

**In Re: Karvy Computershare**

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**SooperKanoon Citation :** [sooperkanoon.com/58541](http://sooperkanoon.com/58541)

**Court :** SEBI Securities and Exchange Board of India or Securities Appellate Tribunal SAT

**Decided On :** Feb-22-2007

**Judge :** G Anantharaman

**Appellant :** In Re: Karvy Computershare

**Judgement :**

1. Karvy Computershare Private Ltd. (hereinafter referred to as 'KCPL') is registered with Securities and Exchange Board of India (hereinafter referred to as 'SEBI') as a Registrar to an issue (hereinafter referred to as 'RTI') and Share Transfer Agent.

1.1 SEBI conducted investigation into buying, selling or dealing in the shares issued through Initial Public Offerings (hereinafter referred to as 'IPOs') of companies during the period 2003-2005. The investigations revealed that many entities/persons had cornered shares in various IPOs during the period 2003-2005 by making fictitious/benami applications, and by opening fictitious demat accounts (hereinafter referred to as 'affluent accounts'). About eighty percent of these accounts were opened by Karvy Stock Broking Pvt. Ltd. (hereinafter referred to as 'KSBL') a Depository Participant (hereinafter referred to as 'DP') and Stock Broker which is a sister concern of KCPL. Karvy Consultants Ltd., Karvy Securities Ltd., Karvy Investor Services Ltd. are the other companies in Karvy Group.

1.2 It has been alleged that the KCPL in its capacity as RTI, facilitated the key operators and their financiers in cornering shares in IPOs. Further it failed in maintaining distance with other Karvy Group entities and failed to weed out multiple and fictitious applications in the IPOs, and further facilitated the key operators by issuing single refund orders.

1.3 SEBI vide an ad-interim ex-parte order dated April 27, 2006 inter alia directed KCPL not to undertake fresh business as a registrar to issues excepting those businesses already contracted as on the date of the said ex-parte order. Subsequently SEBI gave an opportunity of hearing to KCPL and passed an order dated May 26, 2006 confirming ex-parte interim directions having force till the pendency of enquiry and passing of final order.

1.4 KSBL and KCPL filed appeals challenging the aforesaid interim order dated May 26, 2006 before the Hon'ble Securities Appellate Tribunal (hereinafter referred to as 'SAT'). SAT heard the appeal of KSBL at length and dismissed the same vide order dated January 08, 2007. The appeal filed by KCPL is pending.

1.5 An enquiry officer was appointed under Regulation 5(1) of SEBI (Procedure for Holding enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 (hereinafter referred to as the Enquiry Regulations) to enquire into the alleged acts of commissions and omissions by KCPL and KSBL.

1.6 The Enquiry Officer, issued a Show Cause Notice dated September 22, 2006 under Regulation 6 (1) of Enquiry Regulations to KCPL communicating thereby the allegations. It has been alleged that KCPL had failed to weed out the multiple applications of key operators in fictitious/benami names, failed to exercise due diligence and failed to maintain arms length distance with other entities in Karvy group, thereby aided and

abetted key operators in cornering the shares. After considering the reply dated October 12, 2006 from KCPL, the Enquiry Officer conducted the enquiry as per the procedure laid down in Enquiry Regulations and submitted a report dated December 20, 2006.

1.7 The Enquiry Officer had recommended for a prohibition on KCPL from acting as a RTI for a period of nine months, with effect from April 27, 2006 from which date the interim restraint against KCPL has been in force.

1.8 A Show Cause Notice dated December 28, 2006 was issued to KCPL alongwith a copy of the Enquiry Report, in terms of Regulation 13(2) of the Enquiry Regulations calling upon it to show cause as to why appropriate action as recommended by the Enquiry Officer should not be taken against it.

1.9 KCPL was also given an opportunity of personal hearing before me on January 4, 2007. On the designated day Chairman and a Vice- President of Karvy Group, alongwith advocate from AZB Partners appeared and made submissions on behalf of KCPL. Subsequently written submissions dated January 8, 2007 were filed. Certain clarifications/information/data inter alia concerning the IPO applications made by and refund orders issued to the key operators financed by Karvy Consultants Limited in regard to IPOs where KCPL acted as RTI have been sought from KCPL vide letter dated February 02, 2007 which are awaited.

1.10 I have carefully examined the findings of enquiry and the submissions made. I find that the charge against KCPL is that it acted in concert with other entities in Karvy group and aided and abetted key operators and financiers in cornering the shares in various IPOs. It is, therefore, necessary to wait for the completion of Enquiry Proceedings against KSBL also for taking a comprehensive view. However if the period of prohibition as recommended by the Enquiry Officer were to be accepted, then the same would terminate on January 26, 2007.

1.11 Hence, at this stage it would not be appropriate for me to enter into any findings against KCPL with respect to the allegations made against it or decide on the recommendations made by the Enquiry Officer against KCPL since the main allegation against KCPL is that it acted in concert with other entities of Karvy group and abetted the key operators. The final findings as to the role of KCPL can be determined only when the final findings as to the role of KSBL is determined in the enquiry proceedings pending against it. Meanwhile as nine months have already elapsed since the imposition of restraint on KCPL from undertaking fresh business, I am of the view on balance of considerations that the interim order against KCPL barring it from undertaking fresh business may be lifted. In the event, if the final order calls for a prohibition beyond the period recommended, such order can be passed at that stage. On completion of enquiry proceedings against KSBL, appropriate penalty may be imposed on KCPL in accordance with the applicable regulations.

2.1 Therefore in exercise of the powers conferred upon me under Section 11 and 11 B read with Section 19 of SEBI Act, 1992, I hereby lift the directions issued vide interim order dated May 26, 2006 against Karvy Computershare Pvt. Ltd., whereby it was directed not to act as a registrar to an issue and as a share transfer agent (pending enquiry and passing of final orders) as ordered therein, without prejudice to the pending enquiry proceedings against KSBL and final decision to be taken thereafter against KSBL and KCPL.

It is clarified that the present order is being passed under Section 11 and 11 B in continuation of the proceedings taken already under the provisions of Section 11 and 11 B. Passing of this order shall not come in the way of continuation of enquiry proceedings under Enquiry Regulations and passing of the final orders under Enquiry Regulations.