

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: S. RAMAN, WHOLE TIME MEMBER

ORDER

Under Regulation 28(2) of the SEBI (Intermediaries) Regulations, 2008 in respect of Knack Corporate Services Private Limited (Registrar to an issue and Share Transfer Agent- SEBI Registration No. INR000000957).

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1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") conducted an inspection of the books of accounts and other documents/records of Knack Corporate Services Private Limited (hereinafter referred to as "**Noticee**") a Category I Registrars to an Issue and Share Transfer Agent (hereinafter referred to as "**RTI &STA**") during the period from November 23 to November 25, 2010. The inspection was in respect of the period from January 2008 till the date of inspection i.e. November 25, 2010 (hereinafter referred to as "Inspection Period").
 2. SEBI noticed the following violations of rules and regulations in the functioning of the Noticee as a RTI and STA:
 - a) *"Noticee did not have any key personnel with experience in computer software/ hardware in its employment and had only three full-time employees. In spite of this, the Noticee was acting as registrar to the rights issue of Ram Kashyap Investments Ltd. (hereinafter referred to as "RKIL"). Therefore, it was alleged that by failing to employ full-time personnel with experience in EDP activity, the Noticee had failed to comply with SEBI/RRTI circular No.2 (2002-2003) dated November 20, 2002 read with clause 29 of code of conduct stipulated in schedule III of regulation 13 of RTI/STA Regulations.*
 - b) *Noticee did not submit documents pertaining to the rights issue of RKIL including signature card, proof of dispatch (POD) of composite application forms (CAF) etc. It was also observed that despite constant reminder the documents were not submitted. Therefore, it is alleged that by not submitting all the documents the Noticee has displayed non-cooperation with SEBI and thereby violated regulation 18 read with regulation 17 and clause 18 of code of conduct stipulated in schedule III of regulation 13 of RTI/STA Regulations.*

- c) Noticee did not have the required infrastructure and key personnel. It was observed that only 125 sq. ft was available for RTI/STA activities while the total area declared to SEBI was 3200 sq. ft. Therefore, Noticee is alleged to have violated regulation 6A of RTI/STA Regulations and schedule II of Intermediaries Regulations.
- d) Noticee had violated provisions of SEBI RRTI circular no.1 (94-95) dated October 11, 1994 read with schedule-I and code of conduct specified in schedule III of regulation 13 of RTI & STA Regulations relating to the following:
- i. Noticee changed its location multiple times over the past few years but failed to inform this to the investors. Therefore, by not intimating the change of address of RTI/STA activities to the investors of client companies it has violated clause 5(u) of the abovementioned circular.
 - ii. Noticee has failed to comply with clause 1 (a) of schedule I of the abovementioned circular dated October 11, 1994 for failure to maintain a proper inward register, clause 1 (j) of schedule I of the abovementioned circular for failure to maintain dispatch register, clause 2 (v) of the abovementioned circular for failure to maintain details of dispatch of transfer certificates, clause 5(xi) of the abovementioned circular for failure to maintain proper records of mails returned undelivered, and clause 20 of the code of conduct specified in schedule III of regulation 13 of RTI/STA Regulations for failure to maintain continuity in data and record keeping.
 - iii. By not having in its custody signature cards of shareholders of client companies and allowing the same to be kept with client companies Noticee failed to comply with clause 2 (vii) read with clause 1(m) of schedule I of the abovementioned circular.
- e) Noticee did not have valid renewal agreements entered with its client companies and neither had renewal letter from the client companies to renew/appoint Noticee as their share transfer agent, therefore it had violated regulation 9A(b) of RTI/STA Regulations read with schedule II of Intermediaries Regulations.
- f) For not acting as a common agent to client companies and allowing the client companies to directly engage in STA related activities and by allowing the companies to keep possession of various STA related records, the Noticee violated Regulation 53A of DP Regulations, read with SEBI circular no. DECC/FITTC/CIR-15/2002 dated December 27, 2002.
- g) By not processing the demat requests within 15 days from the date of receipt of demat request form (DRF) along with the physical documents, and not processing the remat request (RRFs) within 30 days the Noticee has failed to comply with NSDL circular no. NSDL/JS/016/2004 dated May 10, 2004 and NSDL circular no.

NSDL/SG/034199 dated September 17, 1999 read with clause 1, 2, 3 and 5 (c) of code of conduct stipulated in schedule of regulation 13 of RTI/STA Regulations.

- b) By not maintaining proper documents, not following proper procedures, by not verifying the signature of the shareholders before processing requests, not acknowledging receipt of request to shareholders within 7 days and by not making dispatches to the investors directly the Noticee has not complied with clause 2 and 5 of SEBI RRTI circular no.1(94-95) dated October 11, 1994 and clause (i)1, (i)6 & (07 of RTI circular 1 (2000-2001) dated May 9, 2001.
- i) By failure to maintain the register containing date/and details of record sent from the Noticee's office to the companies, it has failed to comply with clause 2(iii) of SEBI RRTI circular No.1(94-95) dated October 11, 1994.
- j) By not dispatching the transferred securities to shareholders directly and by not maintaining dispatch register for the same the Noticee has failed to comply with clause i(j) of schedule I of SEBI RRTI circular no.1 (94-95) dated October 11, 1994.
- k) By processing invalid transfer deeds the Noticee has failed to comply with clause (ii)(A)(1) of RTI circular no.1 SEBI RTI circular no 1 (2000-2001) dated May 9, 2001.
- l) By executing the transfer requests without PAN copies the Noticee has not complied with the provisions of SEBI circular no. MRD/DOP/Cir-05/2009 dated May 20, 2009.
- m) By not acting in a professional manner and by not taking proper care, adequate caution and due diligence in carrying out its activities as STA, the Noticee has failed to comply with clause 2, 3 of code of conduct stipulated in schedule Ill of regulation 13 of RTI/STA Regulations, and by not taking steps to ensure continuity of data and record keeping, the Noticee has failed to comply with clause 20 of the schedule Ill of RTI/STA Regulations.
- n) By not maintaining proper documents and records related to the activities of RTI/STA, the Noticee failed to comply with regulation 14(1), 14(2) and 14(3) of RTI/STA Regulations read with clause 2 of SEBI RRTI circular no. 1(94-95) dated October 11, 1994.
- o) Noticee has not exercised due care, caution and diligence while carrying out its STA activities and made false statement during the visit of SEBI officers on April 4, 2012 and April 11, 2012 with respect to rectification of deficiencies observed during SEBI inspection conducted from November 23, 2010 to November 25, 2010. Therefore, the Noticee had violated clause 1 and 2 of code of conduct stipulated in schedule Ill of Regulation 13 of RTA/STA Regulations".

