

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Section 12(3) of the Securities and Exchange Board of India Act, 1992 read with Regulation 27 of Securities and Exchange Board of India (Intermediaries) Regulations, 2008

In Respect of:

Noticee	SEBI Registration No.
MCS Limited (Registrar to an Issue and Share Transfer Agent)	INR000000056

BACKGROUND

1. Certain news items were published on January 08, 2014 regarding investigation and subsequent arrests made by the Economic Offences Wing ('EOW') of Mumbai Police in the matter of alleged fraudulent dematerialization and selling of shares of dormant shareholders by using forged documents, which also referred to the roles of certain SEBI registered Registrars to an Issue and Share Transfer Agents, including MCS Limited (hereinafter referred to as '**MCS**'/ '**Noticee**'/ '**RTA/STA**') in the said fraud.
2. Pursuant to the above, SEBI called for records submitted by MCS to EOW, upon perusal of which it was observed that the same pertained to two issuer companies viz. Eicher Motors Limited (hereinafter referred to as '**Eicher**') and Global Securities Limited (hereinafter referred to as '**Global**') for which MCS had acted as the RTA/STA.
3. SEBI thereafter conducted a specific purpose inspection on May 12, 2014 of the records/documents regarding the processes/procedure followed by MCS while executing the requests from investors such as share transfer requests, requests for issue of duplicate shares, dematerialization of shares etc. with

respect to the cases / companies forming part of the EOW investigations. The inspection revealed certain procedural/process related violations by MCS. Accordingly, SEBI initiated enquiry proceedings against MCS under the provisions of the SEBI (Intermediaries) Regulations, 2008 (hereinafter referred to as '**Intermediaries Regulations**') and appointed a Designated Authority ('DA'), who issued a show cause notice dated July 26, 2016 ('SCN') to MCS. The SCN alleged the following:

- (a) MCS had not maintained the specimen signatures and other records of the investors of Eicher and Global, in violation of Instruction 2 (vii) of RRTI Circular No. 1(94-95) dated October 11, 1994 (hereinafter referred to as '**RTA Circular 1994**') and Regulation 14(3)(c) of SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 (hereinafter referred to as '**RTA/STA Regulations**').
- (b) As per the provisions provided under point 23 of General Norms for Processing of Documents as prescribed under RTI Circular no. 1 (2000-2001) dated May 09, 2001 (hereinafter referred to as "**RTA Circular 2001**"), prior to issue of duplicate shares, issuer company/ Share Transfer Agent needs to issue an advertisement in a widely circulated newspaper if the value of the shares is greater than Rs.10,000. However, in respect of six requests received for issuance of duplicate shares in 2012-13, no advertisement was issued in any widely circulated newspaper by MCS though the value of shares was above Rs.10,000 in each case. MCS had thus allegedly violated the provisions of RTA Circular 2001. Further, MCS, by not exercising due care and diligence while processing transfer requests, had also allegedly violated Clause 3 of Code of Conduct as prescribed under Regulation 13 of RTA Regulations.
- (c) In one instance where a request for issuance of duplicate shares was made with an address which was different from that updated by the investor in the recent past, MCS had processed the said request without obtaining any confirmation from the investor concerned. Further, in some instances, while processing requests for issuance of duplicate shares, MCS had relied upon the signature attestations purportedly provided by banks, without carrying

out any due diligence regarding their veracity. The above instances showed that MCS failed to exercise due care and diligence while processing the requests of the investors, thereby violating the provisions of clause 3 of Code of Conduct prescribed under Regulation 13 of the RTA Regulations.

4. After considering the reply of the Noticee, the DA submitted a Report dated January 31, 2022 (**'DA Report'**) wherein he concluded that the charges against the Noticee stood established. The DA in the DA Report recommended that the certificate of registration of the Noticee, as an RTA / STA, be cancelled.

