BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. Order/MC/RM/2022-23/17576]

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 –

Maashitla Securities Ltd. having addresses at 905, Aggarwal Corporate Heights Netaji Subhash Place Pitampura Delhi-110034

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 Maashitla Securities 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**.**

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
Maashitla Securities Ltd.	0	0	0	0	0	0	0	0	0	0	0	0	5	29	1,85,945

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	Maashitla Securities Ltd.	21.06.2019	01.07.2019	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 28, 2021. Opportunity of hearing was provided to the Noticee through video conferencing on June 20, 2022. Mr. Mukul Agrawal, Director, Authorised Representatives (AR) of the Noticee attended the hearing and reiterated the

submissions made in reply. Vide letter dated June 20, 2022 Noticee submitted post hearing submissions to the SCN.

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

19. Noticee was not aware of the nature and type of scrip at the time of the transaction. Noticee did not receive any alerts from the depository, however, it did due diligence during every transaction.

20. in the DP operations, as and when Noticee received the instruction from the respective client, it checks the details of instruction slip, client's status in its back office whether client is active or dormant, availability of shares in demat holding, correctness of the instruction slip, details of consideration provided in the instruction slip, confirmation of off market sale / transfer of shares from client and after checking the proper signatory details, Noticee proceeds with the instruction whose time to time confirmation is given to Client and a message is sent by NSDL on Client's registered mobile number. The purpose of such transfers by the transferor which was told to Noticee was off market sale. Noticee informed that it tried to comply with all the regulations and circulars issued and exercised due diligence as prescribed by authorities in all the transactions.

21. The amount which was mentioned by the Transferor on each and every Delivery Instruction slip was the amount of consideration which was available in Noticee records as received by the transferor in respect of each of the Off-market Transactions.

22. Clause 1 of Part A of Schedule III of Code of Conduct of D&P Regulations, 1996 states that “A participant shall make all efforts to protect the interests of investors”. - In this matter, Noticee would like to state that there has never been any investor complaint against Noticee since the inception of the company in 2010 till date and it has always strived to protect the interest of the investors in every manner possible.

23. Clause 2(b) of Part A of Schedule III of Code of Conduct of D&P Regulations, 1996 states that “A participant shall endeavor to- ensure that all professional dealings are effected in a prompt, effective and efficient manner” - In this matter, Noticee state that all the transactions which have taken place have been executed promptly. This can be seen in the fact that all the KYCs of the BO accounts have been completed within the prescribed timeline and the DIS slips have been executed on the same day that they were received from the BO. The dealings have been done in an effective and efficient manner. This can be seen in the fact that all documents of BO accounts were accepted by the external KYC agencies and there were no rejections by the agencies while opening BO trading and demat accounts or while executing the DIS slips. There were no bad deliveries or delivery returns in Noticee’s case.

24. Clause 3 of Part A of Schedule III of Code of Conduct of D&P Regulations, 1996 states that “A participant shall maintain high standards of integrity in all its dealings with its clients and other intermediaries, in the conduct of its business”- In this matter, Noticee stated that all its dealings were done by maintaining highest standards of integrity. This can be seen in the fact that there were no cash transactions executed by any BO with its DP. Furthermore, all Noticee’s BOs were debited with proper trading and demat account charges including account opening charges, brokerage, DP transaction charges etc. No benefits were given to any particular BO in any manner. All the BO accounts were treated at par without any bias.

25. Clause 4 of Part A of Schedule III of Code of Conduct of D&P Regulations, 1996 states that “A participant shall be prompt and diligent in opening of a beneficial owner account, dispatch of 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.” - In this matter, we would like to state that during the process of Registration of Demat Account & Trading Account with Noticee, we took proper appropriate documentation including all

KYC documents and documents stated in NSDL Account opening Master circular. Every new client was interviewed by the designated staff member who had also verified the supporting documents with the originals.

26. Staff Member opening the account had done the in-person verification and client had been asked for financial background. In case of client who wanted to work in Derivatives Segment; account was not opened unless client submitted proof of financial details as prescribed by NSDL.

27. Due diligence was observed in execution of DIS slips also. This can be seen in the fact that as & when we received the instruction from the respective Client, Noticee checked the Details of Instruction slip, Client's Status in Back office whether Client is active or Dormant, availability of Shares in Demat Holding, checked the correctness of the Instruction Slip, details of Consideration provided in the Instruction Slip, and then processed the Instruction whose time to time Confirmation was given to Client. The purpose of such transfers by the transferor was told to Noticee as off market sale. All the above mentioned accounts were active during the said period.

28. Clause 11 of Part A of Schedule III of Code of Conduct of D&P Regulations, 1996 states that "*A participant shall maintain the required level of knowledge and competency and abide by the provisions of the Act, Rules, Regulations and circular 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*."

29. Regulation 20AA of D&P Regulations, 2018 states that "*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*". - In this matter, Noticee stated that it has always maintained the required level of competency and knowledge and has always abided by the rules and regulations. This can be seen in the fact

that since the inception of the company in 2010, there has never been any adverse observation in any of the inspections conducted by BSE, NSE or NSDL.

30. 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*".

Clause 1.8(viii) of SEBI Master Circular CIR/MRD/DP/13/2013 dated April 15, 2013 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*"

- In this matter, Noticee highlighted the fact that there were no indicators at the time of the transactions which compelled Noticee to consider the transactions under exceptional circumstances. This can be seen in the fact that in Noticee's case, there were no alerts generated by the Depository or the Exchange. The DIS slips submitted by the BO at the time of transfer were complete in all aspects. The consideration amount was appropriately mentioned on the DIS Slips. There were no cash transactions, no transactions by way of Gift, Loan, return of Loan etc. There were no bad deliveries or delivery return transactions. All the BO accounts were complete and accurate in terms of KYC of those accounts. All the transactions were through Depository channel without any physical intervention.

31. Only the fact that the transactions relate to a particular scrip which is listed on the stock exchange cannot compel Noticee to consider the transaction under exceptional circumstances at the time of the transaction.

32. In Noticee's understanding, the fact that an investigation was conducted into the trading activities of a particular scrip later in time cannot compel a DP to consider the transaction under exceptional circumstances at the time of the transaction.

33. 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

34. 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?

35. The allegations against the Noticee are based upon 29 off market transactions in respect of which Noticee was required to carry out certain due diligence. The transactions are alleged to be under exceptional circumstances whereby DPs

were required to cross check with the Beneficial Owners (BOs) about the transactions before its execution.

36. The Noticee has contended that that there were no indicators at the time of the transactions which compelled Noticee to consider the impugned transactions under exceptional circumstances. There were no alerts from depositories/exchange, and the DIS slips submitted by the BOs at the time of transfer were complete in all aspects. None of the impugned transactions pertained to categories of cash transactions, Gift, Loan, return of Loan, bad deliveries, and delivery return. The Noticee also contends that it checked the details of Instruction slip, client's status in Back office, active/dormant status, availability of Shares in Demat Holding, correctness of the DIS Slip, details of consideration provided in the Instruction Slip, and then it processed the impugned instructions. Noticee also submitted that the purpose of impugned transfers was 'off market sale' as informed by the BOs, and all the above mentioned accounts were active during the said period. However, Noticee has not placed any records like DIS Slips etc. in its support.

37. 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.

38. I note that for the 29 impugned transactions the copy of the DIS Slips are not available in records. Accordingly, I have perused the list providing details of the

impugned transactions (hereinafter referred as 'list') available on records, and note that the reason mentioned for 25 DIS Slips as per list was 'Sale' and the sale consideration was not mentioned. Whereas for remaining 4 DIS slips neither reason nor consideration was mentioned. However, since the relevant DIS slips for the impugned sale transactions are not available on records, nothing conclusive in this regard could be established. Further, it is noted from the list that some partial response was received from the Target Clients for all the transactions and there was no adverse observation of BOs noted in the list.

39. I also take note of the Noticee's contention that it did verify the details of the Beneficial Owners and the transactions. Further, the requirement of cross-checking with the BO was put in place to safeguard the concerns of investors, and the material on record does not bring out any concerns raised by respective BOs of impugned transactions.

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

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

42. 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.

43. In view of the above, I find that there is insufficient material on records to 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).**

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

ORDER

45. 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.

46. 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**