) …

(vii) Specimen signature cards and transfer deeds."

4.3. In this respect, it is stated that the inspection carried out by SEBI with respect to SSS found that in majority of the companies, i.e. in 50 out of the 79 client

companies, SSS had less than even 50% of the specimen signatures available with it. The details are as under:

Percentage of folios in which specimen signatures are available	**No of client companies**
100%	21
50% - Less than 100%	8
10%-Less than 50%	21
More than 0%-Less than 10%	24
0%	5

4.4. Upon consideration of the above provisions, it is evident that the provisions clearly cast a duty on the STA to maintain the specimen signature cards.

4.5. It has been submitted by the Noticee that most of the clients did not have proper procedures or adequate infrastructure for record keeping as a result of which

certain signature records were not retrievable by them at the time of handing over the assignments. Further, it has been submitted by SSS that SEBI's instructions dated 11th October, 1994 failed to specify any procedure in case specimen signatures were not available in the records of the client companies. Such a procedure was made available in the SEBI LODR in 2015 and that they have been following the said procedure. Furthermore, it has been submitted that no undue advantage and no harm or loss has been caused to the small shareholders.

4.6. The requirement of maintenance of specimen signatures was spelt out way back in 1994. In this connection, I note that SSS had less than even 50% of the specimen signatures available with it during the relevant inspection period. Accordingly, the defence of a procedure being spelt out subsequently does not in any manner do away with the obligation for the maintenance of specimen signatures, and as such the said defence cannot be relied upon.

4.7. Furthermore, it has been submitted by SSS that it did not receive any undue advantage, and no harm or loss was caused to the small shareholders because of the non-maintenance of specimen signatures. While that may be the case, it must be noted that for the examination of the fact of violation of a provision of law by intermediaries, the absence of adverse consequence in the form of investor loss etc. will not be constitute a valid defence.

4.8. Thus, I concur with the view of the DA that SSS has violated the provisions of Regulation 14(3) (c) of the SEBI (Registrars to an Issue) and Share Transfer

Regulations, 1993 read with Instruction 2(vii) of Instructions to RTI/STA dated October 11, 1994.

Allegation No. 2

4.9. The DA in his findings in the enquiry report dated January 18, 2018 has stated that SSS by not exercising due care and diligence while processing demat requests violated the provisions of clause 3 of Code of Conduct prescribed under Regulation 13 of the RTA & STA Regulations. Further, it has been stated by the DA that SSS by scanning the signatures from the DRFs and showing them to the inspection team as if they were, specimen signatures, used during the process of entertaining the demat requests, SSS tried to mislead the inspection team, thus violating clause 1 of Code of Conduct prescribed under Regulation 13 of the RTA & STA Regulations.

4.10. The relevant provisions in this regard are as under:

Regulation 13 of the SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993:

"To abide by Code of Conduct.

13. 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."

Clauses 1 and 3 of the Code of Conduct prescribed under Regulation 13 of the RTA & STA Regulations:

"SCHEDULE III

SECURITIES AND EXCHANGE BOARD OF INDIA (REGISTRARS TO AN ISSUE AND SHARE TRANSFER AGENTS) REGULATIONS, 1993

(Regulation 13)

CODE OF CONDUCT

1. A Registrar to an Issue and Share Transfer Agent shall maintain high standards of integrity in the conduct of its business.

2….

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."

4.11. In this regard, it is stated that during the inspection period a total of 4797 demat requests were received by SSS. From the total demat requests received, inspection was carried out by SEBI of 502 demat requests. Out of the said 502 demat requests, 357 demat requests of Dharti Proteins Ltd. were examined for process followed. The details of the same are as under:

	Total demat requests received in all client companies	**4797**
		Dharti Proteins Ltd.
1	Requests Processed	357
2	Requests Approved	355
3	Requests out of (2) wherein specimen signature not available	273
4	(3) as % of (2)	77%

5	Requests out of (3) wherein further documents not collected to confirm genuineness of request	240
6	No. of shares involved in (5)	90, 300

4.12. For the 355 requests approved by SSS for Dharti Proteins Ltd., it was observed that 273 (i.e. 77%) requests were approved when signature records were not available with the company. Out of the above 273 demat requests, approval was granted relying upon a) verification done by Depository Participants; and b) signature verification from PAN card. The bifurcation is as under:

No. of demat requests approved where signature records not available	**Basis of approval**	**No of shares**
240	Signature verification done by DP	90,300
33	PAN Card	19,000

4.13. Further, scanned signatures from the Demat Request Forms ("**DRFs**") were shown to the inspection team of SEBI as if they were used during the process of entertaining the demat requests.