POST-ENQUIRY SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING:

5. A show cause notice dated February 28, 2022 (**'Post-Enquiry SCN'**) was issued to the Noticee enclosing therewith a copy of the DA Report and calling upon the Noticee to show cause as to why the action as recommended by the DA, or any other appropriate action under Regulation 27 of the Intermediaries Regulations, as deemed appropriate by the Competent Authority, should not be issued against it.
6. The Post-Enquiry SCN sent to the Noticee through Speed Post was returned undelivered. Further, attempt to serve the same through hand delivery / affixture was also not successful. Thereafter, the Post-Enquiry SCN was served on the Noticee by issuing an intimation in the newspapers on June 01, 2022. However, no reply was received from the Noticee. Thereafter, an opportunity of personal hearing was granted to the Noticee by scheduling the same on December 21, 2022. The notice of hearing could not be served through Speed Post or any other means. The same was served through publication of intimation in the newspapers on December 14, 2022. However, the Noticee did not attend the hearing and no response from the Noticee was received.
7. Since the Noticee has failed to respond to the Post-Enquiry SCN and attend the personal hearing, it is clear that the Noticee has nothing to submit in this matter. Accordingly, I proceed to decide the matter *ex-parte*, based on material

available on record, which includes Noticee's reply dated August 08, 2016 submitted to the DA.

CONSIDERATION OF ISSUES AND FINDINGS:

8. I have examined the allegations in the SCN and the other material available on record. I now proceed to decide the issues at hand. The Noticee is alleged to have not maintained the specimen signatures and other records of the investors of Eicher and Global, in violation of Instruction 2 (vii) of the RTA Circular, 1994 and Regulation 14(3)(c) of the RTA/STA Regulations. I note that the said provisions require an RTA / STA to maintain, in hard copy / magnetic media, *Specimen signature cards and transfer deeds*. I note that while the Noticee has not replied to the Post-Enquiry SCN, the Noticee in its submissions dated July 31, 2014 enclosed with the letter dated August 08, 2016 had submitted *inter alia* that Specimen Signature of the shareholders were very much on record and were kept in electronic form. It further submitted that Eicher was a very old company and its signature database was very old. The signatures were kept on the system which had become obsolete and its migration into new version took little time. Further, in addition to specimen signatures, other records for carrying out the activities as Share Transfer Agent were available with MCS Ltd. As regards Global, MCS submitted that Global, which had appointed MCS as its RTA vide MoU dated October 01, 2012, did not provide signature database of investors to MCS despite repeated requests. Hence, MCS gave notice of termination of the said MoU to Global with effect from March 01, 2013.
9. I note that specimen signature cards of investors are crucial documents necessary for verification of the identity of the investors and the genuineness of their various requests (for issue of duplicate shares, change of address etc.). In absence of specimen signatures, there is a real and grave risk of investors falling prey to fraud and manipulation and suffering losses. As regards specimen signatures of investors of Global, MCS had explained the absence of same by contending that Global failed to provide the specimen signatures despite repeated requests. I note from records that 26 demat requests examined by the SEBI Inspection Team were processed by the erstwhile

RTA/STA of Global and no request was processed by MCS. Considering the same, I am inclined to accept the submissions of MCS, as regards Global. As regards specimen signatures of investors of Eicher, I note that though the Noticee had claimed that it had the specimen signatures of all the investors of Eicher in electronic form, it was observed by the SEBI Inspection Team that many requests for issuance of duplicate shares were processed without verifying with specimen signatures. Since the Noticee could not prove the availability of specimen signatures in the abovementioned cases to the inspection or afterwards, I find that the allegation of violation of Instruction 2 (vii) of the RTA Circular, 1994 and Regulation 14(3)(c) of the RTA/STA Regulations against MCS stand established.

10. As per the provisions provided under point 23 of General Norms for Processing of Documents as prescribed under RTA Circular 2001, prior to issue of duplicate shares, issuer company/ Share Transfer Agent needs to issue an advertisement in a widely circulated newspaper if the value of the shares is greater than Rs.10,000. It is alleged that six requests received for issuance of duplicate shares were processed by MCS without issuing any advertisement in any widely circulated newspaper by MCS, though the value of shares was above Rs.10,000 in each case. The same was allegedly in violation of the abovementioned provisions as well as Clause 3 of Code of Conduct as prescribed under Regulation 13 of RTA Regulations. The details of the said instances are as under:

S. No.	Name of Investor	Issuer Company	No. of shares	Date of receipt of complete Duplicate Request by the Noticee	Value of shares in Rs.
1	Satya Paul Saigal	Eicher Motors Ltd.	500	27.11.2012	13,06,300
2	Joseph John V	Eicher Motors Ltd.	500	19.01.2013	13,56,125
3	Zuhara Salam	Eicher Motors Ltd.	500	28.01.2013	13,20,050
4	G Radhika	Eicher Motors Ltd.	500	24.01.2013	13,49,775
5	Manohar Shivanagi	Eicher Motors Ltd.	500	08.12.2012	13,45,075
6	Kavita R Mehta	Eicher Motors Ltd.	500	20.11.2012	11,77,600

11. I note that the Noticee has not denied the allegation of not having issued the advertisement in respect of the instances mentioned in the Table above. However, it has sought to shift the responsibility on the issuer company. The Noticee in its submission dated July 31, 2014 had submitted that Eicher was not adopting the practice of publishing advertisement for issue of duplicate shares in newspapers having wide circulation. However, I note that the obligation to issue newspaper advertisements in all cases of issuance of duplicate shares of values exceeding Rs.10,000 was equally on the Company as well as the RTA / STA. Considering the same, I find that the allegation of violation of the provisions of point 23 of General Norms for Processing of Documents as prescribed under RTA Circular 2001 stand established. Further, the failure of MCS to issue the newspaper advertisements, as required by law, shows that MCS failed to exercise due care and diligence while processing requests for issuance of duplicate shares. Hence, I find that MCS has also violated the provisions of Clause 3 of Code of Conduct as prescribed under Regulation 13 of RTA Regulations.
12. Additionally, the Noticee is also alleged to have failed to exercise due care and diligence while processing the transfer / demat requests of the investors and violated the provisions of clause 3 of Code of Conduct prescribed under Regulation 13 of the RTA Regulations, in view of the following observations:
- (a) In one instance where a request for issuance of duplicate shares was made with an address which was different from that updated by the investor in the recent past, MCS had processed the said request without obtaining any confirmation from the investor concerned.
- (b) In two instances, while processing requests for issuance of duplicate shares, MCS had relied upon the signature attestations purportedly provided by banks, without carrying out any cross-verification with the concerned banks.
13. I note from records that the instance mentioned at para 13(a) above pertains to the case of investor, Satya Paul Saigal, who had updated his address with MCS vide letter dated May 12, 2012. MCS had received a request for issuance of

duplicate shares which was processed by MCS on January 02, 2013. However, the address to which the duplicate shares issued was different from the one updated by the investor. Also, the signature of the investor on the letter requesting change in address was significantly different from those appearing in the documents submitted for issue of duplicate shares. Further, post the issuance of duplicate shares, when MCS enquired with the bank about the genuineness of the applicant for duplicate shares, the bank informed that it did not have the bank account of any such person in the respective branch.

14. In the above regard, MCS vide submissions dated July 31, 2014 had submitted that though the signatures of the investor made on indemnity and affidavit were slightly different from the specimen signature, MCS had processed the said request for duplicate shares, since the signature made on the indemnity and affidavit were in conformity with investor's signature on the PAN Card and the same was attested by his banker. However, I note from records that the SEBI Inspection Team had noted that the specimen signature of the investor was not available with MCS in the first place. Thus, the Noticee's contention that it had compared investor's signature on indemnity and affidavit with specimen signature cannot be believed. The Noticee has also contended that the duplicate shares issued were dematerialized in March 2013 and signature of the Mr. Satya Paul Saigal mentioned on the Dematerialization Request Form (DRF) was in conformity with his signature mentioned on Indemnity and Affidavit sent for issuance of duplicate share certificates. However, I find that the said explanation cannot be accepted, as the signatures are likely to match since both the documents (Indemnity and Affidavit and DRF) were likely signed by the same imposter. I also note that in this case, no advertisement was issued in newspapers before issuing duplicate shares, even though the value of the shares exceeded Rs.10,000. Since MCS had issued duplicate shares to an address different from what was updated by the investor few months back without cross-verifying with the investor and without issuing newspaper advertisement, it is clear that MCS failed to exercise due care, diligence and caution in course of its business. I thus find that the Noticee has violated the

provisions of Clause 3 of Code of Conduct prescribed under Regulation 13 of the RTA Regulations.

15. As regards the instances pointed out at Para 13(b) above, I note from records that these pertain to the cases of Joseph John V and G Radhika respectively, regarding issuance of duplicate shares where signature attestations were purportedly done by Bank Branches. I note that in case of Joseph John, MCS had claimed to have matched the signature on Indemnity & Affidavit with that on PAN and the signature attested by his bank (Union Bank of India, Varanasi Branch). However, in this case, though specimen signature was not available and the value of shares exceeded Rs.10,000, MCS did not issue newspaper advertisement and did not cross-verify the identity of the investor with the concerned bank. Similarly, in case of G. Radhika, no newspaper advertisements were issued and no cross-verification of the investor was done with the concerned bank branch (State Bank of India, Kanpur Branch). By processing of requests for duplicate shares in a perfunctory manner, MCS failed to exercise due care and diligence in the course of its business. I thus find that the Noticee has violated the provisions of law, as stated above.
16. I note that the violations committed by the Noticee are serious in nature and have resulted in major losses for the investors. The practices adopted by the Noticee while processing requests were akin to facilitating fraud. Such violations make the Noticee liable for strict action.
17. I note from records that the Hon'ble High Court of Bombay vide Order dated January 28, 2015 had ordered winding up of the Noticee and had appointed an Official Liquidator. The same was further confirmed by Order dated October 20, 2016 of the Hon'ble Bombay High Court. I note from the status of the Noticee available on MCA Portal that MCS is currently under Liquidation Process. Further, as per the Noticee's letter dated August 08, 2016, all the clients of the Noticee have already moved to other RTAs and its employees have also resigned. I have considered the same while deciding the appropriate action in this matter. As per available records, MCS has not submitted Half Yearly Reports for the period March 2018 to March 2023 and Consolidated Risk Based

Supervision (RBS) Reports for the years 2017, 2018, 2019, 2020, 2021 and 2022. Further, MCS has not paid its renewal fee since 31.07.2018.

18. It is also pertinent to note that vide an Order No. WTM/ASB/MIRSD/DoS-3/24259/2022-23 dated February 28, 2023, MCS has been prohibited from buying, selling or otherwise dealing in securities market in any manner whatsoever and has been further prohibited from accessing the securities market for a period of three years from the date of the said Order.
19. In view of the above, it appears that MCS has already become a defunct entity and is no longer active as an RTA/STA. Thus, no meaningful purpose would be served to let the Noticee continue to hold a certificate of registration. Considering the violations committed by the Noticee as well as the factors mentioned above, I am inclined to accept the recommendation of the DA to cancel the certificate of registration held by the Noticee.

ORDER –

20. I, therefore, in exercise of powers conferred under Section 19 read with Section 12(3) of the SEBI Act, 1992 and Regulation 27 of the Intermediaries Regulations, hereby cancel the certificate of registration, held by MCS Limited as a Registrar to an Issue and Share Transfer Agent.
21. This Order shall come into force with immediate effect.

Place: Mumbai

Date: March 01, 2023

ASHWANI BHATIA

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA