

**SECURITIES AND EXCHANGE BOARD OF INDIA
ORDER UNDER REGULATION 28 OF SEBI (BANKERS TO AN ISSUE) REGULATIONS 1994**

CO/484/IES/02/2003

In the matter of Corporation Bank, Industrial Finance Branch, Rangoli Complex, 1st Floor, Opp. V S Hospital, Ashram Road, Ellisbridge, Ahmedabad.

M/s. Adinath Exim Resources Ltd., an Ahmedabad based company had come out with a public issue of 31,00,000 equity shares of Rs. 10/- each at par aggregating to Rs 310 lakhs. The said issue opened for subscription on 18.01.96 and closed on 22.01.96. Corporation Bank was the Banker to the Issue.

On the basis of the complaints received regarding late acceptance of applications by the Corporation Bank, Industrial Banking Branch, Ahmedabad (hereinafter referred to as "Banker"), Securities and Exchange Board of India (hereinafter referred to as "SEBI") requested Reserve Bank of India (hereinafter referred to as "RBI") to ascertain whether there were instances of late receipt of applications by the Banker.

On the basis of date-wise schedule for applications received by the banker, RBI observed that the applications of one Shri Rakesh Naval for 20,000 shares at Sr. No. 10 was subsequently included after striking the day's total on page 8 of the application schedule dated 22.01.96. It was also noted that the banker prepared the revised copy of the schedule wherein two more applications of Shri Ajit Jain and Shri C M Singhi for 20,00,000 shares each were included at serial nos. 101 and 102.

RBI also observed that applications numbering at serial nos. 100, 101 and 102 were with stockinvests which were issued by Tamil Nadu Mercantile Bank Ltd., Mandvi Branch, Mumbai on 29.01.96 and 30.01.96 but the same were predated as 22.01.96. The report further observed that even current account was opened on 24.01.96 and deposits were received on 29.01.96 and 30.01.96 for obtaining such stockinvests. Therefore, it was concluded that these three applications have been received by the said banker after the date of closure of the issue, i.e., after 22.01.96.

RBI further found that applications at serial nos. 98 and 99 of the application schedule prepared by the banker that State Bank of India, Udyog Bhavan Branch, Gandhinagar had issued the stockinvests nos. 472332 and 472330 and cancelled the same on 20.01.96 itself which were received by the banker on 22.01.96 suggesting that the shares were allotted to the applicants who had already cancelled their stock-invests.

On the basis of these findings, SEBI appointed an Enquiry Officer in terms of SEBI (Bankers to an Issue) Rules and Regulations, 1994 vide its order dated 24.01.2000 to enquire into the contravention as aforesaid by the Banker.

On the basis of the reply to the show cause notice issued by the Enquiry Officer and submissions made before him, the Enquiry Officer submitted its report dated 24.07.2001 to the then Chairman, SEBI. In the said Report the Enquiry Officer, on the basis of his findings, recommended that the registration of the Industrial Finance Branch, Ahmedabad of the banker as Banker to an Issue be suspended for a period of three months.

On receipt of the said Enquiry Report, a Show Cause Notice dated 06.08.2001 was issued to the banker in terms of Regulation 28(1) of the said Regulations, whereby the banker was asked to show cause as to why the penalty as recommended by the Enquiry Officer should not be imposed on it.

The banker vide its reply dated 23.08.2001, while denying the charges, requested to set aside the proposed decision of suspending the Branch as Bankers to the Issue for a period of three months.

As the reply of the Banker was not found satisfactory, SEBI vide its letter dated 29.10.2001 advised the Banker to attend the personal hearing before the Chairman on 19.11.2001. Shri N Subramaniam (Chief Manager) attended the hearing and made oral submissions. However, the hearing remained inconclusive. The second hearing was granted on 25.07.2002. The said hearing was also attended by Shri N Subramaniam, Chief Manager, who requested that the banker be given some time to look into the matter afresh. He reiterated this request vide his letter dated 05.08.2002 also.

Vide its letter dated 06.09.2002, the Banker informed that it had entrusted the inspection of the issue to its Inspection and Audit Division at its head Office and also informed that depending upon the outcome of the inspection, further decision will be taken by the Bank. On this ground, the Banker requested for the extension of time granted to enable it to submit the outcome of the enquiry.

Another opportunity of hearing was granted to the banker for 30.11.2002. However, the Banker vide its letter dated 30.10.2002 sought more time to enable it to inform the development as the internal enquiry being conducted by the Banker was at the final stage. Conceding this request, the Bank was granted time till 15.12.2002 to submit its report, if any, to SEBI.

Banker vide its letter dated 22.11.2002 submitted its reply based on its internal investigation report. In the said report the Banker has inter alia admitted that "the share applications receiving by the branch after the due date i.e., 22.01.96 cannot be ruled out".

The final hearing in the matter took place on 28.12.2002 wherein on the basis of the submission made on behalf of the Banker, it was granted 15 days time to take some action against the erring employees / branch for the irregularities committed by them. It was also indicated that in case the Banker failed to do so, the recommendations of the enquiry officer would be accepted and the Banker would be suspended for a period of 3 months.

Pursuant thereto, banker vide its letter dated 10.01.03 and subsequent letter dated 14.01.03, informed that as per the internal enquiry, the Banker has found the negligence on the part of two officers of the said Branch of the banker and

also informed that disciplinary action against them has since been initiated. The Banker has further informed that it has taken a decision to de-authorise Industrial Finance Branch, Ahmedabad to handle merchant banking assignment for one year. Further, vide its Fax dated 04.02.03 the banker reiterated that pursuant to the internal enquiry conducted by the bank, it has initiated disciplinary action against two officials. It further informed that subsequent to its earlier communication, one more official was found negligent in the case and the action had been initiated against him also.

I have carefully considered the facts and circumstances of the facts. I have also perused the Enquiry Report and the recommendation made thereunder. I have also taken note of various actions taken by the banker after submission of the Enquiry Report to me and also the co-operation extended by the banker to SEBI in the proceedings. It is also on record that the banker after conducting departmental enquiry has taken action against erring employees.

Further, the Banker has taken a decision to de-authorise the concerned Branch to handle merchant banking assignments for one year.

Having regard to the above, I am of the view that penalty of suspension as recommended by the Enquiry Officer, in the given circumstances of the case would be too harsh a punishment. In my opinion, it would be sufficient, in the present case, that the banker be warned and advised to take utmost care in future to avoid repetition or reoccurrence of such irregularity in future by any of its branches.

Order accordingly.

Place : Mumbai

Date : February 12, 2003

G. N. BAJPAI
CHAIRMAN
Securities & Exchange Board of India