

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

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Under Section 12(3) of The Securities And Exchange Board Of India Act, 1992 and Regulation 27 of the Securities And Exchange Board Of India (Intermediaries) Regulations, 2008 in respect of Satellite Corporate Services Pvt. Ltd. (“SCS” / the “Noticee”), Registrar to an Issue and Share Transfer Agent bearing SEBI registration no. INR000003639.

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1. Background

1. The present matter emanates from an inspection of Satellite Corporate Services Pvt. Ltd (“SCS”) (a SEBI registered Registrar to Issue and Share Transfer Agent, which was granted registration on February 10, 2010.) undertaken by SEBI under Regulation 16 read with Regulation 17 of the SEBI (Registrars to an Issue and Share Transfer Agent) Regulations, 1993 (“**RTA Regulations, 1993**”) for the period April 01, 2012 to March 31, 2014 (“**Inspection Period**”) on September 4, 2014 and September 15, 2014.
2. The inspection *inter alia* centered on the due diligence exercised by SCS in respect of the SME public issues of Amrapali Capital and Finance Services Ltd. and Ace Tours Worldwide Ltd. handled by it, and to verify whether proper processes and timelines were followed while carrying out routine tasks, namely, share transfer, transmission, issue of duplicate shares, dematerialisation, rematerialisation (“**remat**”) etc. of securities.
3. In this regard, the Inspection Report, pursuant to the above-mentioned inspection made the following observations:
  - a) Remat requests of the value of around INR 80 crore were processed without proper checks and due diligence. SCS did not undertake thorough checks from the issuer company and/or the shareholders despite the large size of remat requests.

Most of the remat requests were received at around the same time and the authorised signatory in many of the remat request forms was the same person.

- b) SCS processed 146 transfer requests where the signature records were not available, and had allowed transfer of shares without making any attempt to verify the genuineness of these transfer requests and without even sending seller notices to the transferors.
- c) SCS had processed 497 demat requests where the signature records were not available and in all such cases SCS had allowed the dematerialisation of shares without any attempt to verify the genuineness of those demat requests.

## 2. Enquiry proceedings against SCS

2.1. Consequent to the observations made in the Inspection Report, Enquiry Proceedings were initiated against SCS, a registered intermediary, in terms of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (“**Intermediaries Regulations**”), by appointing a Designated Authority (“**DA**”) in the matter.

2.2. Pursuant to the said appointment, the DA issued an SCN dated September 30, 2019, which *inter alia* contained the relevant extracts of the Inspection Report (“**SCN**”). The violation of the following provisions of law were alleged in the SCN –

- a. Instruction 2 (vii) under the heading “Records and documents to be maintained by STA” of Instructions to Registrar to an Issue/Share Transfer Agent dated October 11, 1994;
- b. Regulation 14(3) (c) of the RTA Regulations, 1993;
- c. Clauses 1, 2 and 3 of the Code of Conduct prescribed under Regulation 13 of the RTA Regulations, 1993;
- d. Points 1 and 3 of the Norms for Objection as prescribed under RTI Circular No. 1 (2000-2001) dated May 09, 2001; and
- e. Point (h) of the Schedule 1 (Specific Activities) of the Circular instructions to Registrars to an Issue/ Share Transfer Agent dated October 11, 1994.

2.3. Consequently, the DA enquired into the above-mentioned violations, and in his report dated January 07, 2021, found that SCS had contravened the provisions as enumerated at 2.2 above.

- 2.4. In view of the same, the DA in terms of Regulation 27 of the Intermediaries Regulations recommended that the Certificate of Registration of SCS may be suspended for a period of three months.

### 3. Post - Enquiry SCN dated February 1, 2021, Submissions and Replies.

- 3.1. After considering the Enquiry Report, Post-enquiry SCN dated February 1, 2021 bearing No. EFD1/MIRSD/ENQ/DRA2/26/20-21/3611/1/ 2021 under Regulation 27(1) of the Intermediaries Regulations was issued to SCS (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 direction should not be passed against it in terms of Regulation 27 of the Intermediaries Regulations, as deemed fit (“**Post-enquiry SCN**”).
- 3.2. In response to the Post-enquiry SCN, the Noticee has filed replies dated March 03, 2021 and January 31, 2022. Thereafter, an opportunity of personal hearing before the Designated Member (“**DM**”) was granted to SCS on July 26, 2022. At the said personal hearing, SCS was represented by Advocate Prakash Shah along with officials of SCS, and placed reliance on the above-mentioned replies. Post the completion of hearing in the matter, the Noticee was granted liberty to file additional submissions if it so desired. The Noticee by way of an email dated September 05, 2022 has stated that it had no additional submissions to make. In this regard, a brief of the submissions made by SCS before me and through its written replies appears in the following paragraphs.
- 3.3. In response to the Post-enquiry SCN, it has been submitted by the Noticee that –
- a. due care had been taken by it and there were no instances where shares had been credited to the wrong demat account;
  - b. no complaint had been received from any shareholder in respect of the transfer /demat/remat requests processed by it;
  - c. some technical lapses may have been committed, which would not warrant suspension of the Certificate of Registration; and
  - d. no disciplinary action has been taken or an order passed against it, since its registration with SEBI.

3.4. With regard to the specific allegations made in the Post-enquiry SCN, the Noticee has submitted as under:

*Non-maintenance of Specimen Signatures*

- a. Many companies which assigned work to the Noticee did not have proper records. As the Registrar to Issue and Share Transfer Agent (“**RTA**”), the Noticee scanned the signatures from documents received from the companies and sent the communications to the concerned shareholders from time to time in normal course of business for the cases wherever signatures were not available.
- b. Also, some of the companies were very old and defunct, and were revived subsequently. In such companies, the shareholders had not updated their addresses. Due to this, communications sent to the shareholders were not delivered to them.
- c. If the signatures had not been scanned, it would have been difficult to identify the missing signatures and give the report to SEBI. Such details were shared in a fair manner with SEBI for its appropriate action.

*Processing of Requests for Dematerialisation of Shares*

- d. (In respect of BCL Forging Ltd. and Jolly Merchandise Ltd.) In order to maintain sufficient workable storage space with proper speed, the signatures had been shifted to separate back up folders for the NIL account cases. Due to this, at the time of inspection, the signatures must not have been on live signature folder. Time was required to recollect and identify the background of the matter and as such, explanation to the Inspection Team of SEBI could not be provided on the same day/s. Subsequently, however, signatures extracted from the backup folder were sent to SEBI vide letter No.SCSPL-SEBI-Inspection-01/2019 dated 12.12.2019, for its reference. Also no claim or complaint in respect of said demat cases had been received.
- e. (In respect of Kappac Pharma Ltd.) The source of documents (including transfer deeds) from where signatures were extracted for verifying signatures of demat cases were informed to SEBI. The requests were processed only once the confirmation were sent by the company in response to the details sent by the Noticee. The one line confirmation indicated that the company had been intimated about receipt of Demat documents.

- f. The copy of the statement stated to be signed by the Noticee on 20.01.2015, was not handed over to it and no comment on the same could be made after a period of 5 to 6 years. The Noticee was unable to recall under which circumstances the statement was made.
- g. As regards receiving data from the previous RTA, the data with the previous RTA was collected by the company and in turn, handed over to the Noticee. Hence, the statement was made that “Data/Documents were received from company/Old RTA”. There was no intention at all to mislead the Inspection Team.

#### *Processing of Requests for Transfer of Shares*

- h. The requests for transfer of shares relating to Jolly Merchandise Ltd. and Kappac Pharma Ltd. were processed with the signatures verified. Since the signature data was not readily available at the time of inspection due to shifting of records for seepage and pending for conversion due to them being in a different file format, the same could not be produced to the Inspection Team. Signature data received from company was sent to SEBI vide letter no. SCSPL-SEBI-Inspection-01/2019 dated 12.12.2019, in a Compact Disk.
- i. The certificates were dispatched only after approval of transfers. As regards the share certificates where the signature of the Director was different from the signature appearing in the agreement, no new certificate was issued in case of transfer of shares. The certificates received for transfer could be issued much before the signatory is appointed or may be issued during time of initial public issue of the company.

#### *Processing of requests for Remat of Shares*

- j. In case of remat requests, where holding in demat mode is converted into physical mode, an RTA has to rely on the documents submitted by the Depository, where the details of the authorised signatories are recorded. The RTA is required to verify the details appearing in the remat requests with the data captured in the Depository system and process the request. In addition to the above, copies of all the remat requests along with the new certificates were sent to the company for their approval, affixing of the common seal and for their signature. The company has not pointed out any discrepancy with regard to the mismatch of the signatures on the certificate

or with regard to the large volume of remat requests. The stationery of the share certificates were printed before the Noticee's appointment as the RTA, and the same were handed over by the company. The Noticee had relied on the documents received from the company.

- 3.5. In addition to the replies as mentioned above, I find from the record that multiple replies have been submitted by the Noticee and correspondence has been exchanged between SEBI and the Noticee in this matter. I shall refer to the same as deemed necessary.

#### **4. Consideration of Issues and Findings**

- 4.1. Before I proceed with the consideration of the issues brought out in the Enquiry Report/Post-enquiry SCN, I find it necessary to first deal with the issue raised by the Noticee in its reply of January 31, 2022, regarding non-receipt by it, of its letter dated January 20, 2015. The Enquiry Report, on the basis of the letter dated January 20, 2015 addressed by the Noticee to SEBI, states that: "... Noticee in its statement (contained in the letter) dated January 20, 2015 had accepted that as regards Kappac, many demat requests were processed without verifying the signatures and also that signatures from Demat Request Form were scanned and stored in the system." This letter has been relied upon by SEBI in the instant proceedings. In this respect, the Noticee has contended that a copy of the aforementioned statement/letter was not provided by SEBI and it was unable to recall in what context the same had been made.
- 4.2. The letter dated January 20, 2015 has been signed by Mr. Michael Monterio and his designation has been stated to be that of Director. Also, the letter bears the official stamp of the Noticee and has been printed on its letter-head. Not only that, the letter is detailed and contains annexures, which point out to the specific instances where procedures as laid down have not been carried out by the Noticee while processing demat/transfer/remat requests.
- 4.3. So, the statement referred to in the Enquiry Report is not a stray remark that has been arbitrarily used by SEBI, but a detailed communication addressed to SEBI, by the Noticee. It is not a statement recorded by SEBI. The Noticee cannot, at this stage of the proceeding, claim that the letter was not handed over to it as the Noticee itself is the

originator of such document. Also, the context of the letter dated January 20, 2015, is abundantly clear from its text. Further, the said letter is not the only instance where acceptance of the lapses have been made by the Noticee. I find from records that by way of an email dated September 08, 2014, the Noticee acknowledged and accepted lapses on its part. So, the feigning of ignorance by the Noticee about the context in which the letter dated January 20, 2015 was addressed, is not acceptable.

- 4.4. Further, the Noticee at this belated stage cannot claim ignorance of or distance itself from the letter dated January 20, 2015. In this regard, reference is drawn to the decision of the Hon'ble Chhattisgarh High Court in the matter of *ACIT V. Hukumbhand Jain*, [2011] 337 ITR 238 (Chhattisgarh). In the matter it was *inter alia* held that when addition by the Income Tax Department was based on a confessional statement of the Assesse and the Assessee did not retract his statement immediately, it could be said that the Assessee had failed to discharge the onus on proving that confession made by him under Section 132(4) of the Income Tax Act was as a result of intimidation, duress, coercion or the same was made a result of mistaken belief of law or fact. Therefore, the Assessing Officer was fully justified in assessing income of the Assessee on the basis of such confession.
- 4.5. Further, in the case of *Hotel Kiran V. Assistant Commissioner of Income Tax*, [2002] 82 ITD 453 (Pune) decided on February 20, 1998, the Pune bench of the Income Tax Tribunal *inter alia* observed that where statement under Section 132 (4) of the Income Tax Act was voluntarily made and there was no coercion or threat whatsoever and the contents of the statement were clear and unambiguous, the same would be binding on the Assessee, even if it was subsequently retracted.
- 4.6. The present statement referred to, is by way of a letter addressed voluntarily by the Noticee and the same is clear and unambiguous. SEBI is, therefore, well within its rights to place reliance on the same.

#### **Allegation No. 1 – Non-maintenance of Specimen Signatures**

- 4.7. The DA in his findings in the Enquiry Report dated January 7, 2021 has stated that the Noticee contravened the provisions of Instruction 2 (vii) under heading “Records and documents to be maintained by STA” of Instructions to Registrar to an Issue/Share

Transfer Agent dated October 11, 1994 and Regulation 14(3) (c) of the RTA Regulations, 1993, by not maintaining specimen signatures.

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

**Regulation 14(3) (c) of the RTA 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 RTI/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) (b) 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.”*

4.9. I refer to the Inspection Report wherein the details with respect to the maintenance of specimen signatures by the Noticee have been brought out. It was observed during inspection that of the total 54 client companies handled by SCS, specimen signatures for majority of the folios were not available. In this regard, the distribution of the percentage of folios in which specimen signatures were available with the Noticee across its 54 client companies are provided hereunder:

| <b>Table – 1</b> |                                                                    |                         |
|------------------|--------------------------------------------------------------------|-------------------------|
| <b>Sl. No.</b>   | <b>Percentage of folios in which specimen signatures available</b> | <b>Client Companies</b> |
|                  | 100 %                                                              | 6                       |
|                  | 50 % > 100 %                                                       | 19                      |
|                  | 50% <                                                              | 13                      |
|                  | 0%                                                                 | 16                      |
| <b>Total</b>     |                                                                    | <b>54</b>               |

4.10. It has been submitted by the Noticee that many companies which assigned work to the Noticee did not have proper records, and had not provided the necessary specimen signatures. Also, it has been submitted by the Noticee that some of the companies were very old and defunct, which were revived subsequently, and in such companies, the shareholders had not updated their addresses. Due to this reason, necessary communication could not be established with the shareholders for getting their specimen signatures.

4.11. In this regard, reference is made to Regulation 14 (3) (c) and the SEBI's instructions dated October 11, 1994 issued thereto. A conjoint reading of the said provisions, which have been spelt out in the preceding paragraphs, clearly brings out that an RTA is duty bound to maintain specimen signature cards.

4.12. It is emphasised that specimen signatures are essential for the processing of requests for transfer, transmission, dematerialization and rematerialisation of shares, and also the issuance of duplicate shares. The specimen signature of the shareholder in the records of an RTA serves as the necessary documentary record to examine the authenticity of any

request, and, as such, the comparison of the specimen signature with the signature as appearing in the request application is the principal step in processing any of the requests mentioned above. Accordingly, no meaningful examination of a request can be undertaken without the availability of specimen signatures. Considering the centrality of specimen signatures in the process of share transfer/transmission, etc. there is a clear onus cast in law on the Noticee to retain them in its custody.

