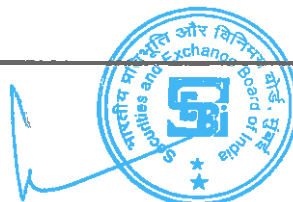


SECURITIES AND EXCHANGE BOARD OF INDIA
ORDER

Under regulation 28(2) of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 -

In respect of Show Cause Notice dated December 21, 2018 in Sharex Dynamic (India) Pvt. Ltd., Registrar to an Issue and Share Transfer Agent [SEBI REGISTRATION NO. INR000002102]

1. Sharex Dynamic (India) Pvt. Ltd. ("**Sharex**" / "**Noticee**") is a Registrar to an Issue and Share Transfer Agent (RTA) registered with SEBI vide SEBI Registration No. INR000002102. SEBI initiated enquiry proceedings against Sharex in respect of the alleged contravention of the provisions of RTI Circular No.1 (2000-2001) dated May 09, 2001 (hereinafter referred to as "**RTI Circular 2001**") and Regulation 14(3) (c) of SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 (hereinafter referred to as "**RTA Regulations**") read with RRTI Circular No. 1(94-95), dated October 11, 1994 (hereinafter referred to as "**RRTI Circular 1994**") by the Noticee. The Designated Authority ("**DA**"), upon consideration of the facts before him and after granting an opportunity of hearing, found the noticee to be liable for having violated the aforesaid provisions of the RTA Regulations, RTI Circular 2001 and RRTI Circular 1994, and recommended that Sharex may be barred from accepting any new assignments for a period of 1 month. A show cause notice (SCN) dated December 21, 2018, under regulation 28(1) of the SEBI (Intermediaries) Regulations, 2008, was issued calling upon the Noticee to show cause as to why action as recommended in the DA Report or as otherwise deemed fit should not be taken against it, by the Designated Member.
2. Brief facts of the case are as follows. An inspection of the books of accounts of Sharex was conducted by an auditor - Borkar & Mazumdar, Chartered Accountants, appointed by SEBI, for the Financial Years 2013-14 to 2015-16. The Auditors have made certain findings/observations, of which the following two observations resulted in initiation of enquiry proceedings under the SEBI (Intermediaries) Regulations, 2008:



- (i) Noticee had processed transfer of shares, despite significant mismatch between the signature of transferor and his specimen signature, rather than sending the objection memo to the transferee in the prescribed format in original marking the reason as "material signature difference". For instance, in case of Indian Infotech and Software Ltd., the signature of transferor Charanjit Singh Chadha did not match with the specimen signature. The same has been observed in as many as in 11 instances [Transfer Deed (TD)] No. 15054, 15057, 15058, 15059, 15060, 15067, 15002, 15003, 15005, 15006 and 15007.
- (ii) the Noticee had processed transfer of shares without having specimen signature records. For instance, in the case of Universal Credit & Securities Ltd., the specimen signature of Shri Hitesh Suresh Bhagat was not available with the Noticee, despite that the transfer of shares from him to Cromakem Ltd. was initiated. The same has been observed in as many as 8 instances, where the transfers were initiated (TD No. – 14979, 10095, 10096, 1017, 1008, 1006, 1009, 1010).

REPLY AND SUBMISSIONS

3. In reply to the SCN, vide letter dated January 07, 2019, the noticee chose to rely on its earlier submissions dated October 24, 2018 made before the DA . In addition it also submitted the following:

"SEBI vide it's letter dated 18-07-2014, had carried out a comprehensive inspection for the period 01-04-2013 to 30-05-2014 for which an administrative warning was issued by SEBI vide its letter dated 31-01-2017, and the action taken report was placed before SEBI vide letter dated 04-08-2014 and 01-03-2017.

The Transfer Deed numbers as appearing in the SEBI enquiry proceeding dated 28-09-2018 also falls under preview of the SEBI Administrative Warning notice, letter dated 31-01-2017.

It is pertinent to note here, that for the same findings (i.e the said range of Transfer Deeds) / non compliance's/ alleged violations for which SEBI had already issued Administrative Warning Letter and for which compliance/ action taken report was filed and closed. SEBI has now initiated an Enquiry Proceeding for the same period and the same range of Transfer Deeds. The present enquiry proceeding could have been justifiable, had the Transfer Deeds were of a different period."



4. Submissions made before the DA are summarised as follows:

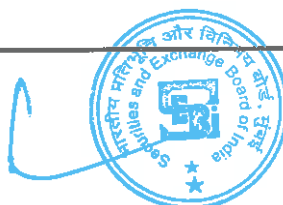
I. With regard to the mismatch in signatures

- The details of the alleged 11 instances of the transfer are as under:

TABLE 1

Sr. No.	Transfer Deed Number	Name of Transferor	Name of Transferee
1	15054	Charanjit Singh Chadha	Bimal Kumar P HUF
2	15057	Charanjit Singh Chadha	Suraj Devi Damani HUF
3	15058	Charanjit Singh Chadha	Kiran Parasrampuria
4	15059	Charanjit Singh Chadha	Ramavtar Agarwal
5	15060	Charanjit Singh Chadha	Geeta Agarwal
6	15067	Charanjit Singh Chadha	Dinesh Agarwal
7	15002	Charanjit Singh Chadha	Rajendra P Agarwal
8	15003	Charanjit Singh Chadha	Binita Agarwal
9	15005	Charanjit Singh Chadha	Ravi Shankar Agarwal
10	15006	Charanjit Singh Chadha	Ganshyam Agarwal
11	15007	Charanjit Singh Chadha	Sunita Agarwal

- On receipt of the transfer requests, minor variations in the signature of the transferor were observed and hence a precautionary notice was issued and despatched by registered post, to the transferor's registered address informing about the transfer request received in respect of the shares held by him in the company.
- The transferor was called upon to obtain an order of a court of competent jurisdiction within 15 days from the date of the notice if the transferor had any objection to the transfer.
- Noticee has filed copies of the notices issued and despatched to the transferor in respect of the above transfers along with postal proof. The Noticee had not received any objection till date from the transferor, although the transfers were carried out in 2014 and no complaints have been received till date from the transferor for any of the above referred cases.



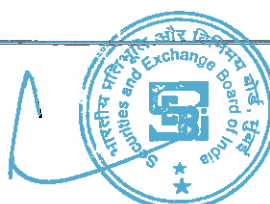
II. Unavailability of signature records

- The details of the transfers allegedly carried out in the absence of signature records are as under:

TABLE 2

Sr. No.	Transfer Deed Number	Name of Transferor	Name of Transferee
1	14979	Sherul Porwal	Chanranjit Singh Chadha
2	10095	Clast Finance & Leasing P Ltd	Dinesh Shetty
3	10096	Clast Finance & Leasing P Ltd	Dinesh Shetty
4	1017	Dharmendra karia	Acil Cotton Ind Ltd
5	1008	Hitesh Suresh Bhagat	Cromakem Ltd
6	1006	Jaya Talakshi Cheda	Sonal International Ltd
7	1009	Jaya Talakshi Cheda	Stardom Trading Company p Ltd
8	1010	Harjit Singh Talwar	Stardom Trading Company p Ltd

- Non-availability of signature of shareholders is a perennial problem faced by the Registrars. Signature records were maintained as provided by the client companies at the time of the appointment of RTA. Registrars cannot be blamed for non-availability of signatures since the same has not been provided by client companies. Registrars Association of India (RAIN) had made several representations to SEBI in this regard. To deal with this problem, SEBI introduced a standard procedure for handling such cases in Schedule VII of the SEBI (LODR) Regulations, 2015 read with Regulation 40(7) of the SEBI (LODR) Regulations, 2015. However the cases referred to in the DA's SCN, where transfers took place in the absence of signature records, were cases prior to introduction of standard procedures by SEBI through LODR Regulations in 2015. Non-availability of signatures was specifically brought to the notice of SEBI vide email dated October 01, 2013 and letter dated August 04, 2014.
- Since the signatures were not available on record for the said transfer cases, on receipt of the transfer requests, precautionary notice was issued and despatched by registered post to the transferor's registered address informing about the transfer request received in respect of the



shares held by the transferor and to obtain an order of a court of competent jurisdiction within 15 days from the date of the notice if the transferor had any objection to the transfer.

- No objection was received by the Noticee for any of the notices sent. The transfers were carried out following other normal procedures.

5. An opportunity of personal hearing was granted to the Noticees on February 27, 2019 wherein the written submissions made by the noticee were reiterated.

FINDINGS OF THE DESIGNATED AUTHORITY

6. With regard to the allegation of mismatch in signatures, the DA concluded that *"the.. contention of the Noticee is not tenable on the ground that there was material difference in the signature of transferor on the TDs and specimen signature and as per the procedure given under Point 3 of Norms for Objection under RTI Circular, 2001 in case of material signature difference objection memo has to be sent to the transferee."*
7. With regard to the allegation of absence of signature records, the DA concluded as follows: *"I am of the view that Specimen signatures are the basic folio details and are the most important check for entertaining investor requests. By not maintaining the specimen signatures, the Noticee being RTA had kept the folios open for misuse. In this regard, I note that in the said 8 transfer requests where the signature record was not available with the Noticee, the Noticee had sent only the precautionary notice to the transferors and did not make any further attempts to check genuineness of the transfer requests... the Noticee has contended that non-availability of signature of shareholders is a perennial problem faced by the RTAs. RTAs have maintained signature records as provided by their client companies at the time of their appointment. RTAs cannot be blamed for non-availability of signatures since the same has not been provided by client companies. In this regard I, note that as per Instruction 2 (vii) under the heading 'Records to be maintained by STA', as mentioned in RRTI Circular 1994 specimen signatures are to be maintained by RTA. Also, Regulation 14(3) (c) of the RTA Regulations stipulates that Share Transfer Agents (STA) should maintain such other records as may be specified by the Board for carrying out the activities as share transfer agents. I note that, among the list of records to be maintained by an RTA, it is mandated by SEBI to maintain specimen signature in respect of all the folios of all the companies for which RTA work is being handled by the RTA. "*



FINDINGS

8. I have considered the findings of the DA Report along with the written and oral submissions. In relation to the first allegation i.e. mismatch in signatures, the following are my observations and findings:

(i) Transfer Deed Nos. 15002 to 15007 were executed with Charanjit Singh Chandha & Sons HUF (being the transferor) whereas the other transfer deeds were executed by Charanjit Singh Chadha (being the transferor) in his personal capacity. Vide email dated 23.06.2017, Sharex forwarded to SEBI the specimen signatures used by the RTA for the above two sets of transfers i.e. one from Charanjit Chadha in personal capacity and the other in his HUF capacity, along with copies of the said 11 transfer deeds. Clearly the signatures in the transfer deeds do not correspond to the specimen signatures used for cross-verification by the RTA. The significant differences between the signatures are apparent on the face of the record. In addition to this discrepancy, the fact that some of these transfer deed numbers were also in seriatim should probably have aroused an interest into the bonafides and propriety of the signatures affixed. In any case, the procedure for such discrepancies has been laid out in detail in the RTI Circular of 2001. The relevant provisions of the same are reproduced hereunder for ease in reference:

Norms for Objection

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.*



As discussed above, I do not agree with the RTA's description of the mismatch as being a minor one. SEBI Circulars lay down detailed procedure in relation to transfer of shares so as to identify and prevent potential mischief attendant with physical share certificates. To take the procedure lightly would not be fair to the investors who place trust in the legal framework designed to protect their interests.

(ii) In relation to the second allegation i.e. that signature records were not maintained by Sharex, I note from the RTAs submissions that they have admitted to the lapse but chose to justify the same on the ground that the same is an industry wide problem caused due to the client companies failure to provide records and that they had taken whatever steps they reasonably could by issuing a precautionary notice to the transferor. In this context the relevant provisions of RTA Regulations and RRTI Circular of 1994 required to be complied with by RTAs, are reproduced hereunder for ease in reference-

Regulation 14 (3) (c) of RTA Regulations.

"14. To maintain proper books of accounts and records, etc.—

(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:-

.....

.....

(c) such other records as may be specified by the Board for carrying out the activities as share transfer agents."

RRTI Circular No. 1 (94-95) dated October 11, 1994

"Records to be maintained by registrar to an issue / share transfer agent

2. In pursuance of the powers conferred upon SEBI by regulation 14(2)(h) 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

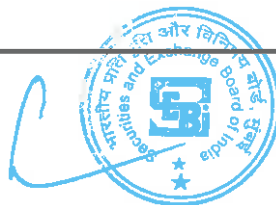
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(vii) Specimen signature cards and transfer deeds."



The aforesaid provisions of the RTA regulations and RRTI Circular of 1994, read together casts a clear obligation on the RTAs to maintain specimen signatures in respect of all the folios of all the client companies of the RTA. Also, the RRTI Circular of 1994 read along with the RTI Circular of 2001, makes it clear that even in the case of absence of signature records, the RTA must follow the procedure laid down in the latter circular. The system of allowing transfer of shares without reference to specimen signature or when the signature(s) on the transfer deed is materially different from the recorded specimen signature(s) is an open invitation to potential frauds which could undermine the credibility of the capital market mechanism and erode the investor faith in the system. Infact not having such records results in an inability to conduct complete due diligence and identity verification of the parties to the transfer. The RTA cannot merely shift the responsibility of this lapse to its client companies. The RTA Regulations and Circulars thereunder cast the obligation on the RTAs to ensure presence of records and not to register any transfer that is not in compliance with laid down procedure.

9. As noted earlier, the noticee has also submitted that the transfer deeds forming part of allegations of these proceedings also fall under purview of the SEBI Administrative Warning notice dated 31-01-2017 and therefore the present proceedings are not justifiable. I do not find merit in this submission. I have perused the said administrative warning issued through letter No. MIRSD-3/RTA/OW/2411/1/2017 dated January 31, 2017. The discrepancies identified in the said letter were under the following heads: Delay in processing of Transfer requests, Processing of transfer request before completion of 15 days of sending Seller notice, Delay in processing of transmission requests, Delay in processing of requests for issue of duplicate shares and Delay in processing of remat requests. The said letter was issued pursuant to SEBI's inspection of the books and records of Sharex and does not contain any reference to irregularities in relation to signatures in the Transfer Deeds cited in this Order. I also note from available records that pursuant to an Audit conducted by SEBI appointed Auditor- Borkar & Muzumdar, Chartered Accountants, SEBI had issued administrative warning vide letter No. MIRSD-6/SP/SB/OW/29905/2017 dated November 29, 2017 wherein a set of discrepancies observed were recorded and Sharex was informed that SEBI has viewed the same seriously. These violations, in short are as follows- Renewal of client agreements were not executed on stamp paper of applicable value,



Statement of capital adequacy was not kept on record for each quarter, Transferee signature on transfer deeds were not matching with signature on PAN card copy, Transferee PAN copy was not taken on record and 95% or more transfer deeds were witnessed by the same person in case of a single company. Sharex was also informed vide this warning letter that SEBI has initiated Enquiry Proceedings with respect to mismatch of signatures and unavailability of signature records pertaining to transfer deeds discussed in this Order. Therefore the cause of action/ subject matter of the administrative warnings and of these proceedings are different from each other.

10. For the reasons specified in the aforesaid paragraphs, I am in agreement with the findings of the DA, namely that the alleged violation of the provisions of RTI Circular 2001 and Regulation 14(3) (c) of RTA Regulations read with RRTI Circular 1994 against the Noticee stands established. Accordingly, the DA had, in terms of Regulation 27 of the Intermediaries Regulations, recommended that the Noticee be barred from accepting any new assignments for a period of 1 month. In the facts and circumstances of this case as discussed above, I am inclined to accept this recommendation of the DA.

11. Therefore, in exercise of powers conferred on me under section 12 (3) of the SEBI Act read with regulation 28 (2) read with regulation 27 of the SEBI (Intermediaries) Regulations, 2008, upon consideration of the facts and circumstances listed in this Order, applicable legal provisions and submissions of the Noticee, I hereby direct that the Noticee i.e. Sharex Dynamic (India) Pvt. Ltd., stands prohibited from accepting any fresh clients for a period of one month from the date of this Order. Sharex Dynamic (India) Pvt. Ltd shall disclose the contents of these directions on its website(s) immediately.



G. Mahalingam

Place: Mumbai

Date: May 24, 2019

G. MAHALINGAM

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA