BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/MC/RM/2022-23/17547]

UNDER SECTION 15-I (2) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995 AND UNDER SECTION 19-H (2) OF DEPOSITORIES ACT 1996 READ WITH RULE 5 OF DEPOSITORIES (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 2005

In respect of –

Stock Holding Corporation Of India Ltd. having addresses at (i) 301,Centre Point, Dr. Babasaheb Ambedkar Road, Parel, Mumbai-400012, and (ii) Plot No.P-51, TTC Industrial Area, Midc, Mahape, Mumbai-400710

In the matter of Delta Leasing & Finance Ltd.

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') initiated adjudication proceedings against Stock Holding Corporation of India Ltd. (**Noticee)** for the alleged violations of clause 1, 2(b), 3, 4, 11 of Part A of Schedule III of Code of Conduct of SEBI (Depositories and Participants) Regulations, 1996 (hereinafter referred to as **"D&P Regulations, 1996"**) read with Regulation 20AA *ibid* read with Regulation 98 of SEBI (Depositories and Participants) Regulations, 2018 (hereinafter referred to as **"D&P Regulations, 2018)** and clause 1.8(vii) & 1.8(viii) of SEBI Master Circular, CIR/MRD/DP/13/2013 dated April 15, 2013.

APPOINTMENT OF ADJUDICATING OFFICER

2. The undersigned was appointed as Adjudicating Officer (hereinafter referred to as '**AO**') *vide* order dated December 21, 2020 to inquire into and adjudge under Section 15HB of the SEBI Act, read with Section 19G of the Depositories Act, the

aforesaid alleged violations against the Noticee. The appointment of the AO was communicated *vide* order dated January 13, 2021.

SHOW CAUSE NOTICE, REPLY AND HEARING

3. Show Cause Notice No. EAD5/MC/ST/2021/15254 dated July 14, 2021 (hereinafter referred to as '**SCN**') was issued to the Noticee in terms of Rule 4(1) of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 ('SEBI Adjudication Rules') and 4(1) of the Depositories (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 ('Depositories Adjudication Rules') to show cause as to why an inquiry should not be held and penalty not be imposed against Noticee in terms of Section 15HB of the SEBI Act, read with Section 19 G of the Depositories Act, for the aforesaid alleged violations.

4. The allegations levelled against the Noticee in the SCN are summarized as below:

5. Delta Leasing & Finance Ltd. (DLFL) was incorporated in November 1983 and was listed on DSE on June 27, 1984 and at BSE on April 18, 2013. As per the website of DLFL, the company is engaged in investments and providing loan & advances and other related activities. Address details of DLFL are as under:

Registered Office Address	55, F.I.E, Patparganj Industrial Area, New Delhi– 110092
Corporate Office Address	104, Mukund House, Azadpur, New Delhi-110033

6. An investigation was conducted into the trading activities in the scrip of DLFL from January 1, 2013 to December 31, 2014. Examination of off market data obtained from the Depositories revealed that promoter entities transferred substantial quantity of shares to several entities during the investigation period.

7. The off market transactions executed during the investigation period were carried out electronically in dematerialized form by transfer from the account of a

Beneficial Owner (Transferor or Source Client) to the account of another beneficial owner (Transferee or the Target Client) through Delivery Instruction Slips (DIS).

8. On scrutiny of the DIS of some of the Source clients, it was observed that consideration amount for the off market transfer of shares was not stated in the DIS. In certain other cases, the consideration amount was indicated to have been received in cash and in some other cases, though the consideration amount was mentioned but the mode and manner of the amount received were not stated. Copy of DIS slips were provided as **Annexure-2** with SCN**.** The Source clients and the Target clients did not substantiate their claim of consideration received / paid with any documentary evidences in response to the summons issued seeking the aforementioned information.

9. In this connection, the role of the Depository Participants (DP) in the off market transactions through DIS was examined to ascertain as to whether the DPs exercised their due diligence and complied with the Rules and Regulations before executing such off market transfers.

10. Code of Conduct is prescribed for a DP in Regulation 20AA under Schedule III, governing its day-to-day activities as a DP and requires that DPs act in a prompt, effective and efficient manner and maintain high standards of integrity in all its dealings.

11. Further, in terms of para 1.8(vii) of SEBI Master Circular bearing Ref. No. CIR/MRD/DP/13/2013 dated April 15, 2013, *"the DPs shall cross check with the BOs under exceptional circumstances before acting upon the DIS".* And para 1.8(viii) of the said Master Circular states that *"the authorized official of the DP verifying such transactions with the BO, shall record the details of the process, date, time, etc., of the verification on the Instruction Slip under his signature".*

12. It was observed that the Noticee executed off market transactions which are considered as transactions under exceptional circumstances whereby the DPs are required to enquire with the beneficial owners about the transactions before its execution and record the same. The table below gives summary of such transactions:

Name of DP	**Cash**			**Gift**			**Loan/Return of loan shares**			**Bad Deliver/Delivery return**			**Consideration not mentioned**		
	No. of source client	**No. of transactions**	**Qty of shares**	**No. of source clients**	**No. of transactions**	**Qty of shares**	**No. of source clients**	**No. of transactions**	**Qty of shares**	**No. of source clients**	**No. of transactions**	**Qty of shares**	**No. of source clients**	**No. of transactions**	**Qty of shares**
Stock Holding Corporation Of India Ltd.	0	0	0	0	0	0	1	1	13,000	0	0	0	0	0	0

13. Details of the transactions executed were given as **Annexure-3** with SCN. On specific query to Noticee vide letters and summons pertaining to the extent of suo-moto due diligence exercised by them, the Noticee replied that it had exercised considerable due diligence while executing the transactions and had also obtained confirmation from the Source clients during verification of the DIS. However, the Noticee did not provide any documentary evidence of any record showing the name of the BO with whom verified, the manner of verification either phone or in person, date of such verification, the phone number to which calls made etc. substantiating their contention. The following Table gives details of summon issued and summary of the reply of the Noticee.

S No.	Name of the DP	Date of Letter/Summons issued	Date of Reply	Remarks
1	Stock Holding Corporation Of India Ltd.	14.06.2019	22.06.2019	Confirmed exercise of due diligence but not substantiated with documentary evidence such as cross verification with the source client and recording of the same

14. In view of the above, Noticee was alleged to have violated clause 1, 2(b), 3, 4, 11 of Part A of Schedule III of Code of Conduct of D&P Regulations, 1996 read with Regulation 20AA read with Regulation 98 of D&P Regulations, 2018; and clause 1.8(vii) & 1.8 (viii) of SEBI Master Circular CIR/MRD/DP/13/2013 dated April 15, 2013.

15. The relevant clauses of D&P Regulations, 1996 & 2018, SEBI Master Circulars dated December 31, 2010 and April 15, 2013 are reproduced as under:

D&P Regulations, 1996:-

THIRD SCHEDULE

CODE OF CONDUCT FOR PARTICIPANTS

***1**. A participant shall make all efforts to protect the interests of investors.*

***2**. A participant shall always endeavor to—*

(b) ensure that all professional dealings are effected in a prompt, effective and efficient manner;

***3.** A participant shall maintain high standards of integrity in all its dealings with its clients and other intermediaries, in the conduct of its business.*

***4**. A participant shall be prompt and diligent in opening of a beneficial owner account, dispatch of the dematerialization 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.*

***11**. A participant shall maintain the required level of knowledge and competency and abide by the provisions of the Act, Rules, Regulations and circulars and directions issued by the Board. The participant shall also comply* *with the award of the Ombudsman passed under the Securities and Exchange Board of India (Ombudsman) Regulations, 2003.*

Participants to abide by code of conduct.

20AA. *The participant holding a certificate of initial or permanent registration shall, at all times, abide by the Code of Conduct as specified in Third Schedule.*

D&P Regulations, 2018:-

Repeal and savings.

98*.(1) On and from the commencement of these regulations, the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, shall stand repealed.*

(2)Notwithstanding such repeal, anything done or any action taken or purported to have been taken or contemplated under the repealed regulations before the commencement of these regulations shall be deemed to have been done or taken or commenced or contemplated under the corresponding provisions of these regulations.

(3)After the repeal of the regulations referred to in sub-regulation (1), any reference thereto in any regulation, guideline, circular or direction issued by the Board shall be deemed to be a reference to the relevant provisions of these regulations.

SEBI Master Circular CIR/MRD/DP/13/2013 dated April 15, 2013:-

1.8 Safeguards to address the concerns of the investors on transfer of securities in dematerialized mode.

vii. The DPs shall cross check with the BOs under exceptional circumstances before acting upon the DIS.

viii. "….The authorized official of the DP verifying such transactions with the BO, shall record the details of the process, date, time, etc., of the verification on the instruction slip under his signature".

16. The aforesaid alleged violations, if established, make the Noticee liable for monetary penalty under Section 15HB of the SEBI Act, read with Section 19G of Depositories Act.

17. In response to the SCN, Noticee filed the reply to the SCN vide letter dated June 13, 2022. Opportunity of hearing was provided to the Noticee through video conferencing on June 20, 2022. Mr. Manoj Chaudhary, Deputy Manager and Mr. Anand Shankar, Manager, Stock Holding Corporation of India Ltd. Authorised Representatives (AR) of the Noticee attended the hearing and reiterated the submissions made in reply. Vide letter dated June 21, 2022 Noticee submitted post hearing submissions to the SCN.

18. The key submissions of the Noticee are summarized as below:

19. Noticee submitted that 57,300 shares of Delta Leasing & Finance Limited were credited in the demat account (DP ID-IN301330, Client ID-21358418) of Ms. Meghna Srivastava held jointly Kumkum Swarup on August 25, 2014 from other DP having BO ID 1203200000030356. Further on Sep 03, 2014, they transferred 13,000 shares through inter-depository transaction with the reason as "loan return" to the same BO account (BO ID 1203200000030356) from where shares were received. Details of the transaction were placed on records.

20. With reference to processing of the said debit transaction, Noticee submitted that the transaction was a high value transaction amounting to Rs.9.1 Lakh (as per prevalent market price of the scrip on the transaction date). Accordingly, as per Para (iii) b & c & Para (II) d of NSDL master circular on DIS-Version-1.3, DP requires to process such transaction by following the two step verification, the said transaction was processed. The extract of NSDL master circular on DIS-Version-1.3 is placed on records.

21. Noticee ascertained that the aforesaid guidelines were followed during the processing of off-market debit transaction in the said account. Noticee has placed

on records one sample screen shot from back office system which confirms that every high value transaction is processed post two step verification, in case the value of DIS amounts to lakh or more. Sample screen shot from Back office system & details of system log of maker checker are placed on records.

22. These shares were transferred based on the receipt of DIS which was originally issued to the client & as a part additional due diligence client's confirmation was also taken before execution of the transaction as per the Regulatory guidelines and the details of the same are recorded in back office system. A System log detail of said DIS is placed on records.

23. Further, referring to point number 10 & 11 of the Show Cause Notice Noticee confirm that adequate due diligence required as per SEBI & NSDL has been carried out at the time of processing the said debit transaction.

24. The point 11 of the Show Cause Notice referring to SEBI Circular SEBI/MRD/DP/ 13/2013 dated April 15,2013 Para 1.8 states as follows; (vii) *'The DPs shall cross check with the BOS under exceptional circumstances before acting upon the DIS." (viii) "The authorized official of the DP verifying such transactions with the BO, shall Record the details of the process, date, time, etc., of the verification on the Instruction slip under his signature.*

25. However, referring to SEBI Circular SEB1/MRD/DP/13/2013 dated April 15, 2013 Para 1.8 (viii) in accordance to point 11 of Show Cause Notice can be read as follows; (viii). *The DPs shall mandatorily verify with a BO before acting upon the DIS In case of an account which remained inactive i.e., where no debit transaction had taken place for a continuous period of 6 months, whenever all the ISIN balances In that account (irrespective of the number of ISINs) are transferred at a time. However, in case of active accounts, such verification may be made mandatory only if the BO account has 5 or more ISINs and all such ISIN balances are transferred at a time. The authorized official of the DP verifying such*

transactions with the BO, shall Record the details of the process, date, time, etc., of the verification on the Instruction slip under his signature.

26. In accordance with point number 1.8 (viii) of above stated SEBI Master Circular, recording of the details of the process, date, time, etc., of the verification on the instruction slip under the authorized officials signature of the DP if in case the Demat account is in dormant status & all the ISINs are transferred at a time. Similarly for active Demat account, such verification is required if in case 5 or more ISINs are transferred at a time.

27. The transaction in discussion neither was of a dormant account transaction nor there were 5 or more ISINs transferred, as only 1 script was transferred through the said Delivery Instruction Slip. Copy of the said DIS slip & last 6 months transaction statement has been placed on records.

28. Adequate due diligence as required under SEBI regulations has been taken at the time of processing the said transaction. Therefore the putative violation does not apply to Noticee.

29. As the inquiry in the matter is complete, I now proceed to decide the matter on the basis of SCN issued, reply received and material placed on record.

CONSIDERATION OF ISSUES AND FINDINGS

30. The issues that arise for consideration in the instant matter are:

Issue No. I Whether the Noticee violated clause 1, 2(b), 3, 4, 11 of Part A of Schedule III of Code of Conduct of SEBI (Depositories and Participants) Regulations, 1996 (hereinafter referred to as **"D&P Regulations, 1996"**) read with Regulation 20AA ibid read with Regulation 98 of SEBI (Depositories and Participants) Regulations, 2018 (hereinafter referred to as **"D&P Regulations, 2018)** and clause 1.8(vii) & 1.8(viii) of SEBI Master Circular, CIR/MRD/DP/13/2013 dated April 15, 2013?

Issue No. II If yes, whether the failure, on the part of the Noticee would attract monetary penalty under Section 15HB of the SEBI Act, read with Section 19G of the Depositories Act?

Issue No. III If yes, what would be the monetary penalty that can be imposed upon the Noticee taking into consideration the factors stipulated in Section 15J of the SEBI Act read with Rule 5(2) of the Adjudication Rules; and Section 19I of the Depositories Act read with Rule 5(2) of the Depositories Adjudication Rules?

Issue No. I Whether the Noticee violated clause 1, 2(b), 3, 4, 11 of Part A of Schedule III of Code of Conduct of SEBI (Depositories and Participants) Regulations, 1996 (hereinafter referred to as "D&P Regulations, 1996") read with Regulation 20AA ibid read with Regulation 98 of SEBI (Depositories and Participants) Regulations, 2018 (hereinafter referred to as "D&P Regulations, 2018) and clause 1.8(vii) & 1.8(viii) of SEBI Master Circular, CIR/MRD/DP/13/2013 dated April 15, 2013?

31. The allegations against the Noticee are based upon an off market transaction in respect of which Noticee was required to carry out certain due diligence. The transaction is alleged to be under exceptional circumstances whereby DP was required to cross check with the Beneficial Owners (BOs) about the transaction before its execution.

32. The Noticee has contended that the transfers were executed only pursuant to verification of details on the DIS with the BOs (Ms. Meghna Srivastava held jointly Kumkum Swarup) wherein the client confirmed that the reason for the transfer of shares was returning of shares in lieu of the "Loan return" as stated in the DIS. In support of the due diligence, Noticee has submitted sample screen shot from Noticee's back office system & details of system log of maker checker in its

system for the impugned transaction along with copy of the DIS slip for the impugned transaction.

33. In this regard, I note that clause 1.8 (vii) of SEBI Master Circular CIR/MRD/DP/13/2013 dated April 15, 2013 states that "The DPs shall cross check with the BOs under exceptional circumstances before acting upon the DIS" However, the term "exceptional circumstances" has not been defined, and there is no provision in the aforesaid circular, giving any indication or direction as to which transaction is to be classified as exceptional. The differentiation of the off market transactions into categories such as "Cash", "Gift", "Loan/ Return of Loan shares", "Bad Delivery/Delivery Return" and "Consideration not mentioned category", and treating these categories as exceptional circumstances, is not provided in this circular which was applicable during the relevant period. These categories were specified much later in July 2019.

34. I also take note of the Noticee's contention that it did verify the details of the Beneficial Owners and the transactions. I have perused the sample screen shot of Noticee's back office system, and note that in the 'Delivery Instruction for Market Trades-Checker/verifier Entry' module in the Noticee's back office system, every high value transaction (as per Noticee in case the value of DIS amounts to lakh or more), post entry of DIS details, is completed through two step verification process, requiring Branch manager and above to verify the records entered by the maker official. I have also perused the details of system log of entry made for DIS Slip (661050122382) of impugned transaction, which indicates that the value of the impugned transaction was Rs.9,10,000/-, hence categorized by Noticee as high value and subjected to two step verification process. I also note that name and id of the 'maker', 'checker', and 'verifier' official along with the date (i.e. September 03, 2014) and time of completion of each step is captured in the system. Further, there are some signatures on some blank fields at the bottom of DIS Slips, which may pertain to Noticee officials post completion of each aforesaid step.

35. I note that this requirement of cross-checking with the BO was put in place to safeguard the concerns of investors, and the material on record does not bring out any concerns raised by respective BOs.

36. I have perused the DIS slip based on which the allegations referring to exceptional circumstances as well as suspicious transactions are made. I note that in the DIS slip 'Loan Return' is mentioned as reason of transfer. Further, there is nothing in the DIS slip indicating that the off market transactions were cash transactions. Hence, I note that reason for not mentioning consideration is recorded.

37. In view of the above, I find that, there is insufficient material on record to conclude that these off market transactions were cash transactions or were under exceptional circumstances. Hence violation of clause 1.8 (vii) of SEBI Master Circular CIR/MRD/DP/13/2013 dated April 15, 2013 by Noticee is not established.

38. I also note that as per clause 1.8 (viii) of SEBI Master Circular CIR/MRD/DP/13/2013 dated April 15, 2013, verification with BO is applicable in cases wherein either all the ISIN balances in an account are transferred at a time and there was no debit transaction in the account for past 6 months, OR if the concerned BO Account has 5 or more ISINs, and all such ISINs are transferred at one time. Noticee has submitted that the impugned transaction neither was of a dormant account transaction nor there were 5 or more ISINs transferred, as only 1 scrip was transferred through the said DIS. I have perused the DIS slip & last 6 months transaction statement prior to transaction (as provided by Noticee), and note that the client's account was in active status and that only one scrip was transferred through the DIS Slip and there was another scrip available in the demat account of the client of Noticee.

39. I also find that there is no material on record to substantiate that the criteria for verification as stipulated in aforesaid clause was met for the accounts involved in the off market transactions executed by the Noticee.

40. In view of the above, in the absence of any records to contradict the Noticee claims, I find that Noticee has not violated clause 1.8 (viii) of SEBI Master Circular CIR/MRD/DP/13/2013 dated April 15, 2013.

41. In view of the above, I find that material on record does not establish that Noticee failed to exercise reasonable due diligence and violated clause 1, 2(b), 3, 4, 11 of Part A of Schedule III of Code of Conduct of SEBI (Depositories and Participants) Regulations, 1996 (hereinafter referred to as **"D&P Regulations, 1996"**) read with Regulation 20AA ibid read with Regulation 98 of SEBI (Depositories and Participants) Regulations, 2018 (hereinafter referred to as **"D&P Regulations, 2018).**

42. As the violations alleged against the Noticee are not established, issues II and III do not merit consideration.

ORDER

43. In view of the findings noted in the preceding paragraphs, the adjudication proceedings initiated against the Noticee vide SCN dated July 14, 2021 are disposed of.

44. Copy of this Adjudication Order is being sent to the Noticee and also to SEBI in terms of Rule 6 of the Adjudication Rules and Rule 6 of the Depository Adjudication Rules.

DATE: June 30, 2022 **MANINDER CHEEMA**
PLACE: MUMBAI **ADJUDICATING OFFICER**