4.13. Furthermore, it has been submitted by SCS 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 constitute a valid defence.

4.14. As brought out in the table above, the Noticee did not have any specimen signatures in respect of 16 of its client companies and had less than 50% of the specimen signatures in respect of 13 of its client companies. This is out of the total 54 client companies that the Noticee had at that point. This is a very large number and such a glaring lacuna cannot be ignored. Accordingly, I concur with the view of the DA that SCS has violated the provisions of Regulation 14(3) (c) of the RTA Regulations, 1993 read with Instruction 2(vii) of Instructions to RTI/STA dated October 11, 1994.

## **Allegation 2 – Processing of Requests for Dematerialisation of Shares**

4.15. The DA in his findings in the Enquiry Report dated January 7, 2021 has stated that the Noticee contravened the provisions of Clauses 1, 2 and 3 of Code of Conduct prescribed under Regulation 13 of the RTA Regulations, 1993 by processing demat requests in 3 companies, i.e. BCL Forgings Ltd., Jolly Merchandise Ltd. and Kappac Pharma Ltd., without having signature records and without making any attempts to verify genuineness of these demat requests.

4.16. With respect to the processing of demat requests of BCL Forgings Ltd. and Jolly Merchandise Ltd., the Noticee has submitted that the signatures had been shifted to separate back up folders and due to this, the signatures were not on the live signature

folder during the inspection. Subsequently, however, signatures extracted from the backup folder were sent to SEBI for its reference. As regards the processing of demat requests relating to Kappac Pharma Ltd., the Noticee has submitted that the source of documents (including transfer deeds) from where signatures were extracted for verifying signatures of demat requests were informed to SEBI and such requests were processed on the confirmation provided by the company. Further, there was no intent on SCS's part to mislead SEBI.

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

Regulation 13 of the RTA 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, 2 and 3 of the Code of Conduct prescribed under Regulation 13 of the RTA Regulations, 1993:

“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. A Registrar to an Issue and share transfer agent shall fulfil its obligations in a prompt, ethical and professional manner.
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."

4.18. It is evident from a consideration of the above provisions that duty is cast upon an RTA to a) exercise at all times due diligence, ensure proper care and exercise independent professional judgment; and b) maintain high standards of integrity in the conduct of its business.

4.19. I note from the Inspection Report that during the inspection period, SCS had received a total of 8343 requests for dematerialisation of shares. At random, these requests for dematerialisation of shares were examined. Pursuant to such examination, the Inspection Team found that in 497 cases, the requests for dematerialisation of shares had been processed without the specimen signatures being available with the Noticee.

4.20. I further note from the Inspection Report that the cases where requests for dematerialisation of shares had been processed without the specimen signatures, were primarily in respect of three companies namely, BCL Forging Ltd., Jolly Merchandise Ltd. and Kappac Pharma Ltd.

4.21. With respect to BCL Forgings Ltd, I note that 102 demat requests were received by SCS, out of which 67 requests for a total of 8903 shares, were processed without specimen signatures. Similarly, with respect to Jolly Merchandise Ltd., I note that SCS had received 35 demat requests, out of which 26 requests for a total of 4300 shares, were processed without specimen signatures. Lastly, with respect to Kappac Pharma Ltd., SCS had received 3043 demat requests, out of which 401 requests were processed without specimen signatures.

4.22. Further, the DA in his Enquiry Report has brought out the following :

- i. During May 2013 to August 2014, the Noticee received 3043 requests for dematerialisation of 2,23,88,100 equity shares from the shareholders of Kappac Pharma Ltd.. The Noticee did not alert the company about these huge demat requests before processing the requests.
- ii. The Noticee submitted approval letters which were simply single lines specifying certain details about the demat requests. The requests had been stamped by the authorised signatory of the issuer company.
- iii. The Noticee was unable to present the original transfer deeds/ any other source used to extract specimen signatures citing the reason that the records were with the company.
- iv. The signatures of the Director of Kappac Pharma Ltd. (Mr. A.R. Trivedi) on these Approval Letters were different from the signatures in the Agreement.

4.23. In this regard, it would be relevant to bring out the process of dematerialisation of shares.

For a shareholder to convert securities from physical to electronic form, the shareholder is required to duly fill the Demat Request Form, commonly referred to as the DRF. The DRF along with the physical shares are to be submitted by the shareholder with the Depository Participant (“**DP**”) through whom he has opened a demat account. The DP upon receipt of the request intimates it to the Depository (CDSL/NSDL) as well as the issuer company or the RTA, as the case may be. At this stage, the issuer company or the RTA examines the said request at its end. If it finds the share certificates to be in order, it registers the Depository (CDSL/NSDL) as the holder of the securities, with the shareholder being the beneficial owner, and communicates the same to the Depository/DP. Finally, upon confirmation of the request of the shareholder for dematerialisation of shares, the physical shares are destroyed.

4.24. As brought out above, the essential process in the dematerialisation of shares is the examination by the RTA of the reliability and authenticity of the DRF, and upon such examination, the determination as to whether the said shares be dematerialised and the physical shares be destroyed. The said process cannot be carried out without the specimen signatures being available.

4.25. From the facts brought out above, I find that with respect to BCL Forging Ltd., the Noticee had processed 66% of the demat requests without verifying the specimen signatures. Similarly, with respect to Jolly Merchandise Ltd., the Noticee had processed 75% of the demat requests without verifying the specimen signatures. Lastly, in respect of Kappac Pharma Ltd, the Noticee had processed 13% of the demat requests without verifying the specimen signatures.

4.26. It is clear that the specimen signatures were not available with the RTA, in respect of many of the applications and the same should have been verified with the concerned company before completing the process of dematerialization of shares. As regards providing supporting evidence to show that approval had been sought from the concerned company, I find that the Noticee has been evasive and guarded in its replies. I note that the findings of inspection were first communicated to the Noticee on February 25, 2015 and the comments of the Noticee were sought. In response to the same, the Noticee by way of its letter dated March 13, 2015, gave its comments on the findings of

SEBI's inspection. SEBI not being satisfied with the explanations provided sent another letter dated May 27, 2015, to the Noticee asking it once again to give its comments/explanations in respect of the observations of SEBI's inspection. Pursuant to this letter, the Noticee filed a reply dated June 29, 2015. As part of this reply the Noticee provided certain "approval letters" purportedly issued by the client company, Kappac Pharma Ltd. These approval letters were provided to SEBI approximately 5 months after the findings of inspection had been communicated to the Noticee. This long period for providing the approval letters, which ideally should have been readily available, calls into question the evidentiary value of such approval letters as contemporaneous record of the verification of the DRFs by the company.

4.27. Further, it has already been brought out in the Enquiry Report that the approval letters were simply single line letters specifying some details about the demat requests and the requests had been stamped by the Authorised Signatory of the Issuer. In this regard, it would be instructive to reproduce hereunder one of such approval letters:

*"CDSL PENDING: KAPPAC PHARMA LIMITED*

*DEMAT PENDING*

| <i>SR NO</i>        | <i>MEMBER ID</i>                        | <i>NAME</i>                      | <i>DRN NO</i>       | <i>W N</i> | <i>DRF DATE</i> | <i>RECD DATE</i> | <i>CERT. NO.</i> | <i>QUANTITY</i>   |
|---------------------|-----------------------------------------|----------------------------------|---------------------|------------|-----------------|------------------|------------------|-------------------|
| <i>1</i>            | <i>044700/12<br/>044700539<br/>1287</i> | <i>OM<br/>PRAKASH<br/>MITTAL</i> | <i>63050<br/>33</i> | <i>1</i>   | <i>12.04.13</i> | <i>16.04.13</i>  | <i>4715</i>      | <i>100</i>        |
| <b><i>TOTAL</i></b> |                                         |                                  |                     |            |                 |                  |                  | <b><i>100</i></b> |

*Verified with the record. Please release*

*[Official stamp of the company] A. R. Trivedi"*

4.28. As may be seen from the above, this 'letter' does not have any addressee, and does not mention any date and has been printed on plain paper and not the official letter head of the company. Thus, it appears unlikely that the said letters were forwarded to the Noticee subsequent to the approval of the demat requests by the company.

4.29. It has been brought out before that the Inspection report had noted that the Noticee had processed 401 demat requests relating to Kappac Pharma Ltd. without specimen signatures. In this regard, the Noticee submitted scanned signature records for 386 cases relating to the said 401 cases, claiming that those signatures had been obtained from the company. However, the Noticee was unable to present the Original Transfer Deeds/ any other document which were the source of those signature records, citing the reason that the records were with the concerned company. Similarly, with respect to the demat requests relating to Jolly Merchandise Ltd. processed by it, the Noticee has submitted that it verified the DRFs with the signatures received from the company/old RTA and has provided the specimen signatures in a compact disk by way of its reply dated December 12, 2019. It has already been brought out in the aforesaid paragraphs that the findings of inspection were first communicated to the Noticee on February 25, 2015 and thereafter, on March 13, 2015. In response to the same, the Noticee gave its comments through letters dated May 27, 2015 and June 29, 2015. The signature records and the source documents, viz. transfer deeds, etc. could have been provided at that stage itself. The fact that the same were presented almost four years after comments had been sought with respect to the observations of SEBI's inspection clearly taints the supporting material provided by the Noticee and erodes its evidentiary value.

4.30. Lastly, I take specific note of the letter dated January 20, 2015 addressed by the Noticee to SEBI. It has been stated in the said statement that –

*“2. Processing of demat Request:*

*Since the records of Kappac Pharma Ltd were in the process of shifting to us and the signatures were not converted in digital mode, many demat requests were processed without verifying the signatures and signatures form DRF were scanned and stored in the system. Subsequently we retrieved the signature and stored in the record.”*

The said statement further reads,

*“As regards, Jolly Merchandise Ltd, since the records of the company was under shifting to us, some demat requests were processed without verification of signatures.”*

Thus, it is clear that the assertions of the Noticee that they had verified the demat requests with the specimen signatures are clearly not borne out from the material on record.

4.31. Additionally, it has been alleged that the Noticee showed scanned signatures to the Inspection Team of SEBI, which had been extracted from the DRFs, as if they were the

specimen signatures used during the process of examining the demat requests. The Noticee has denied the above charge.

4.32. In this respect, even if it is assumed that the Noticee did not show the Inspection Team of SEBI the scanned signatures from DRFs as the specimen signatures, no reason has been provided by the Noticee as to why the signatures from the DRFs were scanned and saved.

4.33. It is emphasised that 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.

4.34. Accordingly, I concur with the view of the DA that SCS is in violation of the provisions of Clauses 1, 2 and 3 of the Code of Conduct prescribed under Regulation 13 of the RTA Regulations, 1993.

### **Allegation 3 – Processing of Requests for Transfer of Shares**

4.35. The DA in its findings in the Enquiry Report has stated that SCS has violated Points 1 and 3 of the Norms for Objection contained in the RTI Circular No. 1 (2000-2001) dated May 9, 2001 along with Point (h) of Schedule I (Specific Activities) as given in the Instructions to RTA dated October 11, 1994. Also it has been stated that SCS has violated Clauses 1, 2 and 3 of the Code of Conduct prescribed under Regulation 13 of RTA Regulations, 1993.

4.36. In this regard, the Noticee has submitted the following :

- a. Since the signature data was not readily available at the time of inspection due to shifting of records for seepage and pending for conversion due to different file format, the same could not be produced to the Inspection Team. Signature data received from company was sent to SEBI vide letter no SCSPL-SEBI-Inspection-01/2019 dated 12.12.2019, in a Compact Disk.
- b. The certificates were dispatched only after approval of transfers by the concerned company. As regards the share certificates which had the signature of the Director that were different from the signature appearing in the agreement, no new certificate was issued in case of transfer of shares and certificates received for transfer could be issued much before the signatory is appointed or may be issued during time of initial public issue of the company.

4.37. 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 RTI/STA 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.”

4.38. The above provisions clearly chart out a detailed process that an RTA would be required to follow while processing requests for transfer of shares.

4.39. I note from the Inspection Report that SCS had received a total of 4576 requests for transfer of shares during the Inspection Period. As is the practice, at random, certain transfer requests were inspected and it was found that all transfer requests received in respect of two companies namely, Kappac Pharma Ltd. and Jolly Merchandise Ltd. had been approved by the Noticee without the specimen signatures being available and verification of the genuineness of the transfer requests. There were a total of 146 transfer requests, out of which 28 transfer requests were in respect of Jolly Merchandise Ltd. and 118 transfer requests were in respect of Kappac Pharma Ltd.

4.40. I also note from the Inspection Report that the 118 transfer requests of Kappac Pharma Ltd. were effected during the period April 2013 to May 2014. During this period, the average monthly closing price of the scrip was around INR 430 and the transferred shares of Kappac Pharma Ltd. were of a total value of around INR 78,69,000.

4.41. It is further noted from the Inspection Report that Seller Notices were not issued by the Noticee and the approval of the concerned company had not been taken while processing the requests for transfer of shares.

4.42. Lastly, I also note from the Inspection Report that the signature of A. R. Trivedi of Kappac Pharma Ltd., in the agreement signed with SCS appointing it as the Transfer Agent, was distinctly different from the signatures of A R Trivedi as appearing in the share certificates dated February 10, 2014 and May 15, 2014.

4.43. The Noticee in its submissions has stated that the signature data could not be provided to SEBI inspection team at the time of inspection due to shifting of records owing to seepage and pending conversion to a different file format. I note that by way of letters dated February 25, 2015 and May 27, 2015, findings of the inspection conducted by SEBI were communicated to the Noticee and comments were sought for. In response to the above letter of SEBI, the Noticee gave its comments by way of letter dated March 13, 2015 and June 29, 2015. On those two occasions when comments in response to SEBI's letters dated February 25, 2015 and May 27, 2015 were provided, the signature records could have been provided. However, the so-called signature records were provided much later in 2019 when SEBI had initiated action against the Noticee. In view of the facts brought out above, the submission of the Noticee appears to be an afterthought and without any merit.

4.44. I take specific note of the statement given by Mr. Michael Monterio, a director of the Noticee. It has been stated in the said statement that –

*“3. Transfers:*

*Transfers of Kappac Pharma and Jolly Merchandise were transferred without verification of seller signature. Out which some were internal/family transfers due to death of any one holder or to match the order of the name as per their demat account.”*

Thus, it is clear that the transfers were carried out without the signatures of the sellers being verified.

4.45. In this regard, reliance is placed on RTI Circular No. 1 (2000-2001) dated May 9, 2001, which provides a uniform procedure that all companies listed on stock exchanges are required to follow while processing of share transfers and effecting transfers. Point 1 of the Norms of Objection relates to the procedure to be followed by Companies/ RTAs 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/ RTAs in

case material difference is observed between the specimen signature and signature in the transfer deed. Accordingly, it shall logically follow that 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 9, 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.

4.46. I also find that the letter dated January 20, 2015 referred to before, also contains a list of requests for transfer of shares that were processed without verification of seller signatures. I find from the said list that on an average, the processing of transfer requests took only 4 days from the time of lodgement of such requests. On certain occasions, the transfers had been processed on the same day itself.

4.47. The details of the transfers that were processed on the date of lodgement of request is given below:

| Table - 2  |               |                  |                       |      |                 |             |              |              |               |
|------------|---------------|------------------|-----------------------|------|-----------------|-------------|--------------|--------------|---------------|
| Inward No. | Lodgment Date | Seller Folio No. | Seller Name           | Mode | Buyer Folio No. | Buyer Name  | Transfer No. | No of Shares | Transfer Date |
| 2          | 16/05/2013    | 4272             | Nilkanth K Kshirsagar | T    | M001002         | Manish Shah | 100020       | 100          | 16/05/2013    |
| 3          | 16/05/2013    | 25237            | Bipin P Pandit        | T    | M001002         | Manish Shah | 100021       | 100          | 16/05/2013    |
| 4          | 16/05/2013    | 26164            | Vijay Damodar Jadhav  | T    | M001002         | Manish Shah | 100022       | 100          | 16/05/2013    |
| 5          | 16/05/2013    | 26234            | Geeta B Tiwari        | T    | M001002         | Manish Shah | 100023       | 100          | 16/05/2013    |
| 6          | 16/05/2013    | 14680            | Zahida Shaikh         | T    | M001002         | Manish Shah | 100024       | 100          | 16/05/2013    |
| 7          | 16/05/2013    | 36558            | Pankaj D Gandhi       | T    | M001002         | Manish Shah | 100025       | 100          | 16/05/2013    |

4.48. The above table clearly demonstrates that the Noticee, clearly did not adhere to laid down procedures in processing the transfer requests. It is difficult to believe that the Noticee received the approvals from the concerned companies on the same date of the transfer requests.

4.49. In this regard, reliance is placed on 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. Thus, I find that in transferring shares before receipt of approval from 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.

4.50. Additionally, it has been alleged that the signature of A. R. Trivedi (Director and Compliance Officer of Kappac Pharma Ltd.), as appearing in the agreement signed by Kappac with SCS, and his signature appearing in the share certificates dated February 10, 2014 and May 15, 2014, were different.

4.51. In this regard, it has been submitted by the Noticee that no new certificate was issued as a consequence of the transfer of shares. The Noticee has further stated that the share certificates which were submitted for transfer could have been issued much before the signatory was appointed or may have been issued during the initial public issue of the company. The allegation is not concerned with that. The allegation pertains to the manner of handling the transfer of shares where the signature of A. R. Trivedi appeared to be different from the one appearing in the agreement signed by Kappac Pharma Ltd. with SCS. Further from the share certificates dated February 10, 2014 and May 15, 2014, I find that the said certificates were in fact duplicate certificates issued in lieu of the originals. Also, the said duplicate certificates had been issued just 30 days and 13 days, respectively before the transfer of shares. I also note that the value of the shares, contained in those share certificates, was about INR 89 lakh. The above mentioned facts were clear red flags

that required due consideration of the Noticee before effecting transfer. However, the same was never done by the Noticee. On the contrary, SCS transferred the shares in a casual manner, without carrying out necessary due diligence.

4.52. In view of the facts brought out in the preceding paragraphs, I concur with the DA that the Noticee violated Points 1 and 3 of the Norms for Objection as specified under RTI Circular no. 1 (2000-2001) dated May 9, 2001; point (h) of Schedule I (Specific Activities) as given in the Instructions to Registrar to an Issue/Share Transfer Agent specified in Circular dated October 11, 1994 and Clauses 1, 2, and 3 of Code of Conduct specified under Regulation 13 of the RTA Regulations, 1993.

#### **Allegation – 4 Processing of Requests for Remat of Shares**

4.53. The DA in his findings in the Enquiry Report has stated that SCS violated Clause 3 of the Code of Conduct prescribed under Regulation 13 of RTA Regulations, 1993, by not observing due diligence while processing remat requests.

4.54. I note from the Inspection Report that during the period of inspection, SCS had received 52 remat requests, out of which 26 were in the scrip of Kappac Pharma Ltd. The 26 remat requests in the scrip of Kappac Pharma Ltd. were for 31,62,849 shares, which constituted 10% of the capital of Kappac.

4.55. I also note from the Inspection Report that the 26 remat requests for 31,62,849 shares were made in the month of July when the average daily closing price of the scrip was INR 254. So, the value of these shares in which rematting was being requested was of INR 80,33,63,646.

4.56. The Noticee in its reply has submitted that in case of remat requests the RTA had to rely on the documents submitted by the Depository, where the details of the authorised signatories were recorded. The RTA was required to verify the details appearing in the Remat requests with the data captured in the Depository system and process the request. Also, copies of all the remat requests along with the new certificates were sent to the company for their approval, affixing of the common seal and for their signature. The

company did not point out any discrepancy with regard to the mismatch of the signatures on the certificate or with regard to the large volume of remat requests.

4.57. In this regard, it would be relevant to bring out the process of remat of shares. If one wishes to get back his securities in the physical form, he has to fill in the Remat Request Form (RRF) and request his DP for remat of the balances in his securities account. Once the request is made by the investor, the DP intimates the Depository regarding the request through the system. The Depository in turn confirms remat request to the RTA. The RTA updates accounts and prints certificates. Accordingly, the Depository updates its accounts and communicates the details to the DP, pursuant to which the RTA dispatches certificates to the investor.

4.58. As may be seen from the above, the RTA has to undertake updation at its end and confirm the same to the Depository. SCS has submitted that it was required to verify the details appearing in the Remat requests with the data captured in the Depository system and process the request. The reliance placed on the data of the Depository, in my view, clearly falls short of the specific obligation to exercise independent professional judgment. This shows that no independent judgment was exercised during the processing of the remat requests and to examine their veracity.

4.59. I further note that 21 remat requests were received by SCS on 5 days, viz. July 14, 15, 21, 27 and August 4, 2014. Further, the average size of the remat requests was 1.5 lakh shares. Also, the entities who had applied for rematting of shares appear to be related as the authorised signatories in many of the requests were the same persons. For instance: S. Dalvi was a Director and an authorised signatory for 5 requests; Sanjay Kumar Agarwal was a Director and an authorised signatory for 6 requests; Amit Bagai was a Director and an authorised signatory for 3 requests; and Manju Devi Dhelia and Shilpa Poddar were Directors and authorised signatories for 2 requests.

4.60. These were apparent facts which should have been taken cognizance of by the Noticee and it should have carried out proper checks regarding the details of such requests from Kappac Pharma Ltd. as well as the shareholders before effecting remat of shares. It has been submitted by the Noticee in its reply of March 13, 2015 that the DP verified the details with regard to authorised signatory and other credentials, and as such they did not

suspect any discrepancy in the remat requests. Again 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 placed on the Noticee.

4.61. Further, I also note from the share certificate dated August 11, 2014 submitted by the Noticee that the RTA had even failed to check that the signatures on the share certificates issued pursuant to the remat of shares were distinctly different from the one appearing in the agreement.

4.62. So, I concur with the DA that the Noticee has not been diligent and careful in dealing with the remat of shares and as such has violated clause 3 of Code of Conduct prescribed under Regulation 13 of the RTA Regulations, 1993.

## **5. Conclusion**

5.1. The foregoing paragraphs demonstrate that:

- a. SCS had less than 50% of the specimen signatures with respect to its client companies available with it;
- b. SCS 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;
- c. SCS allowed transfer of shares without making any attempts to verify the genuineness of those transfer requests or without even sending seller notices to the transferors; and
- d. SCS by relying on the verification done by the DPs and the Depository, did not exercise due care and diligence while processing remat requests.

5.2. Accordingly, in view of the above, the Noticee has violated the provisions as enumerated at paragraph no. 2.2 of this Order. The findings of the Enquiry Report are indeed shocking and disturbing and show that the Noticee did not carry out its fiduciary responsibility to its clients. SCS has simply not been diligent enough and happily cut corners. I note from the Enquiry Report that the DA recommended that the Certificate of Registration of the Noticee be suspended for a period of three (3) months. I also note from the records of SEBI that an administrative warning has been previously issued against the Noticee.

Considering the findings brought out in the foregoing paragraphs, I find myself in agreement with the recommendation made by the DA. Accordingly, the Noticee is liable for action under Section 12(3) of the SEBI Act read with Regulation 27 of the Intermediaries Regulations (as amended vide SEBI (Intermediaries) (Amendment) Regulations, 2021 with effect from January 21, 2021).

## 6. Order

- 6.1. 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 Regulation 27 of the SEBI (Intermediaries) Regulations, 2008, hereby suspend the Certificate of Registration of the Noticee, i.e. **Satellite Corporate Services Pvt. Ltd.**, for a period of **three (3) months**.
- 6.2. The Market Intermediaries Regulation and Supervision Department, SEBI, shall appoint an Auditor, at the cost of SCS/Noticee, before restoration of the Noticee's Certificate of Registration, and satisfy itself that SCS has fully complied with all relevant guidelines/circular to carry out its business in the best interest of the securities market. The audit must certify that the Noticee has systems and procedures in place in compliance of various rules and regulations administered by SEBI.
- 6.3. Additionally, companies who are clients of SCS are directed to conduct their own independent due diligence/audit of the Noticee and satisfy themselves about the capabilities of SCS to continue RTA activities for them. Each client company of SCS shall confirm to the Market Intermediaries Regulation and Supervision Department, SEBI, in this regard.
- 6.4. This Order shall come into force immediately on the expiry of twenty one (21) days from the date of this Order.

Place: Mumbai  
Date: October 28, 2022

ASHWANI BHATIA  
WHOLE TIME MEMBER  
SECURITIES AND EXCHANGE BOARD OF INDIA