4.14. It is evident from a consideration of the above provisions that duty is cast upon an RTA/STA to a) exercise at all times due diligence, ensure proper care and

exercise independent professional judgment; b) maintain high standards of integrity in the conduct of its business.

4.15. In this regard, SSS has submitted that that the DP would have opened the account of the investor only after completing KYC and DP would have accepted the share certificates for transfer only upon matching of the names on the share certificates and the details available with it. The reliance placed on the KYC and verification done by the DP, in my view, clearly falls short of the specific obligation to exercise independent professional judgment. The use of the KYC and verification done by the DP by SSS, while entertaining demat requests shows that no independent judgment on the veracity of the demat requests was exercised by SSS.

4.16. Also, the submission of SSS that if the share certificate was lost / misplaced by the holder, then the holder should have informed the Registrar regarding the same and should have applied for duplicate share certificates is not acceptable. Absence of complaints with respect to lost/misplaced share certificates does not constitute a valid defence. Further, it has been submitted by SSS that folio no., certificate no., distinct no. etc. of the shares have to exactly match with the master records provided by the company before a Demat request is entertained. The same may be true, however, such an examination will still not obviate the need for signature verification.

4.17. Furthermore, the submission that the shareholder cannot be made to suffer because the company had not maintained shareholders signature, and the shares

were dematted in the interest of the investors in my view is not sustainable. The interest of the investors lies in the scrupulous adherence of market intermediaries to the norms of conduct mandated by SEBI. Thus, no act where norms of conduct as stipulated by SEBI are circumvented, even if seemingly expedient, can be considered as being in the interest of investors.

4.18. Lastly, it has been submitted that documents to check genuineness of requests processed were not sought for by SSS in around 240 cases, which was only 5% of the total number demat requests received during the period. As already stated in the preceding paragraphs, it is reiterated that out of a total of 4797 demat requests received, inspection was carried out by SEBI with respect to 502 requests. As a matter of procedure and practice, SEBI follows a random sample checking method for inspection and this case was no different. Thus, the defence of the Noticee is untenable in law and facts of the case.

4.19. In view of the above, it is observed that the Noticee has clearly not exercised due diligence and independent professional judgment and failed to ensure proper care.

4.20. Additionally, it has been alleged that the Noticee showed scanned signatures to the inspection team of SEBI extracted from the DRFs, as if they were used as specimen signatures during the process of entertaining the demat requests.

4.21. The Noticee has submitted that the charge of admission of the same during inspection is denied. The Noticee has stated that it was a practice of scanning DRFs

and cropping signatures from the DRF for future reference eg. Entertaining any correspondence or query thereof.

4.22. In this respect, even if it is assumed that no admission was made by the Noticee of cropping the scanned signatures from the DRFs to use them as specimen signatures during the process of entertaining the demat requests, the reason cited for cropping signatures from the DRFs is not satisfactory.

4.23. Accordingly, I concur with the view of the DA that SSS is in violation of the provisions of Clauses 1 and 3 of the Code of Conduct prescribed under Regulation 13 of SEBI (Registrars to an Issue) and Share Transfer Regulations, 1993.

Allegation No. 3

4.24. The DA in its findings in the enquiry report dated January 18, 2018 has stated that SSS has violated the RTI Circular No. 1 (2000-2001) dated May 09, 2001 along with Point h of the Schedule (Specific Activities) as given in the Instructions to RTA dated October 11, 1994. Also it has been stated that SSS has violated Clause 3 of the Code of Conduct prescribed under Regulation 13 of SEBI (Registrars to an Issue and Share Transfer Agent) Regulations, 1993.

4.25. The relevant provisions in this regard are as under:

Norms of Objection RTI Circular No. 1 (2000-2001) dated May 09, 2001:

"**1. *Reason for Objection*** - Minor Difference in Signatures of transferor/s on the Transfer Deed/s vis-a-vis specimen signatures recorded with the Company / STA

Procedure to be followed by Companies / STAs - To send to the first transferor: An intimation as per Annexure 5, of the aforesaid defect in the documents, and inform the transferor that objection, if any, of the transferor supported by valid proof is not lodged with the Company/ STA within 15 calendar days of receipt of letter of the Company / STA, as the case may be, then the securities will be transferred by the Company/STA, without further reference.

2….

3. Reason for Objection - Material difference in signature/s of transferor/s on Transfer Deed/s vis-a-vis specimen signatures recorded with the Company/ STA.

Procedure to be followed by Cos. / STAs –

To send:

1. Objection memo along with documents as per General guideline 18, in the prescribed format in original marking the reason as "material signature difference" to the transferee

2. Simultaneously, a copy of the objection memo to the transferor/s with an advice to lodge documents as detailed hereunder to facilitate the Company/STA to take on record fresh specimen signature:

3.2.1 an affidavit with the Company / STA as per Annexure-07 OR

3.2.2 Where the signature difference is due to old age / sickness, to lodge an affidavit as per Annexure-07 supported with a medical certificate obtained from a registered medical practitioner.

Note: Procedure under 3.2.1 and 3.2.2 above shall apply for recording fresh specimen signature for entire holding under a folio."

Schedule I (Specific Activities) as given in the Instructions to RTA dated October 11, 1994:

"(h) After receipt of approval of transfer proposals by the transfer committee, transfer agent shall endorse on the back of the certificates authenticating the transfer of shares in the name of transferees. In case of endorsement by Transfer Agent, Companies shall authorize Transfer Agents to do so by passing a resolution in its Board Meeting."

4.26. In this regard, it is stated that during the inspection period a total of 3201 transfer requests were received by SSS. From the total transfer requests received, inspection was carried out by SEBI of 348 transfer requests. Out of the said 348 transfer requests, 123 transfer requests in respect of Saboo Brothers Ltd. were examined for process followed. The details of the same are as under:

	Total transfer requests received in all client companies during the period of inspection	**3201**
		Saboo Brothers Ltd
1	Requests Processed	123

2	Requests Approved	117
3	Requests out of (2) wherein specimen signature not available	54
4	(3) as a % of (2)	46%
5	Requests out of (3) wherein further documents not collected to confirm genuineness of request	49
6	No. of shares involved in (5)	18,93,600

4.27. With respect to the 117 requests approved, it was observed during inspection that in 54 cases signature records were not available. The said requests had been processed in the following manner:

No of requests	**Transfer requests proceeded based on**
3	PAN of transferor.
2	Signature attestation by the bank.
5	Transfer happened within family.
44	Transfer requests processed mechanically before obtaining actual approval from the company.

4.28. Out of the total of 54 cases shown in the table above, in 49 transfer requests concerning the shares of Saboo Brothers Ltd., SSS had allowed transfer of shares

without making any attempts to verify the genuineness of these transfer requests or in such cases without even sending seller notices to the transferors.

4.29. Also, out of 117 transfer cases, in case of only 55 transfer deeds, date of execution of the transfer deed between the transferor and transferee was mentioned and in case of 62 cases no such date was mentioned.

4.30. In this regard, the Enquiry Report states that SSS had informed that in order to process transfer requests within 15 days of lodgment, they had company pre-fixed approval dates as 5th/10th/15th / 20th/ 25th /30th of the month, and in case of any of them being a holiday, the earlier day would get considered for transfer. It was a standard practice to dispatch approval register to the issuer company for approval and proceed with the transfer of shares without waiting for the receipt of the signed approval register from the issuer company. Confirmation about dispatch was claimed to have been taken over the phone from the company pending receipt of signed copy of the approval register.

4.31. With respect to the same, the Enquiry Report states that SSS could not furnish any proof of their telephonic conversations with the company in this regard. As per SSS, issuers were informed by SSS that if the transfer documents were valid, they as STA would proceed with the transfer of shares pending receipt of signed approval register from issuers. All the issuers were informed and they agreed to this kind of arrangement. However, there was no written agreement with the companies in this regard.

4.32. Further, during the inspection period, the average price in the scrip of Saboo Brothers Ltd. was approximately Rs. 18/-. Thus, SSS processed transfer requests for shares whose value was approximately Rs. 3,40 84 800/- without checking the genuineness of transfer requests with the specimen signatures of the sellers and/or calling for documents to ascertain genuineness of the transfer requests. Further, SSS transferred shares whose value was approximately Rs. 3,48,35,400 even without the approval of the company.

4.33. It has been submitted by SSS that of the 49 transfer requests in the scrip of Saboo Brothers Ltd., in 44 cases, transferors were promoters themselves and the transfers were routed through client company, in 5 cases the transfers were within family members. Reference in this regard is made to RTI Circular No. 1 (2000-2001) dated May 09, 2001, which provides a uniform procedure that all companies listed on stock exchanges are required to do the processing of share transfers and effect transfers. Point 1 of the Norms of Objection relates to the procedure to be followed by Companies/ STAs in case minor difference is observed between the specimen signature and signature in the transfer deed. Point 3 relates to the procedure to be followed by Companies/ STAs in case material difference is observed between the specimen signature and signature in the transfer deed. Accordingly, it has been rightly pointed out in the inspection report that logically, in such circumstance, where no specimen signature is available, there is material difference and as such the procedure as provided in point 3 of the Norms of Objection RTI Circular No. 1 (2000-2001) dated May 09, 2001 should have been

followed. The Noticee did not follow the said procedure while processing the transfer requests. The Noticee not only failed to follow the procedure as provided in point 3 of the said circular, but also failed to follow the procedure in point 1 of the circular, which relates to minor difference between signatures.

4.34. The Noticee cannot take shelter on the ground that the client companies were very old and that the records were mutilated or destroyed and as such specimen signatures were not provided at the time of taking up assignment. Further, the said procedures do not provide any grounds for deviation or divergence even if the transfers were amongst the promoters of the company or between family members. The Noticee could have very well used the procedures mentioned in point 1 and 3 of the Norms of Objection RTI Circular No. 1 (2000-2001) dated May 09, 2001.

4.35. Furthermore, the claim by the Noticee that specimen signatures were not available only in respect of 54 requests from a total of 3201 transfer requests received, which constituted 1.69%, is not sustainable. As a matter of procedure and practice, SEBI follows a random sample checking method for inspection and this case was no different. In the present matter a sample of 117 transfer requests was chosen for inspection, out of which it was found that specimen signatures were not available in respect of 54 requests. Thus, the defence of the Noticee is untenable in law and facts of the case.

4.36. The submission that other than signature verification, other factors were taken into consideration before processing a transfer such as, duly completed transfer

deed, transferor folio no., certificate no. etc is not sustainable. It is emphasised that signature verification is a critical part of the process of verification of share transfer requests, and as such the same cannot be excluded even if other verifications might have been carried out.

4.37. The submission that no complaint was received from the investors and no legal dispute/ court case has arisen can neither be considered as a sole indicator of the adequacy of compliance nor a singular benchmark for efficiency. Reference in this regard is made to the SEBI Order dated June 23, 2011 in the matter of Saharas. The WTM in response to the submission that there were no investor complaints in the matter held that "*the number of investor complaints has never been a good measure or indicator of the risk to which the investors are exposed.*" It is a matter of record that the Hon'ble Supreme Court upheld the said SEBI Order finding irregularity in the issuance of OFCDs, irrespective of the purported lack of investor complaints received.

4.38. With respect to the 62 cases out of the 117 transfer requests, where the date of execution of the transfer deed was not mentioned, it is stated that the date of execution of the transfer deed is a material detail in the process of transfer of shares, so the lapse on the part of the Noticee to not capture the date of execution in respect of 62 from a total of 117 cases, cannot be considered as a minor mistake. This clearly demonstrates the lack of due care and diligence on the part of the

Noticee and accordingly, clause 3 of the Code of Conduct prescribed under Regulation 13 of the RTI/STA regulations has been violated.

4.39. With respect to the 117 transfer requests having been effected without the approval of the company, it has been submitted by the Noticee that verbal approval was taken from the company before transferring the shares and written approval was received from the company later on and only upon receipt of written approval from the company were the shares dispatched. Reference is in this regard is made to point "h" of Schedule I (Specific Activities) as given in the Instructions to RTA dated October 11, 1994. The said provision requires that, after receipt of approval of transfer proposals by the transfer committee, transfer agent shall endorse on the back of the certificates authenticating the transfer of shares in the name of transferees and the Transfer Agent shall then dispatch the transferred share certificates under a covering letter. In this case, quite clearly the above process was not followed as transfer was effected without waiting for the approval from the issuer company. Also, a letter dated October 31, 2017 from Saboo Brothers Limited to SSS has been provided with the reply in respect of the arrangement between SSS and Saboo Brothers Limited as regards transfer of shares. The letter confirms that the company, Saboo Brothers Limited, had authorised SSS to transfer shares on the basis of verbal approval after verifying genuineness and requirement of complete documents lodged for transfer. However, it must be noted that the letter from Saboo Brothers Limited is dated October 31, 2017, which is much later than the inspection period. Thus, I find that by transferring

the shares before the receipt of approval of the issuer company, the Noticee has violated the provisions contained in point "h" of Schedule I (Specific Activities) as given in the Instructions to Registrar to an Issue/Share Transfer Agent dated October 11, 1994.

5. Conclusion –

5.1. The foregoing paragraphs demonstrate

a. that in 50 out of the 79 client companies, SSS had less than even 50% of the specimen signatures available with it;

b. that SSS by relying on the verification done by the DPs, did not exercise due care and diligence while processing Demat requests and had scanned signatures from the DRFs to show them to the inspection team as if they were used during the process of entertaining the Demat requests; and

c. that SSS had allowed transfer of shares without making any attempts to verify the genuineness of these transfer requests or in such cases without even sending seller notices to the transferors, and in several cases date of execution of the transfer deed was not mentioned, and the transfer was effected without waiting for the receipt of the signed approval register from the issuer company.

5.2. Accordingly, it is seen that in view of the above, the Noticee has violated the provisions as enumerated at paragraph no. 2.3. of this Order. Considering the same, it is felt that necessary action be initiated against the Noticee for the violations as noted above.

5.3. The Noticee has submitted that pursuant to the administrative warning dated May 12, 2014 which was issued for inspection conducted for the period April 01, 2011 to March 31, 2013, remedial measures namely, the process of seeking additional documents such as copy of PAN card, bank-attested signatures, documents for address proof have been put in place and followed. Further, it has been submitted by the Noticee that the procedure to procure PAN card from the DP and then verify the signatures was put into operation immediately after the inspection was over i.e. on October 3, 2015. In this regard, it is stated that the Noticee at the personal hearing on August 21, 2019 was directed to provide a certificate from a Chartered Accountant attesting to the changes stated to have been made subsequent to the administrative warning dated May 12, 2014 given by SEBI. No such CA certificate has been provided.

6. Order –

6.1. I note that the DA has in the Enquiry Report recommended that the certificate of registration of the Noticee be suspended for a period of one (1) month.

6.2. Considering the violations brought out in the foregoing paragraphs, I, in exercise of powers conferred upon me in terms of Section 12(3) and Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulations 23 and 28(2) of the SEBI (Intermediaries) Regulations, 2008, hereby direct that the Noticee i.e., System Support Services ("SSS") bearing SEBI Registration No. INR000000502, stands prohibited from accepting any new clients for a period of two (2) months from the date of this order.

6.3. The Noticee is further directed to disclose on its website(s) the details of the instant order immediately.

6.4. The order shall come into force with immediate effect.

6.5. A copy of this order shall be forwarded to the Noticee immediately. A copy of this Order shall also be forwarded to all the recognized stock exchanges and depositories.

Date: January 16, 2020 **G. MAHALINGAM**

Place: Mumbai **WHOLE TIME MEMBER**

SECURITIES AND EXCHANGE BOARD OF INDIA