3. In view of the above violations of rules and regulations, SEBI initiated proceedings against the Noticee under the SEBI (Intermediaries) Regulations, 2008 (“**Intermediaries Regulations**”) and appointed a Designated Authority (“**DA**”) to inquire into the following contravention of provisions by the Noticee viz.,:
 - i. SEBI/RRTI Circular No. 2 (2002-2003) dated November 20, 2002 read with Clause 29 of Code of Conduct stipulated in Schedule III of Regulation 13 of SEBI (Registrar to an Issue and Share Transfer Agents) Regulations, 1993 (hereinafter referred to as "**RTI/STA Regulations**"),
 - ii. Regulation 18 read with regulation 17 and clause 18 of code of conduct stipulated in schedule III of regulation 13 of RTI/STA Regulations,
 - iii. Regulation 6A of RTI/STA Regulations and schedule II of Intermediaries Regulations,
 - iv. SEBI/ RRTI Circular No.1(1994-1995) dated October 11, 1994 read with Schedule-I and code of conduct specified in schedule-III of regulation 13 of RTI/ STA Regulations, Clause 1(a) of Schedule I, Clause 5(ii), Clause 1(j) of Schedule I, Clause 2(v) and 5 (xi) of the above circular and Clause 20 of the code of conduct, Clause 2(vii) read with Clause 1(m) of Schedule I of the above mentioned circular.
 - v. Regulation 9A (b) of RTI/STA Regulations read with schedule II of Intermediaries Regulations,
 - vi. Regulation 53A of SEBI (Depositories and Participants) Regulations, 1996 read with SEBI Circular No. D&CC/FTTTC/CIR-15/2002 dated December 27, 2002,
 - vii. NSDL Circular No. NSDL/JS/016/2004 dated May 10, 2004 and NSDL Circular No. NSDL/SG/034/99 dated September 17, 1999 read with Clause 1, 2, 3 and 5(c) of Code of Conduct stipulated in Schedule-III of Regulation 13 of RTI/STA Regulations,
 - viii. SEBI /RRTI Circular No. 1(94-95) dated October 11, 1994, SEBI RTI Circular No. 1(2000-2001) dated May 9, 2001,
 - ix. SEBI Circular No.MRD/DoP/Cir- 05/2009 dated May 20, 2009 read with clause 2,3 & 20 of Code of Conduct stipulated in Schedule 111 of Regulation 13 of RTI/STA Regulations,
 - x. Regulation 14(1), 14(2) and 14(3) of RTI/STA Regulations read with clause 2 of SEBI RRTI Circular No.1 (94-95) dated October 11, 1994,

xi. Clause 1 and 2 of Code of Conduct stipulated in Schedule-111 of Regulation 13 of RTI/STA Regulations.

4. The DA after considering the abovementioned allegations and the replies/submissions made by the Noticee, vide Report dated November 27, 2013, in terms of Regulation 27 of the Intermediaries Regulations, recommended cancellation of the Certificate of Registration of the Noticee.
5. Thereafter, a Show Cause Notice (“SCN”) dated July 04, 2014 enclosing therewith the Report was sent to the Noticee advising it to show cause as to why appropriate penalty including penalty recommended by the DA should not be imposed on it. The SCN sent through Speed Post with acknowledgment due to the Noticee got returned undelivered as unclaimed. Subsequently, copy of SCN and the enquiry report was affixed at the last known address of the Noticee on August 14, 2014. In addition, a copy of these documents was also couriered on August 26 and 27, 2014 to the Managing Director of the Noticee viz., Mr. R. Chandrasekaran. However, neither any reply to the SCN within the stipulated time nor any request for personal hearing was received from the Noticee. No further correspondence or reply has been received from the Noticee till date.
6. In view of above, I am left with no option but to proceed with the instant matter with the material available on record such as Report dated November 27, 2013, subsequent SCN, etc.

The DA, upon consideration of the allegations levelled against the Noticee, noted the following:

Inadequate Key Personnel

7. It was alleged that the Noticee failed to employ full-time personnel with experience in EDP activity, hence violated with SEBI/RRTI circular no.2 (2002-2003) dated November 20, 2002 read with clause 29 of code of conduct stipulated in schedule III of regulation 13 of RTI/STA Regulations.

SEBI/RRTI Circular No. 2 (2002-2003) dated November 20, 2002

All entities, desirous to be registered as 'Registrar to an Issue and Share Transfer Agent' are required to furnish all the information as specified in 'Proforma 1-12' and 'Additional Information Sheet, available on SEBI website <http://www.sebi.gov.in/>, at the time of submitting registration application in 'Form A'

All registered 'Registrar to an Issue and Share Transfer Agent, desirous of renewal of their registration are required to furnish all the information as specified in information Sheet for renewal application, available on SEBI website <http://www.sebi.gov.in>, at the time of submitting registration application in 'Form A'

FORM A

2.6 Number of employees (General and for specific Intermediaries activity)

3.3 Whether Data Processing capacity facility is available (a) In house or (b) outside, please give details.

3.4 Computer facility:

(a) Hardware Configuration

(b) Software Environment

EXPERIENCE

8.1 Experience in handling the activities during the last three years. (Name of the corporate body, particulars of issues handled, size of issues etc.) for:

(a) Registrars to Issue

(b) Share Transfer Agents

8.2 Experience in other financial services (period, area, and commencement of activity).

Clause 29 of Code of Conduct

A Registrar to an Issue and Share Transfer Agent shall ensure that any person it employs or appoints to conduct business is fit and proper and otherwise qualified to act in the capacity so employed or appointed (including having relevant professional training or experience).

7.1 It is noted from the Report that the Noticee had only three employees viz., Hemavathy Ramesh (Manager), Prabhu John Morin (Manager) and Shankar M (Manager Accounts) in its full-time employment for operation of its RTI & STA activities. Out of the three full-time employees, only two were directly handling the day-to-day RTI & STA activities as the third person was in-charge of the company's accounts. The qualification and joining details of these employees were based on the oral submissions made by them and no documentary proof was made available. It was also seen that none of the employees had any prior experience in RTI & STA activities. Noticee in its reply letter dated January 9, 2012 to the Inspection report ("**IR**") stated that Ms. Hemavathy Ramesh, Manager- Operations, had been taking care of the operations of RTI/STA from

the time of the old management and is an experienced person in the said business. However, Mrs. Hemavathy Ramesh and Mr. Prabhu John Morin did not have prior experience in RTI activities and they had experience only in STA operations.

7.2 Moreover, Mr. R. Chandrasekaran, the Managing Director cum compliance officer (hereinafter referred to as "MD") also admitted vide his statement dated December 3, 2010 and December 16, 2010 that he did not have any knowledge regarding the functioning, activities, and records to be maintained by the Noticee in its capacity as a RTI and STA before joining the company in June 2009. In spite of this, the Noticee had taken on the job to act as Registrar to Issue of the rights issue of RKIL.

7.3 In view of the above, I find that the charges of failure to comply with SEBI/RRTI Circular No. 2 (2002-2003) dated November 20, 2002 read with Clause 29 of Code of Conduct stipulated in Schedule III of Regulation 13 of RTI/STA Regulations stand established.

Non-cooperation with SEBI Inspection Team

8. It was alleged in the SCN that by not submitting all the documents the Noticee has displayed non-cooperation with SEBI and thereby violated Regulation 18 read with Regulation 17 and Clause 18 of code of conduct stipulated in schedule III of Regulation 13 of RTI/STA Regulations.

The relevant provisions are reproduced as under:

Regulation 17 and Regulation 18 of RTI/STA Regulations:-

17. Procedure for inspection.—

(1) Before undertaking an inspection under regulation 16, the Board shall give a reasonable notice to the registrar to an issue or share transfer agent for that purpose.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors or in public interest no such notice should be given, it may by an order in writing direct that the inspection of the affairs of the registrar to an issue and share transfer agent be taken up without such notice.

(3) On being empowered by the Board, the inspecting authority shall undertake the inspection and the registrar to an issue or share transfer agent against whom an inspection is being carried out shall be bound to discharge his obligations as provided under regulation 18.

Regulation 18. Obligations of registrar to an issue and share transfer agent on inspection by the Board.—

(1) It shall be the duty of every director, proprietor, partner, officer and employee of the registrar to an issue or share transfer agent, who is being inspected, to produce to the inspecting authority such books, accounts and other documents in his custody or control and furnish him with the statements and information relating to the transactions in securities market within such time as the said officer may require.

(2) The registrar to an issue or share transfer agent shall allow the inspecting authority to have reasonable access to the premises occupied by them or by any other person on their behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the registrar to an issue or share transfer agent or any other person on their behalf and also provide copies of documents or other materials which, in the opinion of the inspecting authority are relevant.

(3) The inspecting authority, in the course of inspection, shall be entitled to examine or record statements of any member, director, partner, proprietor and employee of the registrar to an issue or share transfer agent.

(4) It shall be the duty of every director, proprietor, partner, officer or employee of the registrar to an issue and share transfer agent to give to the inspecting authority all assistance in connection with the inspection, which the registrar to an issue or share transfer agent may be reasonably be expected to give.

Code of conduct- schedule 111 of Regulation 13 of RTI/STA Regulations

18. A Registrar to an Issue and Share Transfer Agent shall not neglect or fail or refuse to submit to the Board or other agencies with which he is registered, such books, documents, correspondence, and papers or any part thereof as may be demanded / requested from time to time.

8.1 It was observed by the Inspection Team that the Noticee was not very prompt and professional in submission of relevant documents required to be furnished as evidence to the inspection observations. The Noticee did not submit documents pertaining to the rights issue of RKIL including signature card, proof of dispatch of composite application forms etc. It was also observed that despite repeated reminders, the documents were not submitted by the Noticee.

Therefore, due to non-availability of majority of documents, it was felt necessary by the Inspection Team to take a formal statement from MD. Accordingly, Inspection Team visited the Noticee's office on December 15, 2010 to record the statement of MD, after confirming the time over phone. However, he was not present in the office at the appointed time (9.30 am) and made the SEBI officials wait for nearly three hours by continuously assuring over phone that he would reach the office in a short while. Finally after reaching office at around 12.30 pm he conveyed his inability to record the statement due to some other commitments. Finally the statement of MD was recorded by the SEBI Inspection team at a later date.

