BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/MC/RM/2022-23/17568]

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 –

Centrum Broking Ltd. having addresses at Centrum House, C.S.T. Road, Near Bandra-Kurla Complex, Vidyanagari Marg, Kalina, Santacruz (East), Mumbai-400098

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 Centrum Broking 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
Centrum Broking Ltd.	0	0	0	0	0	0	1	1	40,835	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	Centrum Broking Ltd.	14.06.2019	05.07.2019	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 July 30, 2021. Opportunity of hearing was provided to the Noticee through video conferencing on June 20, 2022. Mr. Ajay Bendkhale, Compliance Officer, Centrum Broking Ltd. and Mr.Abhishek Damani, Vice President, Legal, Centrum Broking Ltd. attended the hearing as Authorised Representatives (AR) of the Noticee and reiterated the submissions made in Noticee's reply.

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

19. Noticee received a duly executed Delivery Instruction slip (DIS) from its client Novak Exim Overseas Pvt. Ltd vide DIS no.107147 dated 28/06/2013 for off market of 40835 shares of Delta Leasing to a client called Prem Chand having BO ID 1203200000028471(Depository-Delstox Stocks and Shares New Delhi- Noticee no.6) and the reason for off market was quoted as 'LOAN' Hence no consideration was involved in the said transaction. Therefore, there was no requirement for Noticee to substantiate the consideration amount with documentary proof.

20. Noticee followed the required due diligence for carrying cut the off market transaction as under:
    a) Noticee identified the source of purchase of securities, and found that the client Exim Overseas Private Limited had bought the securities of Delta Leasing as under:

Date of Purchase/transfer to DP account	**Settlement no.**	**Quantity**
25/06/2013 25/06/2013	1110001314062	39569
25/06/2013 28/06/2013	1110001314062	1266

Total		40835

b) Noticee observed w.r.t. source of fund that, the Client-Novak Overseas had made the following payments as per his ledger account

Sr.No.	**Date**	**Amount Received(Rs.)**
1	02-11-2012	36,00,000
2	29-01-2013	20,00,000
3	09-02-2013	10,00,000

c) Noticee verified the signature appearing on Delivery Instruction Slip (DIS) with client's specimen signature recorded in Noticee's back office system and also checked other details mentioned on Delivery Instruction Slip (DIS).

d) Noticee identified person who owned the securities and nature of transaction and observed that the securities were lying in the demat account of the transferor which was purchased by him on the floors of stock exchange.

e) Noticee ascertained the purpose/reasons for the off market Transfer initiated by the client, which was quoted as Loan. Because no consideration was mentioned in the DIS, no further details was required to be sought from the client.

f) Noticee checked the Client Account Status, and found that the account was active. Noticee has the system and policy in place to check transactions originating from dormant account as a risk containment measure and Depository Participant (DP) verifies transactions originating from dormant accounts independently with the account holders before execution and records the details of verification on instruction slip.

g) Further in the context of the background of the client, it was noted that the client was regularly trading and meeting his obligations (ledgers of the client are placed on records). Considering these factors the said off market transaction was prima facie found to be authentic because said transaction was not in the nature of off market sale or purchase and there was no consideration involved. The client had stated a networth of Rs.3 Crores and conduct of account was satisfactory. As the transaction was in the nature of Loan, the same was processed at Noticee's end as a normal transaction.

h) Noticee as a DP while governing its day to day activities had adhered to the code of conduct and it had promptly and efficiently processed the off market request of its client —Novak Exim Overseas Pvt. Limited after carrying out the reasonable due diligence and as on 28/03/2013, in absence of any restriction from the regulators to process the shares of Delta Leasing and Finance Limited.

i) The off market transfers of 40835 shares of Delta Leasing and Finance Limited was carried out on 28/03/2013 from Novak Overseas Private Limited (Centrum's demat account no. 1201220000073343 to Premchand, who was holding a demat account no.1203200000028471 with another depository.

j) Subsequently after the transactions, on 30/06/2013 & 15/07/2013 Noticee had received alerts from CDSL under the category FIU 1. FIU 1 means Debit and Credit transactions due to Off-market or Inter-depository transfers, above a threshold quantity, in an ISIN, in a single transaction or series of transactions executed during the fortnight.

k) Apparently the alert was raised because transactional value was shown Rs.13.90 lakhs as per depository's records whereas as per Depository records the income shown against the client was Rs.1-5 lakhs. Hence, Noticee had gone through the KYC form of the client and found that at page no.1 of KYC form the client had revealed his net worth as Rs.3 crores. Hence prima facie Noticee found that the transaction of the client was well within the threshold and closed as the same was found not to be suspicious because the transactions valued at prevailing market price (Rs.13.90 lakh) was commensurate with the Net worth declared by the client i.e. Rs. 3 crores /- in its KYC.

l) Noticee found the transaction was not suspicious being in the nature of loan. Further, as on 28/03/2013 apparently there was no alert or any restriction by the regulators on the scrip Delta Leasing and or against the client Novak Overseas Private Limited. Further client's account was not in the "dormant state", hence there was no exceptional circumstances envisaged by Noticee.

m) The client Novak Overseas was an active client and transferred the shares to target client which it had purchased from the floor of the exchange and apparently being a corporate client it was assumed that client would have given its shares to avail the loan. There did not appear to be any extraneous factor or circumstances, which could lead Noticee to believe the said transaction, as suspicious.

n) Noticee submited that as per the explanations provided above, the alerts were examined and as no suspicion or concern was seen, the alerts were closed.

o) The explanations provided under various points of this letter amply clarifies that Noticee has not violated any of the regulations or SEBI master circular or PMLA guidelines as mentioned.

p) Noticee acted in good faith and applied proper due diligence before executing the transaction therefore and no inquiry should be initiated against Noticee in terms of Rule 4(1) of the SEBI Adjudication Rules and Rule 4(1) of the Depositories Adjudication Rules read with Section 15-1 of the SEBI Act and Section 19 H of Depositories Act and no penalty should be imposed under section 15 HB of the SEBI Act and section 19 G of the Depositories Act for any of the alleged violations.

21. 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

22. 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?

23. 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 transactions are alleged to be under exceptional circumstances whereby DP were required to cross check with the Beneficial Owners (BOs) about the transaction before its execution.

24. The Noticee has contended that the transfers were executed only pursuant to Noticee exercising the required due diligence for carrying out the off market transaction under which it identified the source of purchase and fund of its client Exim Overseas Private Limited for transactions pertaining to DLFL securities. Further it also verified signature appearing on Delivery Instruction Slip (DIS) with client's specimen signature recorded in Noticee's back office system and also checked other details mentioned on Delivery Instruction Slip (DIS). Noticee has submitted that the purpose/reasons for the off market transfer initiated by the client, was quoted as Loan, and no consideration was mentioned in the DIS, hence, no further details was required to be sought from the client. The noticee has contended that the impugned transaction given the context, background and net worth of Rs.3 Crores of the client involved, was treated as a normal transaction. In support of the due diligence Noticee has submitted contract notes,

statements of accounts, Client Account Opening form of its client Exim Overseas Private Limited.

25. 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.

26. In view of the above, I take note of the Noticee's contention that it identified the transaction as normal transaction and not as exceptional in the context of the transaction and the client involved, and carried out due diligence accordingly. In respect of the reason for treating impugned transaction as normal transaction in due course of trading, I have perused the records of the DIS Slip, contract notes, client's statements of accounts and Client registration form of the Client Novak Exim Overseas Private Ltd. submitted by the Noticee, which indicate that there was no apparent reason for the Noticee to treat the impugned transaction as exceptional or suspicious transaction. I also note that material on record does not bring out any concerns raised by respective BOs. I further note that this requirement of cross-checking with the BO was put in place to safeguard the concerns of investors.

27. 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' is mentioned as reason of transfer. Further, there is

nothing in the DIS slips indicating that the off market transactions were cash transactions. Hence, I note that reason for not mentioning consideration is recorded.

28. In view of the above, I find that there is insufficient material on record to conclude that the impugned off market transaction was a cash transaction or was 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.

29. 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. I note that there is insufficient material on records to indicate if any of the aforesaid two conditions, calling for DP to do verification with the BO was met for the account of the client Novak Exim Overseas Private Ltd. at the time of impugned transaction. Further, the Noticee has contended that the aforesaid demat account of the client was active and in support has shared the contract notes for the trades carried out by its client along with the statements of accounts.

30. 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.t

31. In view of the above, I find that material on records 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).**

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

ORDER

33. 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.

34. 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**