- 8.2 In view of the above and in the absence of any reply from the Noticee, it is clear that the Noticee has violated Regulation 18 read with Regulation 17 and Clause 18 of code of conduct stipulated in schedule III of Regulation 13 of RTI/STA Regulations.

Inadequate infrastructure capabilities

9. It was alleged in the SCN para 3 (c) 1 that the Noticee did not have required infrastructure and therefore has violated Regulation 6A of RTI/STA Regulations and Schedule II of Intermediaries Regulations.

The relevant provisions are reproduced as under:

Regulation 6A of RTI/STA Regulations

6A. Criteria for fit and proper person.— For the purposes of determining whether an applicant is a fit and proper person the Board may take into account the criteria specified in Schedule ii of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008."

Schedule II of Intermediaries Regulations, 2008 states as follows:

Criteria for determining a 'fit and proper person' "For the purpose of determining as to whether an applicant or the intermediary is a 'fit and proper person' the Board may take account of any consideration as it deems fit, including but not limited to the following criteria in relation to the applicant or the intermediary, the principal officer and the key management persons by whatever name called-

- (a) integrity, reputation and character;*
- (b) absence of convictions and restraint orders;*
- (c) competence including financial solvency and networth."*

9.1 It was observed from the documents submitted by the Noticee that they have two offices viz.,

1. 17/9 Thiruvengadam Street, Mandaveli, Chennai 600 028 having an area of 1200 sq.ft and
2. Old No 102, New No.2, I floor 3rd Cross Street, Karpagam Avenue, Mandaveli, Chennai 600 028 having an area of 2000 sq.ft.

9.2 However, it was observed by the inspection team during the inspection that the area of the office located at Thiruvengadam street was measuring approx. 120 sq.ft on the ground floor and 125 only on the first floor. It was gathered by the SEBI's Inspection team that the room in the first floor actually belonged to another company called TBO and TBO had given permission to the Noticee to use the room for SEBI inspection only. Further, office located at Karpagam Avenue measured only 800 sq. ft., however, no RTI/STA related activities were being carried out. Hence, the actual office space available with the Noticee for RTI & STA activities was only the room measuring 120 Sq.ft. Therefore Noticee's submission to SEBI declaring that the total office area was 3200 sq.ft is false, as in reality, only approx. 120 sq.ft was being used for RTI & STA operations.

9.3 In view of the abovementioned discussions I conclude that the Noticee did not have the key personnel and required infrastructure. One of the criteria for consideration of grant of registration to any RTI/STA is necessary infrastructure like adequate office space, equipments and man-power to effectively discharge its activities. However, in the present case the Noticee neither had the experienced man-power nor had the adequate office-space to effectively discharge its functions. Therefore, the Noticee failed to meet the requirements of regulations 6 of RTA/ STA Regulations.

Change of location

10. By changing location without informing SEBI, the Noticee is alleged to have violated clause 5(11) of the abovementioned circular. The relevant text of the abovementioned circular read with Schedule I has been reproduced as follows:

SEBI RRTI circular no.1 (94-95) dated October 11, 1994

Other directions to RTIs/STAs

5(ii). RTI / STA shall handle its activities only from the offices declared to SEBI and approved by it. The addresses of such offices shall only be informed to the investors and printed in issue stationery, etc. If a RTI / STA has a full-fledged Investor Relations Centre (IRC) and has obtained SEBI's approval for the same, the address of the IRC may be stated, but only in addition to the approval of the same, the address of the IRC may be stated, but only in addition to the approved offices. The RP / STA shall neither close its offices nor carry on activities from other places, without the prior written permission of SEBI.

- 10.1 It was observed that Noticee changed its location multiple times over the past few years. Though it had intimated about the latest address change to its companies it had failed to intimate the same to the investors. Moreover, it had intimated the post office of the same only on 15 July 2009 while it had already shifted to its latest location on 1 July 2009. The RTI & STA failed to submit any proof of intimation to Post Office, client companies or investors with regard to the earlier shifting of office premises. Noticee in its reply dated October 26, 2012 (before the DA) contended that adequate information was given by them by issuing public notices of the same in newspapers. However, Noticee failed to produce any newspaper clipping showing such public notices in support of its contention. Therefore, the violation of clause 5(ii) of the abovementioned circular also stands established.

Failure to maintain proper records

11. It was alleged that the Noticee has not complied with Clause 1 (a) and (j) of Schedule I of RRTI circular no.1 (94-95) dated October 11, 1994, Clause 2(v), Clause 5 (xi) for failure to maintain proper records of mails returned undelivered, and Clause 20 of the code of conduct specified in Schedule III of regulation 13 of RTI/STA Regulations.

Schedule I

SERI RRTI circular no.1 (94-95) dated October 11, 1994

- a) STA will receive and attend promptly correspondence received from shareholders/ debenture holders/ company/ stock exchanges/ SERI/ other bodies and will segregate the inward mail as transfer requests, request for endorsements as fully paid-up, receipt of call money,*

request for change of address, transmission, transposition, deletion of name, other letters from investors.

- j) *Transfer Agent shall dispatch the transferred share certificates under a covering letter. Transfer Agent shall maintain postal journal/dispatch register for the dispatch of transferred certificates. The documents may indicate the date of dispatch and name of the post office where the dispatch has been made.*

Clause 2(v)

2. *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 RTI

- (v) *Full details of dispatch of allotment advices, shares/debenture certificates/ letters of allotment refund orders, duplicate refund orders, and revalidated refund orders.*

Clause 5(xi)

(xi) *The RTI & STA are now required to maintain proper records of mail returned undelivered. While attending to requests for issue of transfer, issue of duplicate refund orders, etc., they may verify the returned mail records to prevent any fraudulent activities.*

Clause 20 of the code of conduct specified in Schedule III of regulation 13 of RTI/STA Regulations:

"20. A Registrar to an Issue and Share Transfer Agent shall take adequate and necessary steps to ensure that continuity in data and record keeping is maintained and that the data or records are not lost or destroyed. Further, it shall ensure that for electronic records and data, up-to-date back up is always available with it."

Inward/Outward Database

12. It was observed during the inspection that the Noticee did not have a proper inward system in place. The database was not maintained properly. The excel data base captured data since October 2009 only. No inward/ outward database prior to October 2009 had been maintained by the Noticee. Neither the excel database nor the physical file reflected the actual information on all inwards received. The Noticee failed to furnish 28 inward entries mentioned in the excel database of the existing inward system for inspection. A huge number of physical documents received from investors, client companies, SEBI, depositories, DPs,

etc were found which had not been entered in the database. There was no database/ record of the complaints/ correspondences received by the RTI & STA through emails. The complaints, requests, etc received through email were not accounted for in the database. Only two email inwards were captured in the database. It was further observed that the inadequate database captures only 5 columns viz., date and nature of complaint, company name, received date and remarks. It is a standalone database and does not capture any details of subsequent action taken, dispatch of correspondences, etc. Action trail, age-wise analysis, etc cannot be captured / reported from the database. Importantly, it did not even capture the name of the sender or the outward/dispatch date. During the inspection period numerous correspondences, complaints, transfer requests, etc were found maintained in scattered files, which were not accounted for either in the database or in the inward system. Most of the documents were found to be kept in jumbled bundles with no proper cataloguing/filing system being followed by the RTI & STA.

In view of the above it is concluded that the Noticee had also failed to comply with the Clause 1(a) of Schedule I of the Circular dated October 11, 1994 for failure to maintain a proper inward register, Clause 1(j) of Schedule I for failure to maintain dispatch register, Clause 2(v) for failure to maintain details of dispatch of transfer certificates, Clause 5 (xi) for failure to maintain proper records of mails returned undelivered, and Clause 20 of the code of conduct specified in Schedule III of regulation 13 of RTI/STA Regulations for failure to maintain continuity in data and record keeping.

No Legally Binding Agreement

13. It was alleged that the Noticee violated regulation 9A(b) of RTI/ STA Regulations read with Schedule II of Intermediaries Regulations on account of failure to enter into legally binding agreement with its client companies to act as their share transfer agent (STA). The relevant provisions are reproduced hereunder:

"9A. Conditions of registration.—(1) Any initial registration granted under regulation 8 or any permanent registration granted under regulation 8A shall be subject to the following conditions, namely:-

a.

b. *without prejudice to its obligations under any other law for the time being in force, it shall enter into a legally binding agreement with the body corporate or the person or group of persons for or on whose behalf it is acting as a registrar to an issue or a share transfer agent stating therein the allocation of duties and responsibilities between itself and such body corporate or person or group of persons, as the case may be;"*

It was observed that as on the date of inspection, there were no valid renewal agreements entered with the companies. It was also noted by the inspection team that there were no renewal letters from these companies to renew/appoint the Noticee as their share transfer agent. The Noticee did not produce any valid renewal agreement to prove the contrary. In the absence any reply from the Noticee the violation of Regulation 9A of RTI & STA Regulations stands established.

Failure to handle share registry work

14. It was alleged that the Noticee has violated regulation 53A of SEBI (Depositories and Participants) Regulations, 1996 read with SEBI circular no_ D&CC/FITTC/CIR-15/2002 dated December 27, 2002. The relevant provisions are reproduced hereunder:

Manner of handling share registry work.

"53A. *All matters relating to transfer of securities, maintenance of records of holders of securities, handling of physical securities and establishing connectivity with the depositories shall be handled and maintained at a single point i.e. either in-house by the issuer or by a Share Transfer Agent registered with the Board."*

SEBI circular: D&CC/FITTC/CIR-15/2002 dated December 27, 2002

It has therefore been decided that all the work related to share registry in terms of both physical and electronic should be maintained at a single point i.e. either in-house by the company or by a SEBI registered R & T Agent.

It was observed that the Noticee facilitated the documents (such as demat request form (DRF), remit request form (RRF) from the depository participants, demat /rernat request from the investors) to be directly received by the companies. It was further observed that it did not have relevant records like

signature card/ records from the companies. The Noticee instead of receiving the documents, made the companies to receive it, let the companies to keep possession of various STA related records. In the facts and circumstances of the case and in the absence of evidence to the contrary, the violation of abovementioned regulation and circular stands established.

Delay in processing demat/remat requests:

15. It was alleged that the Noticee the Noticee has failed to comply with NSDL circular no. NSDL/JS/016/2004 dated May 10, 2004 and NSDL circular no. NSDL/SG/034/99 dated September 17, 1999 read with clause 1, 2, 3 and 5 (c) of code of conduct stipulated in schedule III of regulation 13 of RTI/STA Regulations. The relevant provisions are reproduced hereunder:

NSDL circular no. NSDL/JS/016/2004 dated May 10, 2004

A checklist for benefit of issuers/ R & T Agents is enclosed to facilitate better compliance of NSDL Byelaws, Business Rules and Circulars. The checklist is not a substitute for NSDL Byelaws, Business rules and circulars issued to Issuers/R & T agents. The checklist should be read in conjunction with the aforesaid documents.

Issues Related To Operations:

1) Processing of Demat requests:-

- 1. Process demat request within 15 days from the receipt of DRF/ physical documents. Reject the demat request where DRF and the certificates do not reach within 30 days from the date of receipt of electronic request in NSDL system.*
- 2. Obtain names & specimen signatures of authorised signatories from companies and compare before confirmation of demat requests.*
- 3. Update ROM before DRN confirmation.*
- 4. Verify that DRF is duly authorised by the DP.*
- 5. Verify the validity of the security certificates as well as the fact that the DRF has been made by the person recorded as a member in the Register of Members.*
- 6. Affix serial (inward) numbers on DRFs received and stamp of date of receipt on the DRFs.*
- 7. Enter actual date of receipt of DRF in DPM before DRN confirmation.*
- 8. Ensure that rejection memo is sent to DP in case of rejection of demat request.*
- 9. Ensure that rejection memo contains DP ID, Client ID, details of rejection code and proper rejection reason.*

10. Return DRFs and certificates to DPs within 5 days of rejection of DRN.
11. Retain copy of rejected DRF alongwith objection memo and Proof of dispatch for a period of 5 year.

II) Processing of Remat requests:—

1. Process remat request within 30 days of receipt of the same.
2. Obtain names & specimen signatures of authorised signatories from companies and compare before confirmation of remat requests.
3. Verify that RRF is duly authorised by the DP.
4. Enter actual date of receipt of RRF in DPM before RRN confirmation.
5. Retain copy of RRF and Proof of delivery of certificates to client for a period of 5 years.
6. Send rejection memo providing DP ID, Client ID ,details of rejection code and proper rejection reason in case of rejected RRNs
7. Retain copy of rejected RRF alongwith objection memo and Proof of dispatch for a period of 5 years.

NSDL circular no. NSDL/SG/034/99 dated September 17, 1999

It was decided by the Committee that where demat request forms (DRFs) and the certificates do not reach the Registrar within 30 days from the date of electronic request, such requests should be rejected.

Code of conduct- schedule ill of regulation 13 of RT1/STA Regulations

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 fulfill 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*
- 5. A Registrar to an Issue and Share Transfer Agent shall always endeavor to ensure that:-***
- c. transfer of securities held in physical form and confirmation of dematerialisation/ rematerialisation requests and distribution of corporate benefits and allotment of securities is done within the time specified under any law ."***

The Noticee did not have any inward system of the documents like Demat Request Form (DRF), Remat Request Form(RRF), signature cards etc. Further, in many cases the Noticee confirmed dematerialisation request after fifteen days of demat request generation (DRN). In some cases the Noticee had processed

remat requests after 30 days in CDSL depository system. It was alleged that in certain cases the Noticee rejected the demat requests after 30 days of the receipt of the demat requests. It was alleged that many demat/remat requests were kept pending i.e. neither processed nor rejected against the companies. As per the abovementioned regulations/ circular, the Noticee was required to process the demat request within a period of 15 days from the receipt of DRF/ documents. It was also required to reject the demat request within a period of 30 days of non receipt of DRF/certificates. However, it is observed that the Noticee failed to process the DRF within stipulated time. There had been inordinate delay upto 1000 days in processing the demat request in various instances. Noticee was required to process the remat request within a period of 30 days from the receipt of the remat request. However, there had been inordinate delay amounting to more than 2200 days in some cases in processing the same. In view of the above the I find that the Noticee had failed to comply with NSDL circular no. NSDL/JS/016/2004 dated May 10, 2004 and NSDL circular no. NSDL/SG/034/99 dated September 17, 1999 read with clause 1, 2, 3 and 5 (c) of code of conduct stipulated in schedule III of regulation 13 of RTI/STA Regulations.

Failure to maintain proper procedure

16. It was alleged that by not maintaining proper documents, not following proper procedures, by not verifying the signature of the shareholders before processing requests, not acknowledging receipt of request to shareholders within 7 days and by not making dispatches to the investors directly, the Noticee has not complied with Clause 2 and 5 of SEBI RRTI Circular No. 1(94-95) dated October 11, 1994 and Clause (1)1, (i)6 & (i)7 of RTI Circular 1 (2000-2001) dated May 9, 2001.

The relevant provisions are reproduced hereunder:

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

2.

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 RTI

- i. *Original agreement entered into with the Issuer for handling the issue, a print copy of the Prospectus/ offer document.*

Records and documents to be maintained by STA

- (vii) *Specimen signature cards and transfer deeds.*

These records and documents are required to be maintained by the intermediaries for a minimum period of 3 years in terms of regulation 15. These records and documents should be kept in the custody of an authorized/ responsible officer of the RTI/ STA.

5.

- (iv) *It has also come to notice of SEBI that certain issuers are taking over the allotment letters/ share debenture certificates, etc., for despatch citing various reasons like payment of stamp duty, etc. It is clarified that the RTI shall not handover these to the Issuer and it shall only make the despatches to the investors directly. Any violation on this account will be viewed seriously by SEBI.*

(vi) Under Regulation 15 of the Regulations, RTI & STA are required to maintain the records and documents stipulated in regulation 14 for a minimum period of 3 years. These records/ documents to be maintained include the records pertaining to any issue handled by the RTI/ Share transfer work carried out by the STA. Therefore, it is expected that the RTI & STA shall redress the investors. It has also come to light that certain RTI & STA hold up their services due to delay/ despatch in payments by the Issuer/ Body Corporate causing great inconvenience to investors. It is needless to mention that by holding up the work, RTI/ STA contribute to the violation of the provisions, of the Companies Act, listing agreement and the Regulations of SEBI. It is felt that the RTI & STA should negotiate the payment terms with Issuer/ Body Corporate and arrange to procure the funds in advance for meeting the various expenses. In case of any substantial delay/ despatch the matter should be immediately brought to the notice of SEBI/ Stock Exchanges. In any case, it is desired that services to investors should not be affected.

- (viii) *It has been noted that RTI & STA do not keep complete records of receipt, utilisation, wastage and returns to the Issuer Companies/ Body Corporate, of the pre-printed stationery like share / debenture certificates, refund orders, interest, dividend warrants, etc. In the interest of the investors and in their own interest RTI / STA should maintain proper records and keep these securities items in control to prevent any misuse. Authorization of transfer on certificates*

and the authorization of endorsement of a call / allotment money is not delegated by certain body corporate to the share transfer agents thereby resulting in immense delay in sending back the certificates to the investors, as the certificates have to move back and forth between the body corporate and the STA. This usually results in not complying with the time limit stipulated under section 113 of the companies Act, 1956 and listing agreement and the STAs also become responsible for violation. In view of this the STA may insist on the Body Corporate authorising them to carry out the authorisation.

(x)The STA are advised that they shall issue acknowledgement to the investors for having received their requests for endorsement, transfer, transmission, consolidation / sub division, etc., within 7 days of the date of receipt of such requests.

(xi) The RTI & STA are now required to maintain proper records of mail returned undelivered. While attending to requests for issue of transfer, issue of duplicate refund orders, etc., they may verify the returned mail records to prevent any fraudulent activities.

RTI Circular 1 (2000-2001) dated May 9, 2001

(1)

(1) The Company / STA shall issue receipt / acknowledgement in the prescribed format, as per Annexure-1 in favour of the transferee of receipt of transfer documents in its office and post it to the transferee, latest within 7 working days of its receipt, at the address mentioned on the Transfer Deed/s.

(6) The Company/STA shall return the Share Certificate's and Transfer Deed/s alongwith the objection memo within the prescribed time of 1 month of receipt of transfer documents, as stipulated in the Listing Agreement. The responsibility for any delay in this regard by the Company/ STA, whereby the rights of the transferee are affected, shall solely rest on the Company/ STA. Where the signature of the transferor tallies with the records of the Company/ STA, the Company/ STA shall normally transfer the shares within 7 working days of the Board meeting/Transfer Committee meeting/ Approval by the official authorized to transfer shares and in any case within a period not exceeding 30 days. In case the shares are not transferable, the same should be returned under objection within the above stated period.

(7)The Company/STA shall scrutinise the transfer documents in its totality and send objection memo by marking whatever are the defects observed in such documents, duly attaching all documents as detailed in general guidelines 18 to 21 hereunder, and advising the transferee's

and/or transferor's to ensure due rectification in the manner guided by the Company/STA, while resubmitting the document.”

SEBI's inspection team observed that the signature of the shareholders were not verified due to non-availability of signature cards. It was further observed that signature cards of only the shareholders of Kaashyap Technologies Ltd(KTL) were available with the STA. For all other client companies the signature cards were not available with the Noticee. The Noticee in its reply dated January 9, 2012 stated that they had corrected the anomaly and are maintaining the signature cards. However, it was observed during the visit of SEBI officers on April 4, 2012 and April 11, 2012 that Specimen signatures of only five companies were available with the Noticee. In the case of Velvette International Pharma Products Ltd., specimen signatures of 11994 shareholders were maintained by the said company itself. In case of Marg Projects Ltd. specimen signatures of 8000 shareholders were misplaced by the said company. Hence, the Noticee started collecting those from the shareholders and maintaining a scanned image of the same.

Hence, it is concluded that the Noticee does not possess the complete records of the specimen signatures for any of its client companies. Further, the Inspection Team found 6 transfer request letters from investors to which the Noticee had neither responded nor executed the transfers. Similarly, two cases of transfer requests were noted from the inward register which the STA/the Noticee had neither executed the transfer nor responded to the investors. It was observed during the inspection that in case of 6 companies, viz., Kaashyap Technology Ltd, Ram Kashyap Investments Ltd., Caplin Point Laboratories Ltd., Marg Projects Infrastructure Limited, Velvette International Pharma Products Ltd and S&S Industries and Enterprises Ltd the transfer requests and documents were received directly by the companies. The Noticee submitted that except in the case of KTL, the other 5 companies processed the transfer requests themselves. It was also observed that dispatch of transferred certificates was done by the respective companies and not by the Noticee.

On account of lapses and failures on the part of Noticee such as non maintenance of proper documents, not following proper procedures, not

verifying the signature of the shareholders before processing requests, not acknowledging receipt of request to shareholders within 7 days and by not making dispatches to the investors directly, the Noticee has not complied with Clause 2 and 5 of SEBI RRTI Circular No. 1(94-95) dated October 11, 1994 and Clause (1)1, (i)6 & (i)7 of RTI Circular 1 (2000-2001) dated May 9, 2001.

Failure to maintain detailed register of dispatch

17. It was alleged that by failing to maintain the register containing date and details of record sent from the Noticee's office to the companies, the Noticee has failed to comply with Clause 2(iii) of SEBI RRTI Circular No. 1 (94-95) dated October 11, 1994.

The relevant provisions are reproduced hereunder:

“(iii) RTIs shall not handover applications and other documents/ records pertaining to an Issue to the Issuer or to any other persons for any purpose whatsoever until completion of despatch of allotment letters/ share/debenture certificates/refund orders and cancelled stock invests. The issuer/persons authorized by it may have access to the applications/records in the office of RTI only”

18. It was also alleged that by not dispatching the transferred securities to shareholders directly and by not maintaining dispatch register for the same, the Noticee has failed to comply with Clause i (j) of Schedule I of SEBI RRTI Circular no.1 (94-95) dated October 11, 1994.

The relevant provisions are reproduced hereunder:

1. Specific Activities

“j. Transfer Agent shall despatch the transferred share certificates under a covering letter Transfer Agent shall maintain postal journal/despatch register for the despatch of transferred certificates. The documents may indicate the date of despatch and name of the post office where the despatch has been made.”

It was observed that database maintained with the Noticee does not capture any details of, dispatch of correspondences, etc. Action trail, age-wise analysis, etc cannot be captured / reported from the database. Importantly, it does not even capture the name of the sender or the outward/dispatch date. It was further observed that the STA was unable to provide exhaustive outward/dispatch data.

In view of the facts and circumstances of the case and in the absence of evidence to the contrary the violations alleged against the Noticee are established.

Processing invalid transfer deeds

19. It was alleged that by processing invalid transfer deeds the Noticee has failed to comply with Clause (ii)(A)(1) of RTI Circular No.1 SEBI RTI (2000-2001) dated May 9, 2001. The relevant provision is reproduced as under:

A. TRANSFER DEED

Sl.No.	Description	Can Company/STA return as company Objection
1	<i>Transfer Deed endorsed by the prescribed authority on a date prior to closure of the register of members of the company but delivered after the date of closure of Register of members, but within a period of one year from the date of presentation</i>	No

It was observed that the Noticee had executed invalid transfer deed for the following:

Company	Transferee Name	Transferee Folio	Transferor folio
Marg Projects Ltd	Modal Savla	23073	11159

Execution of transfer requests without Permanent Account Number (PAN):

20. It was alleged that by executing the transfer requests without PAN copies the Noticee has not complied with the provisions of SEBI Circular No. MRD/DoP/Cir-05/2009 dated May 20, 2009. The relevant text has been reproduced as under:

"1. The Securities and Exchange Board of India (SEBI) vide circular ref. no, MRD/DoP/Cir-05/2007 dated April 27, 2007 made PAN the sole identification number for all participants transacting in the securities market, irrespective of the amount of such transaction.

2. In continuation of the aforesaid circular, it is hereby clarified that for securities market transactions and off-market/private transactions involving transfer of shares in physical form of

listed companies, it shall be mandatory for the transferee(s) to furnish copy of PAN card to the Company/RTAs for registration of such transfer of shares.”

It was observed that the Noticee had executed the transfer requests of twenty two people without PAN. On account of executing the transfer requests without PAN copies the Noticee violated the provisions of SEBI Circular No. MRD/DoP/Cir-05/2009 dated May 20, 2009.

21. It was alleged that by not acting in a professional manner and by not taking proper care, adequate caution and due diligence in carrying out its activities as STA, the Noticee has failed to comply with Clause 2, 3 of Code of Conduct stipulated in Schedule 111 of Regulation 13 of RTI/STA Regulations, and by not taking steps to ensure continuity of data and record keeping, the Noticee has failed to comply with Clause 20 of the abovementioned regulation. The relevant provisions are reproduced as under:

“2. A Registrar to an issue and Share Transfer Agent shall fulfill 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.

20. A Registrar to an Issue and Share Transfer Agent shall take adequate and necessary steps to ensure that continuity in data and record keeping is maintained and that the data or records are not lost or destroyed. Further, it shall ensure that for electronic records and data, up-to-date back up is always available with it.”

As seen from the preceding paragraphs, the Noticee could not take proper care, adequate caution and due diligence in carrying out its activities as STA. It is also seen that the Noticee did not maintain a proper inward/outward data and other records of the companies etc. In the absence of any evidence to the contrary, the violations against the Noticee stand established.

22. In the light of the above discussion, I conclude that the following violations of the Noticee have been established:

- As a Category-I RTI/STA, the Noticee had handled rights issue of RKIL as Registrar without having experienced key personnel in its employment;

- Noticee failed to cooperate with the SEBI officials during the SEBI inspection conducted from November 23, 2010 to November 25, 2010;
- The Noticee did not have necessary infrastructure for carrying out its RTI and STA activities;
- The Noticee did not renew the agreement with all its client companies to act as their STA;
- The Noticee did not have the proper system to maintain vital records of its client companies such as specimen signature cards and they were not kept in a secured manner. As a result, many of the documents were not produced for verification;
- There was lack of due diligence in carrying out their STA operations as is evident in the manner the documents are received and dispatched, considerable time taken to process various requests viz. DRF/RRF, etc. and even to reject them. Further delay in confirming the DRFs by the Noticee would result in opportunity loss to the shareholders as they would not be able to sell their shares at the time they want to;
- Noticee has not exercised due care, caution and diligence while carrying out its STA activities and made false statement during the visit of SEBI officers on April 3, 2012 and April 11, 2012 with respect to rectification of deficiencies observed during SEBI inspection conducted from November 23, 2010 to November 25, 2010;
- In view of all these reasons, the conduct of the Noticee cannot be said to have been done in prompt, ethical and professional manner.

23. I therefore, agree with the findings of the DA that the Noticee had violated the above discussed provisions as detailed in the preceding paragraphs of this Order. From the abovementioned observations and facts and circumstances of the case, I am convinced that the Noticee had not maintained high standards of integrity and fairness in the conduct of its business. The Noticee had failed to exercise due diligence and proper care and to fulfil its obligations in a prompt, ethical and professional manner. The Noticee also failed co-operate with the inspection team and submit the documents. It is also pertinent to mention that the Noticee failed to respond to the SCN issued to it as part of this enquiry. It is also noted that the SEBI registration granted to the Noticee had expired on May 13, 2013 and no

application for permanent or renewal of registration has been received from the Noticee till date.

24. In view of the foregoing and considering the interests of the investors, I find that the action as recommended by the Designated Authority vide Report dated November 27, 2013 is commensurate with the defaults, non-compliances, contraventions and violations committed by the Noticee.
25. I, in exercise of powers conferred under Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28(2) of the SEBI (Intermediaries) Regulations, 2008, hereby cancel the certificate of registration granted to Knack Corporate Services Limited (SEBI Registration No. INR000000957), as a Registrar to an Issue (RTI) and Share Transfer Agent (STA).
26. This Order shall come into force with immediate effect.

Place : Mumbai

Date : June 29, 2015

S. RAMAN

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA