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**STANDING COMMITTEE ON
FINANCE
(2006-07)**

FOURTEENTH LOK SABHA

MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

**EFFICACY OF REFORM PROCESS IN THE
CAPITAL MARKET – RECENT IPO SCAM**

FORTY-THIRD REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

November, 2006/Agrahayana, 1928 (Saka)

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CAPITAL MARKET – RECENT IPO SCAM

Presented to Lok Sabha on 28 November, 2006

Laid in Rajya Sabha on 28 November, 2006



LOK SABHA SECRETARIAT
NEW DELHI

November, 2006/Agrahayana, 1928 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON FINANCE
(2006-2007)

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Shyama Charan Gupta
5. Shri Vijoy Krishna
6. Shri A. Krishnaswamy
7. Dr. Rajesh Kumar Mishra
8. Shri Bhartruhari Mahtab
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17. Shri Lakshman Seth
18. Shri A.R. Shaheen
19. Shri G.M. Siddeshwara
20. Shri M.A. Kharabela Swain
21. Shri Bhal Chand Yadav

*Nominated to this Committee *w.e.f.* 31.8.2006 *vice* Shri Raosaheb Danve Patil

(iv)

Rajya Sabha

22. Shri Santosh Bagrodia
23. Shri Raashid Alvi
24. Smt. Shobhana Bhartia
25. Shri M. Venkaiah Naidu
26. Shri Yashwant Sinha
27. Shri Mahendra Mohan
28. Shri Chittabrata Mazumdar
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SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Additional Secretary*
2. Shri A. Mukhopadhyay — *Joint Secretary*
3. Shri S.B. Arora — *Deputy Secretary*
4. Smt. Anita B. Panda — *Under Secretary*

INTRODUCTION

1, the Chairman of the Standing Committee on Finance having been authorized by the Committee to submit the Report on their behalf present this Forty-third Report on the subject 'Efficacy of Reform Process in the Capital Market – Recent IPO Scam'.

2. The Ministry of Finance (Department of Economic Affairs) briefed the Committee on the subject "Efficacy of Reform Process in the Capital Market – Recent IPO Scam" on 7 March, 2006. Then, at their sitting held on 4 April, 2006 the Committee took oral evidence of the representatives of Investors' Grievances Forum. The Committee at their sitting held on 5 April, 2006 took oral evidence of representatives of SEBI and RBI. On 20 April, 2006 the Committee took oral evidence of Indian Overseas Bank, Vijaya Bank, ICICI Bank, HDFC Bank and Bharat Overseas Bank. At their sitting held on 1 June, 2006, they took oral evidence of the representatives of the National Stock Exchange, Bombay Stock Exchange, National Securities Depository Ltd., and Central Depository Service Ltd. Thereafter, the Committee at their sitting held on 12th June, 2006 again took oral evidence of National Stock Exchange and Bombay Stock Exchange on the subject. The Committee took final oral evidence of the representatives of the Ministry of Finance on 13 June, 2006.

3. The Committee, during their study tour from 3 to 7 July, 2006, also took up the subject for informal discussions. On 3 July, 2006 the Committee discussed the subject "Working of Capital Market and Efficacy of the Reform Process" with the representatives of the All Gujarat Investors' Protection Trust in Ahmedabad. They also discussed the subject "Volatility in the Capital Market and IPO Scam" with the representatives of RBI and SEBI, separately at Mumbai on 4 July, 2006. The Committee at their sitting on 6 November, 2006, considered and adopted the draft Report.

4. Written replies, views/memoranda were received from Ministry of Finance (Department of Economic Affairs) RBI, SEBI, Indian Overseas

Bank, ICICI Bank, HDFC Bank, Vijaya Bank, Bharat Overseas Bank, ING Vysya Bank, Citi Bank, Standard Chartered Bank, IDBI Ltd., NSE, BSE, NSDL, CDSL, Investors' Grievances Forum and all Gujarat Investor Protection Trust.

5. The Committee authorised the Chairman to make consequential changes arising out of factual verification and finalise the Report.

6. The Committee wish to express their thanks to the Ministry of Finance (Department of Economic Affairs) various organizations/ Investors' fora, banks, SEBI and RBI for the cooperation extended in placing before them their considered views and perceptions on the subject and for furnishing written notes and information that the Committee had desired in connection with the examination of the subject.

7. For facility of reference observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
16 November, 2006

25 Kartik, 1928 (Saka)

MAJ. GEN. (RETD.) B.C. KHANDURI,
Chairman,
Standing Committee on Finance.

REPORT

Historically, India's Capital Market was dormant till the mid-1980s. Three important legislations, namely Capital Issues (Control) Act, 1947, Securities Contracts (Regulation) Act, 1956; and Companies Act, 1956 were enacted to provide a suitable legal framework for the development of capital market in India. The long-term financing needs of the corporate sector were, by and large, met by the Development Financial Institutions (DFIs) such as IDBI, ICFI, ICICI as well as by other investment institutions like LIC, UTI, GIC etc. This was supplemented by working capital finance provided by the commercial banks through an elaborate network of bank branches spread over the country. The pricing of primary issues was decided by the Office of the Controller of Capital Issues. A few stock exchanges, dominated by Bombay Stock Exchange (BSE) provided the trading platforms for the secondary market transactions under an open outcry system. The Capital Issues (Control) Act, 1947 was repealed in May 1992 and the office of the Controller of Capital Issues was abolished in the same year. The Securities and Exchange Board of India (SEBI) was set up in 1988 and acquired statutory status in 1992 with a definite mandate: (a) to protect the interests of investors in securities; (b) to promote the development of securities market; and (c) to regulate the securities market. In order to achieve these objectives, SEBI has been exercising power under: (a) Securities and Exchange Board of India Act, 1992; (b) Securities Contracts (Regulation) Act, 1956; (c) Depositories Act, 1996; and delegated powers under the Companies Act, 1956.

2. The securities markets in India witnessed several policy initiatives since the year 2000, which further refined the market micro-structure, modernized operations and broadened investment choices for the investors. The irregularities in the securities transactions witnessed in the previous years hastened the introduction and implementation of several reforms. A Joint Parliamentary Committee was constituted in 27.4.2001 to go into the irregularities and manipulations in all their

ramifications in all transactions relating to securities. They submitted their Report on 19.12.2002 and decisions were taken to usher in certain reforms.

3. Reports in newspapers appearing in December, 2005 regarding irregularities in Initial Public Offerings, which adversely impact small investors, were noticed by the Committee and accordingly information was sought from the Ministry of Finance and SEBI for examination. At the initial stages of their examination, the Committee based their queries on the newspaper reportage as well as concerns expressed by the Investor's Fora. However, several new findings were revealed during the course of examination as the Committee continued to follow the pace of investigation by the regulators namely, SEBI, RBI and CBDT.

4. With the reconstitution of the Committee on 5.8.2006, the Committee, selected the subject "Efficacy of Reform Processes in the Capital Market" for detailed examination. They wanted to look into the reasons as to what could be done to prevent malpractices in the functioning of Capital Markets. In the course of this study, the serious issue relating to IPO scam was again brought to their attention. Realizing the importance of this issue, the Committee decided to examine it in all its dimensions.

5. Before proceeding to the IPO scam, the Committee considered it worthwhile to know certain facts about the reforms in the Capital Market in India, which is as follows:

The development of Primary Market

"Reforms in the primary market.

As per the Ministry of Finance, the following are the major reforms undertaken in the primary market:

- * Merit based regime to disclosure based regime.
- * Disclosure and Investor Protection (DIP) Guidelines issued.
- * Pricing of public issues determined by the market.
- * A system of proportional allotment of share introduced.

- * Banks, FIs and PSUs were allowed to raise funds from the primary market.
- * Accounting Standards are close to International Standard.
- * Corporate Governance Guidelines issued.
- * Discretionary allotment system to QIBs have been withdrawn.
- * FIIs have been allowed to invest in primary issues within the sectoral limits.
- * Mutual Funds are encouraged both in public and private sectors and have been permitted to investment overseas.
- * Guidelines were issued for private placements of debt.
- * SEBI promotes Self Regulatory Organisation (SROs)."

6. According to the Ministry, comprehensive guidelines on disclosures and investor protection were issued and were amended by SEBI from time to time. The companies accessing the capital market through public issues have to comply with adequate disclosure norms on initial as well as continuous basis.

7. In a deregulated regime, the pricing of the public issues is being determined by the market, i.e. either by the issuer through fixed price or by the investors through book-building process. A system of proportionate allotment of shares has been put in place where the share of retail investors in the allotment of book-built issues is 35 percent. Discretionary allotment to the Qualified Institutional Buyers (QIBs) has been withdrawn.

8. Various intermediaries, associated with primary as well as secondary markets such as merchant bankers, registrars to issues, portfolio managers, underwriters, bankers to issues, stock exchange, brokers and sub-brokers, share transfer agents, depositories, FIIs, custodians, credit rating agencies etc., are required to register with SEBI and operate within the guidelines issued. SEBI also promotes self-regulatory organisations. As per the information furnished by the Ministry of the Committee on August 31, 2005, there were 22 stock

exchanges, 9133 stock brokers (cash segment) and 15,223 sub-brokers, over 9000 listed companies, 2 depositories, 492 depository participants, 128 merchant bankers, 59 underwriters and 4 credit rating agencies in the country.

9. Though there have been a host of reforms in the securities market towards a disclosure-based regime, the functioning of the stock market is nonetheless affected by several scams including the IPO scam of 2005. In view of the media reports as well as issues raised by various investors' fora, the Committee decided to take up the subject for detailed examination and report. The present report primarily seeks to examine the recent IPO scam in all its ramifications.

The IPO Scam of 2005

10. The IPO scam of 2005 involving irregularities in the shares of Yes Bank Ltd. and IDFC Ltd. occurred during a bull phase in the stock market. The initial public offer of Yes Bank Ltd. (YBL) opened on June 15, 2005 and its shares were listed on the Stock Exchanges namely, Bombay Stock Exchange and National Stock Exchange on July 12, 2005. IDFC Ltd. came out with an IPO during July 2005. The shares of IDFC Ltd. were credited to the allottees on August 5-6, 2005. The shares of IDFC were listed on August 12, 2005. SEBI, in its Interim Orders dated 15.12.2005 and 12.01.2006 (in the context of examination of irregularities in the IPOs of Yes Bank Ltd. and IDFC Ltd. respectively) noted that certain entities namely Roopalben Panchal, Sugandh Estates and Investments Pvt. Ltd., Purshottam Budhwani and Manojdev Seksaria had cornered IPO shares reserved for retail applicants by making applications in the retail categories through the medium of thousands of fictitious/benami IPO applicants with each of the application being for small value so as to be eligible for allotment under the retail category. It was alleged by several investors fora that several fake demat accounts giving a common address were opened on a single day, with the connivance of certain individuals, brokers, bankers and the Depository Participants (DPs). This scheme was masterminded to target several IPOs and to siphon off shares meant for small investors thereby making a huge amount of illicit gains. The initial reports stated that the banks involved in the scam continued to finance the IPO applications to a single person, namely Roopalben

Panchal, and here accomplices, in the name of thousands of fictitious applicants. The DP involved i.e. Karvy Group of Companies, too processed these applications and in many cases, allotted shares without even receiving applications. This was considered to be a clear abuse of the very process of IPO that intends to encourage the participation of Retail Individual Investors (RIIs).

11. Subsequently SEBI undertook detailed examination of 105 IPOs made during the period 2003-2005 to ascertain whether the same irregularities as in the case of Yes Bank and IDFC IPOs have been committed in these IPOs also, and found 21 IPOs where manipulations had taken place with the connivance of DPs, banks and certain unscrupulous individuals.

MODUS OPERANDI OF THE SCAM

12. The IPO scam included the role of certain unscrupulous individuals, banks, DPs and financiers. The impression gathered by the Committee was that the modus operandi of this scam was different from the previous scams as it targeted the primary market instead of secondary market. Asked by the Committee to detail the modus operandi of the IPO scam, the Ministry of Finance informed as below:—

“The SEBI (**Disclosure and Investor Protection**) Guidelines govern public issue of securities. These Guidelines reserve a 35% (25% earlier) of the issue size for Retail Individual investors (RIIs). It defines a RII as an investor who applies or bids for securities of or for a value of not more than Rs. 1,00,000 (Rs. 50,000 earlier). The irregularity noticed in a few IPOs made recently emanates from the abuse of this provision relating to allocation to RIIs.

Since there is a reservation for RIIs, but there is a limitation on the number of shares a RII can apply, an investor generally applies for the highest possible number of shares in the retail category in order to increase his probability of allotment. He may adopt unfair means (apply from multiple/benami accounts) to get more allotment in the retail category.

It appears that a few entities such as Ms. Roopalben Panchal, M/s. Sugandh Estates & Investments P. Ltd. etc. opened thousands of demat accounts with Depository Participants (DPs) and bank accounts with Banks in the names of fictitious/benami individuals. The Banks and DPs opened demat accounts and banks accounts without adherence to prescribed procedure. It also appears that forged documents relating to identity and address were used to open the accounts. Ms. Roopalben Panchal, M/s. Sugandh Estates & Pvt. Ltd. etc., with the finance from their associates and also bank finance, applied for shares in IPOs from these benami/fictitious accounts in sizes permissible for RIIs. Subsequent to the allotment but before listing, these fictitious/benami allottees

transferred shares to Ms. Roopalben Panchal, M/s. Sugandh Estates & Pvt. Ltd. etc., who, in turn, transferred the shares to the financiers. The financiers in turn sold most of these shares on the first day of listing thereby realizing the difference between IPO price and the listing price.

Thus Ms. Panchal etc. cornered the shares meant for RIIs. They, along with the financiers, made money on selling these shares. As a result, the genuine RIIs failed to get allotment or got allotment of fewer shares than they would have otherwise got.”

13. During the oral evidence of the representatives of the Ministry of Finance on the subject, the Secretary, informed the Committee that to facilitate the opening of these accounts, Ms. Roopalben Panchal and her associates advertised in the newspapers a scheme for the people to get their photographs free of cost and used those photographs to append them to the application forms and open a large number of demat accounts as well as bank accounts.

14(a). SEBI, in its Interim Order dated 27.4.2006 had further explained the modus operandi *inter-alia* as under:—

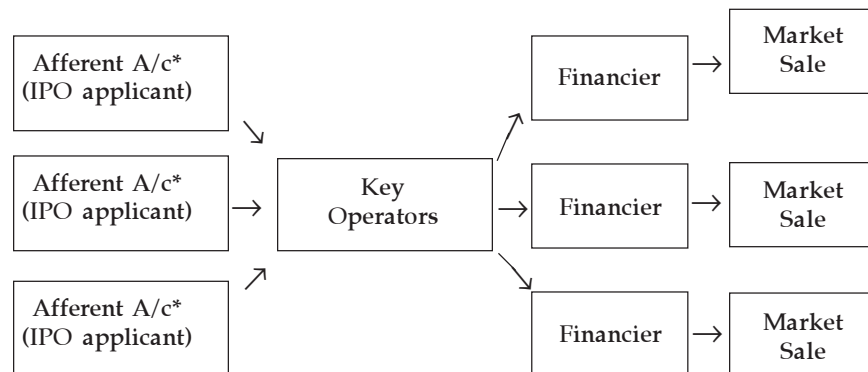
“...It was found that almost all the dematerialized accounts that were in the names of fictitious/benami entities were held through the depository participant Karvy Stock Broking Ltd. (Karvy-DP). Inspection of Karvy-DP by NSDL and CDSL has revealed that the DP has obtained letters from the concerned banks towards Proof Of Identity (POI) and Proof Of Address (POA) for the purpose of opening dematerialized accounts. In terms of SEBI circular dated August 24, 2004, an identity card/document issued by Scheduled Commercial Banks containing the applicant’s photo/address may be accepted as POI and POA. The circular further clarified that ‘the aforesaid documents are the minimum requirement for opening a BO¹ Account. The Depository Participants (DPs) must verify the copy of the document with the original before accepting the same as valid. While opening a BO Account, the DPs are required to exercise due diligence while establishing the identity of the person to ensure the safety and integrity of the depository system’.

¹Beneficiary Owners Account.

Thus, it appeared that first the bank accounts were opened in the names of fictitious/benami entities (using the photographs collected by Ms. Roopalben Panchal & Co. from the general public) and this facilitated the fictitious/benami bank account holders to open dematerialized accounts.

The entire modus operandi led to the suspicion that thousands of entities, in each of whose names separate dematerialized accounts and bank accounts had been opened and IPO applications made, were merely name-lenders or non-existent. SEBI had earlier made reference to Reserve Bank of India (RBI) in this regard and the findings of RBI also confirm that these thousands of name-lenders were fictitious. Even the key persons (master account holders) who had executed the game plan were merely intermediaries acting on behalf of financiers. These key persons and their financiers are not investors but mere rank opportunists who seek to make a killing by disposing the IPO shares cornered by them on the date of listing. The banks have also played their part by opening bank accounts and providing loan to these fictitious entities with the objective of earning interest and other charges.”

14(b). The modus operandi adopted for cornering of retail portion of IPO shares is pictorially represented below:—



* "Afferent Accounts" (benami/fictitious accounts) would refer to countless demat accounts in benami and fictitious names, the credits from where found its confluence in the master accounts.

15. Asked as to whether the financiers have been identified, it was replied by the Ministry of Finance that SEBI ultimately found around 85 financiers, who received shares from immediate 24 master account holders in respect of 21 IPO during examination of IPOs during 2003-2005.

In so far as Involvement of Agents/Chartered Accountants is concerned, the Committee observed that while taking note of the multiple account opening by Karvy's Stock Broking Ltd., as a DP, SEBI in its interim order dated 27.4.2006 while describing the results of the system audit of NSDL, pointing to the flaws in the account opening by Karvy Stock Broking Ltd. (DP), has *inter-alia* stated as under:-

- (a) Agents of Karvy opened most depository accounts having same addresses. These agents had no legal sanction. In fact SEBI (DIP) regulations as well as the agreement, which NSDL signs with DPs (Depository Participants), prohibits such work without prior permission.
- (b) This was never checked or reported either by the internal auditors (Haribhakti & Co.) of Karvy or by external inspection teams of NSDL.
- (c) These agents had ready-made stamps of addresses, which were affixed on the application forms. This too has never been reflected either in the internal audit reports or the Inspections by NSDL.

16. The Ministry of Finance have informed the Committee in a written reply that SEBI has already forwarded a copy of their Interim Order dated 27.4.2006 to the Institute of Chartered Accountants of India for necessary action.

17. The Indian Capital Market has come a long way owing to several reforms over the years particularly with regard to disclosure norms and emergence of SEBI as the statutory body to regulate the market. Nonetheless, the Committee regret to note that the capital market has been witnessing one scam after the other. The recent IPO scam has once again highlighted the fact that in the present scenario, unscrupulous people can still hold the system to ransom.

Unless the authorities regulating the capital market are alert to keep their vigil whenever there is a boom time, 'scamsters' will continue to operate without any fear of punishment. Enough evidence is available to show that the past scams namely the 'Harshad Mehta Scam' and the 'Ketan Parekh Scam' had accompanied the boom in the capital market. Therefore, the need of the hour is to remain alert and increase vigil, every time there is a bull-run.

18. The Committee note that the present scam has witnessed a different modus operandi by the 'scamsters' as compared to the previous scams, in the sense that this time it has struck the primary market instead of the secondary market. The Committee also note that the 'scamsters' this time acted in the garb of investors. Almost all the policies and directions of SEBI are basically directed at protecting the interests of the investors. The Committee are, however, at a loss to find that despite all the safeguards and regulations, the scamsters managed to penetrate into the system and, with the connivance of key operators or intermediaries, DPs and banks cornered a sizable chunk of shares meant for Retail Individual Investors (RIIs).

19. According to the information furnished to the Committee by the Ministry of Finance, Yes Bank Ltd. and IDFC Ltd. came out with their IPOs in June and July, 2005 respectively. The Committee have been informed that as per SEBI, certain entities had cornered IPO shares of these two companies reserved for retail applicants, by making applications in retail category through thousands of fictitious/benami IPO applicants.

20. The Committee also note that during the bull-run there is an incentive in applying for IPOs, as generally IPOs open on a price higher than the offer price and the aim of the 'scamsters' was to illegally procure maximum profits which would have otherwise gone to genuine retail investors. For this, the entire scam was meticulously pre-planned. It started with an innocent looking advertisement in newspapers to the public by certain entities offering them photographs free of cost, which were later used to open several benami/fake bank/demat accounts.

21. The Committee also note that the SEBI (DIP) guidelines on IPO allotment process reserve a 35% of the issue size for RIIs, who can apply for securities of not more than Rs.1,00,000. In view

of the limitation on the number of shares a RII can apply, the 'scamsters' applied for the maximum possible number of shares per applicant by making thousands of fake/benami applications, and managed to get shares allotted under the 35% quota meant for RIIs. The Committee further note that applications of these fictitious/benami 'persons', after allotment, had also been transferred as shares to their principals namely Ms. Roopalben Panchal, M/s. Sugandh Estates & Investment Pvt. Ltd. etc. and their associates who, in turn, transferred these shares to the 'financiers' who had originally made available the funds. The financiers sold most of these shares on the first day of listing at a price higher than the offer price. Thereby earning huge amount as profit. Thus, the modus operandi of the 'scamsters' shows that there were some "master-minds", behind Roopalben Panchal and Sugandh Estates and Investments Pvt. Ltd. etc. who were merely the intermediaries or the "key operators". These master minds were quite possibly the 'financiers'.

22. From the submission made by SEBI, the Committee find that the Banks and DPs had opened demat accounts and bank accounts without adherence to prescribed procedure *e.g. KYC*. Besides forged documents were used as proofs of identity and address to open these accounts. They, therefore, strongly believe that there was an active collusion of some officials from banks and the Depository Participants (DPs) coupled with the fact that Depositories, DPs, and Banks failed to exercise due diligence in observing the KYC norms and other guidelines. The Committee recommend that the role of such entities (intermediaries, financiers etc.,) should be investigated thoroughly and deterrent punishment awarded befitting the irregularities committed.

23. The Committee are also dismayed at the finding of SEBI, contained in their Interim Order dated 27.4.2006 that Haribhakti & Co., the internal auditors of Karvy, failed to check or report the multiple account opening by the DP, Karvy Stock Broking Ltd. They note that findings of SEBI have been forwarded by the Ministry of Finance to ICAI for further necessary action. In this context, the Committee desire that ICAI must take up the matter seriously and take stringent action against the internal auditor.

EXTENT OF SCAM AND BENEFITS TO “SCAMSTERS”

24. The extent of the scam, its intensity and the benefits cornered by the main players involved have been examined by the Committee. In this regard, the Committee were informed by the Ministry of Finance in a written reply to their query, as under:-

“SEBI has informed that it has identified the entities involved in opening multiple demat accounts in benami/fictitious names. Since some of these entities have opened demat accounts since 2003, SEBI is investigating the various IPOs that came out during the years 2003, 2004 and 2005 to ascertain whether the same irregularities as in the cases of Yes Bank and IDFC IPOs have been committed in these IPOs also. Investigations are in progress.”

25. Responding to a query of the Committee regarding discovery of the IPO scam, the Secretary, Ministry of Finance, submitted before the Committee during the briefing meeting as under:-

“These irregularities were discovered by the SEBI during the course of its surveillance operation. SEBI has taken a number of steps to prevent recurrence of such a phenomenon again.”

He has *inter-alia* also stated as under:-

“As regards the query about when the whole thing started, investigations by SEBI, and investigations by the Income Tax Department ‘seem’ to indicate that to a limited extent this started in 1999. At the moment I am using the word ‘seem ’ advisarily because we still have to get the final reports. In 1999, it was in a very small measure, but it picked up momentum by 2003. As per information that we have since 2003, very large numbers of IPOs have been tampered with in this fashion. Therefore it is indeed a very widespread thing, and it is not something that started last year. It has been there for sometime now.”

This matter was unearthed around October 2005. Thereafter, investigation was done by the Income Tax department and

investigation was done by SEBI. This is how we came to know that this matter was actually started. In fact, as I said, it apparently started in 1999 in a limited way, but gathered steam, Thereafter, by 2003, there were quite a few IPOs involved starting from 2003, 2004 to the year 2005.”

In this connection, SEBI has in its interim Order explained as under:-

“...Further, it is seen that in NSDL and CDSL taken together in respect of 21 IPOs, 24 dematerinlized account-holders (herein-after referred to as ‘master account holders’) have received shares in off-market transactions from 500 or more demat transferors during the pre-listing period.”

26. Asked as to what efforts were being made to investigate the other IPOs, the Ministry have *inter-alia* in their written reply responded as under:-

“According to CBDT, the Income Tax Department carried out a search and seizure operation in October, 2005 under section 132(1) of the Income Tax Act, 1961 on Shri Purushottam G. Budhwani, Mumbai, whereupon it was found that the assessee was engaged in maintaining more than 11.000 demat accounts in the names of various benami entitites. These demat accounts were utilized for making multiple applications in various IPOs over several years as follows:-

Year	No. of IPO
1999-2000	11
2000-2001	4
2002-2003	2
2003-2004	8
2004-2005	8
2005-2006	14

27. Asked as to when and how the irregularities surfaced, the Secretary, Ministry of Finance, *inter-alia* in reply before the Committee stated as under:-

“Another issue was raised about how the irregularities surfaced. Our information is that it surfaced in October last year (2005) as a part of the surveillance activity of SEBI because SEBI basically asked the Exchanges to look into the fact that there were a very large number of off market transactions just prior to listing of certain shares. That is how this whole matter got investigated. Independently, of course, the Income Tax Department in one particular case did search and seizure operation, and during the course of that search and seizure operation they came across a very large number of demat accounts held by that particular individual and those demat accounts were dating back to 1999...”

28. During the study visit of the Committee to Mumbai in July 2006, SEBI, in a written note had further informed as under:

“During the surveillance meetings held during April 2005 and May 2005, the issue of trading in unlisted shares during the period subsequent to the credit of shares to IPO allottees but prior to the date of commencement of trading on the stock exchanges was discussed with the stock exchanges. NSDL provides monthly report on off-market transaction (raw data) above the threshold level to be passed on to the stock exchanges for their use in their investigation. The monthly report of NSDL for the relevant period did not contain information regarding multiple demat accounts, bogus demat accounts etc. Therefor, SEBI had advised BSE and NSE to look into the dealings in the shares issued through Initial Public Offerings (IPOs) before the shares are listed on the stock exchanges, particularly with reference to off market transactions in the case of YES Bank obtained from the depositories. In reply thereto BSE *vide* a letter dated October 18, 2005, *inter alia*, stated that “it can be observed..... that Ms. Roopalben Naresh Shah had transferred 9,31,600 shares in seven off-market transactions and if we assume the consideration price as the issue price (*i.e.* Rs.45/- the consideration amount comes to Rs. 4.19 crores. In order to get

allotment of 9,31,600 shares she would have had to apply in crores of shares involving hundreds of crores of Rupees in Application money. Both Ms. Roopalben N. Shah and the seven receiving clients who had received shares in off-market transactions are residing in Ahmedabad and out of that 4 are having the same/similar address. It is observed that Roopalben Naresh Shah's name is not coming in the list of top 100 public issue allottees."

There were no inadequacies of surveillance on the part of SEBI. The irregularities were detected and dealt with on account of *suo moto* investigations by SEBI.

It may be noticed that SEBI had commenced verification during April – May 2005 while the income tax raids on Shri Purshottam Budhwani were conducted in October 2005."

29. Asked to clarify the difference in the versions of SEBI & CBDT about the number of IPOs found involved in irregularities during 2003-05, the Ministry of Finance stated in their reply as under:-

"The difference is due to the difference in parameters in short listing the IPOs by SEBI based on a set of criteria. SEBI has informed that it has adopted the floor level of 500 or more for determining the suspect multiple demat accounts in typical samples, as samples with lesser numbers may not be truly representative of the "suspect" character, especially having regard to the large incidence of multiple accounts in any IPO with genuine combinations at lower levels. Further it was felt that a sample of more than 500 multiple demat account would impart the necessary focus and direction to the whole exercise of tracking down the real culprit accounts in cornering the IPO allotment and dealing with them effectively in a demonstrative regulatory action. Also any group/cluster activity involving 500 or more demat accounts in IPO allotment excites a genuine suspicion in the context of off-market transfers from such accounts to one account which would normally be possible, it only such afferent accounts were dummies with unity of control resting with the master account holders. This is however not to state that where there are less than 500 afferent accounts, the same would pass off as genuine."

30. The Ministry have further in their replies *inter-alia* stated as under:-

“...SEBI in regard to the initial unearthing of the scam have stated that they had commenced verification during April-May 2005 while the income tax raids on Shri Purshottam Budhwani were conducted in October 2005.”

31. Thus, out of 105 IPOs made during 2003-05, that SEBI examined, 21 IPOs were found to be involved in irregularities. Asked whether the rest of the IPOs were found to be *prima facie* not involved in irregularities, the Ministry of Finance in their post evidence reply submitted as under:-

“SEBI has informed that it has examined all the IPOs which were made during the period of 2003-05. Out of 105 IPOs made in 2003-05, SEBI detected irregularities in 21 IPOs based on certain criteria. The focus of the SEBI investigations has been on entites indulging in off-market transaction prior to listing and commencement of trading on the stock exchanges.”

32. The Ministry of Finance was time and again asked to furnish the information about IPOs since 1999 as well as those IPOs that were found to be involved in irregularities. The Ministry of Finance had earlier only provided a list of 105 IPOs that were found to be involved in irregularities during 2003-05. Out of these, a total of 21 IPOs² were found having irregularities. When asked specifically to furnish separate lists of all IPOs and those IPOs having irregularities since 1999, the Ministry of Finance merely furnished a list of 86 IPOs during January, 1999-December, 2002³ without specifying the ones that had witnessed manipulations/irregularities.

Benefits to “scamsters”

33. The moot question in the IPO scam was how much profit might have been cornered by the ‘scamsters’. To this, the Ministry of Finance have, in reply to a query of the Committee on the amount involved in the scam, informed as under:—

“SEBI has informed that based on its findings of investigations and taking into account the issue price of the shares and the number of shares cornered, the value of shares cornered by the key operators

²Annexure 1.

³List of all IPOs during 1999 to 2005 is placed at Annexure II.

works out to Rs. 134.26 crore. It has worked out a preliminary estimate of the profits made (real/notional) by the financiers of the key operators in the IPOs identified by comparing the closing price (on NSE) on the first day of listing in respect of each of the above IPOs with the issue price of the respective IPOs. From these calculations, the total gains of these financiers works out to roughly Rs. 72.38 crores.”

34. Asked to furnish the break up of the gains that would have gone to different entities ‘involved in the scam, SEBI has furnished as under:-

“SEBI is not aware of the off-market price of a scrip and the price negotiated between the buyers and the sellers in off-market transactions....The estimated notional gains of the financiers worked out subject to the foregoing assumptions was Rs. 72.38 crores. As regards possible benefits that might have accrued to other entities *viz.* banks and Depository Participants, It would appear that the banks and Depository Participants in the process had augmented their income on account of large number of bank and demat accounts opened with them coupled with the transactions in those accounts.”

35. As per the preliminary estimates of the Ministry of Finance, the Committee note that the profits to the financiers in the manipulated IPOs of Yes Bank and IDFC, which have been investigated, could be to the tune of Rs. 72.38 crore. The Committee feel that these profits should have actually gone to the RIIs, whose quota of shares were illegally cornered by the ‘scamsters’, and therefore, apprehend that genuine retail investors might lose faith in the regulation of capital market ultimately, if they continue to remain unprotected from the ‘scamsters’ who craftily design plans to deprive them of their genuine profits.

36. As to how the scam was brought to light, the Committee note SEBI’s claim that as a part of their ongoing weekly surveillance activity, they passed on the ‘off-market transactions’ data obtained from depositories to the stock exchanges, which in their preliminary observations on the IPO of Yes Bank Ltd., hinted at the possibility of large scale ‘off market transactions’ immediately prior to the listing on the stock exchanges. During subsequent examination, the

Surveillance Wing of SEBI claimed to have detected large scale multiple demat accounts with common addresses by a few entities.

37. In this regard, the Committee also take note of the submission made by SEBI that out of 105 IPOs made in 2003-2005, irregularities were detected in 21 IPOs. On the other hand, CBDT had informed the Committee that during their search and seizure operation in October, 2005 on Shri Purshottam Budhwani, (alleged to be one of the 'key operators' involved in the scam), it was found that he was maintaining more than 11,000 demat accounts in the names of various benami entities, which were utilised for making multiple applications in various IPOs since 1999. The Committee further note that during the period 2003-05, as per CBDT, Shri Purshottam Budhwani had utilised benami demat accounts to make applications in around 30 IPOs.

38. This discrepancy in the number of IPOs that had irregularities during 2003-05 as projected by SEBI and CBDT, was clarified by the Ministry of Finance as occurring due to the difference in parameteres in short listing the IPOs by SEBI based on a set of criteria, *i.e.* by adopting the floor level of 500 or more dematerialised account holders for determining the suspect multiple demat accounts in typical samples.

39. The Committee are apprehensive that though as per SEBI irregularities were committed in respect of 21 IPOs during 2003-2005, yet the scam with such seemingly simple modus operandi may have been continuing, in a clandestine manner for a long time. In this connection, the Committee note the submission made by Ministry of Finance that investigation by SEBI as well as Income Tax Department seem to indicate that to a limited extent this started in 1999. Although, the Ministry of Finance were repeatedly asked to furnish information about IPOs where irregularities were noticed since 1999, the Committee are disappointed that no such information was furnished to them. They are of the view that there is enough scope for further probe in the matter. They, therefore, recommend that a complete investigation of all the IPOs floated since 1999 should be carried out so that exact number and other details of the IPOs where irregularities have taken place in the past, could come out and appropriate action taken. The Committee further desire that the outcome of such investigations and action taken thereon may be intimated to them.

MAJOR FINDINGS OF SEBI

40. In order to deal with the situation arising out of the IPO manipulation, SEBI issued an Interim Order on 27.4.2006. SEBI's findings on Yes Bank and IDFC's IPO scam have been included in the said Order. As already stated in this report, SEBI, while examining previous IPOs for possible irregularities/manipulations for which data was provided by CDSL and NSDL, has adopted the floor level of 500 or more multiple demat accounts for determining the suspect multiple demat accounts in typical samples. Their focus has been on entities indulging in off-market transactions prior to listing and commencement of trading on the stock exchanges.

41. Further, SEBI had *inter-alia* in its order stated that, in NSDL and CDSL taken together in respect of 21 IPOs, 24 dematerialised account-holders ('master account holders') have received shares in off-market transactions from 500 or more demat transferors during the pre-listing period.

42. Singling out Karvy Stock Broking Ltd. (Karvy DP), as an active participant in the IPO scam, SEBI's Interim Order states the following:—

“Significantly as many as 14 out of the 24 master account holders also had their respective demat accounts with Karvy-DP. Thus, it appears that Karvy-DP was actively in league by opening demat accounts for many of the master account holders and also for most (about 84%) of the afferent accounts that served as conduits for the master account holders. Also the numbers are too significant to be dismissed as the normal incidence of business while the stunning percentage in terms of concentration of suspect accounts cannot but tar Karvy DP with the same brush.”

43. The Committee also noted that SEBI, in course of investigation, has also observed linkage amongst the key operators and financiers as follows:—

“From a perusal of NSDL and CDSL accounts of the key operators, it is seen that, in CDSL, on October 20, 2005 Purshottam Budhwani

transferred 16,304 shares of Suzlon Energy to Manojdev Seksaria and on the same day Manojdev Seksaria transferred back 18,624 shares to Purshottam Budhwani. These off-market transfers between Purshottam Budhwani and Manojdev Seksaria done prior to commencement of pay in/pay out on the stock exchanges clearly bring out the linkages between them.”

44. The following excerpts from the Interim Report of SEBI, also point out linkage amongst the key operator (Roopalben Panchal) and financiers:—

“(i) Upon examination of Roopalben Panchal’s bank account statement with BHOB Worli Branch, it is seen that Roopal Panchal had brought in margin money for IPO finance to the tune of Rs. 22.03 crores which correlates with the margin money for 4,663 applications. Upon examination of the source of funds of Roopalben Panchal for the margin money brought in by her, the following entities appear to have provided her finance for making the above applications:—

Name of the entity	Amount Transferred	Date of Transfer	Amount given as margin money to BHOB, Worli Branch
Seer Finlease Pvt. Ltd.	9,50,00,000	20.06.05	Rs. 22,03,50,375
Taurus Infosys Ltd.	3,30,00,000	20.06.05	(which includes Rs. 20,05,00,000)
Excell Multitech Ltd.	4,60,00,000	20.06.05	
Zenet Software Ltd.	2,65,00,000	20.06.05	
Total Amount	20,05,00,000		

(ii) As per the client account opening forms of Zenet Software Ltd., Excell Multitech Ltd. and Taurus Infosys Ltd. it is seen that these companies have the same set of directors *viz.* Saryuben Vora, Rajesh Patel, Kirtiben Patel and Vishal Patel and have been introduced to HDFC Bank by the same person namely, Shri Nimesh G. Gandhi.”

45. Later, SEBI provided the status report on IPO scam investigations in a tabulated form on 4.7.2006, during the study tour of the Committee in Mumbai, as under:—

Status Report on IPO Investigation as on 4.07.2006

Sr.No.	Particulars	Statistics
1	2	3
1.	Number of IPOs examined (2003-2005)	105
2.	Number of IPOs where irregularities were found	21
3.	Number of key operators	24
4.	Number of demat accounts involved	58,938 (84% of these accounts, <i>i.e.</i> 49,708 accounts are with one particular DP)
5.	Major DPs having afferent accounts	8
6.	Number of shares cornered	2,63,44,164
7.	Number of financiers	82 (Notional Gains – Rs. 72.38 crores)
8.	Number of entities against which interim 11B directions issued	123 (24 key operators + 82 financiers + 14 DPs + 1 RTI + 2 Depositories)
9.	Number of entities against which post decisional orders issued	5
10.	Number of entities against which enquiry proceedings initiated	14
11.	Number of entities against which adjudication proceedings initiated	106 (24 key operators + 82 financiers)

1	2	3
12.	Number of entities against which references were made for prosecution	16
13.	Number of entities who approached courts	10 Karvy – Hyderabad High Court Ajay Gupta – Delhi High Court Saumil Bhavnagari – Gujarat High Court and 7 others
14.	Number of entities who approached SAT	2 (NSDL Jhaveri Securities)
15.	Number of shares cornered Notional gain	2,63,44,144 Rs. 72.38 crores

46. SEBI has in its Interim Order dated 27.4.2006 concluded that the depositories have carried out the inspections of Depository Participants registered with them in a casual, cursory and perfunctory manner and has alleged contributory negligence on part of NSDL. SEBI has noted that there is a recurrence of same errors relating to account opening as noticed in inspection after inspection and NSDL has commented on them in its reports year after year. However, the same error has recurred. This has made non-compliance of KYC norms prescribed by depositories at the time of opening of accounts by DPs, a regular feature. The findings about depositories are detailed in subsequent part of the report under the chapter 'Role of Depositories'.

47. The Committee observe from the investigative findings of SEBI's interim Order that certain financiers and key operators connived with some DPs and banks in opening demat accounts and bank accounts in fictitious/benami names in utter disregard of KYC norms. The Committee also note that the depositories have carried out the inspections of DPs in a casual and perfunctory manner. From the information made available to them, the Committee find that SEBI has initiated enquiry/adjudication/prosecution proceedings keeping in view the status of its findings against various entities, such as financiers, key operators, DPs etc. who were found involved

in the IPO scam. The Committee recommend that concerted efforts should be made by SEBI and Ministry of Finance to detect and bring to light the real culprits, establish the personal and institutional inter-linkages among the beneficiaries, key operators and financiers, establish irrefutable evidence against them and bring them to book. The Committee also feel that the irregularity should not be played down by stating that it occurred mainly due to the failure of KYC norms/guidelines. Since scores of benami multiple demat accounts were opened and a linkage between key operators and financiers, who had craftily planned this manipulation was evident, the Committee strongly feel that this manipulation/irregularity is nothing but a scam in the primary market.

48. In this connection, however, the Committee note that SEBI during their course of investigation had found that 24 master account holders or key operators had made off-market transfers to financiers, which were stated to be 85 in number. The Committee further note that SEBI had issued appropriate directions against these financiers. However, during the study tour of the Committee at Mumbai, the Status Report on IPO investigations by SEBI on 4th July, 2006 was made available which stated that the number of financiers was 82. Therefore, the Committee cannot but conclude that there is a discrepancy in the number of financiers involved as per the records of SEBI, which affects the credibility of its investigation and therefore needs to be rectified immediately. They urge the Government to resolve the matter and come out with a definite figure about the number of financiers indicated.

49. The Committee also feel that a mechanism needs to be devised at the level of SEBI, which could enable detection of any irregularity taking place at the DP or Depository level at an early stage. Although actions have been taken by the Ministry of Finance and SEBI, the Committee are of the considered view that SEBI should play more proactive and vigilant role in future in monitoring the functioning of Depositories. Guidelines and 'standing operating procedure' should be prepared and codified by SEBI to minimize the 'grey' areas in the process of 'monitoring'. The Committee, therefore, desire that a time-frame not exceeding three months for codifying these be fixed.

ROLE OF KARVY GROUP OF COMPANIES
IN THE IPO SCAM

50. Among all DPs indicted by SEBI, it was particularly noticed by the Committee that Karvy, DP and its allied companies have been insinuated to be involved in the scam in more than one respect. SEBI has examined in detail the role, activities and demat account related documents of Karvy-DP in the context of the IPO scam. Its Interim Order stated the following:—

“In the cases of Yes bank and IDFC IPOs, it was found that there were large numbers of off-market transfers from thousands of demat accounts into a few accounts just before the listing of the scrip and subsequently sold in the market at huge gain. The above findings in the said two cases raised concern about the possibility of existence of fictitious/benami demat accounts with Karvy-DP which were being used only for the purpose of IPO on both the depositories. In view of the above, the role of depository participant and the compliance level of account opening formalities prescribed by SEBI were examined through the scrutiny of documents relating to the demat accounts opened with Karvy-DP, on a sample and test check basis. Further, SEBI had inspected the operations, systems and procedures of Karvy group at Hyderabad. Examinations of refunds made by Karvy Registrar to the Issue (RTI) in Yes Bank and IDFC IPOs, shows that in the IPO of Yes Bank, Karvy RTI had issued a single refund order number 400002 favouring BHOB for Rs. 53.89 crores in respect of 12,676 IPO applicants and in the IPO of IDFC, Karvy RTI had issued single refund order No. 610003 for Rs. 27.35 crores favouring BHOB in respect of 6878 IPO applicants.”

51. With regard to the arrangement between Karvy-DP and BHOB, SEBI in its Interim Order dated 27.4.2006 stated the following:—

In order to enlarge client base, expand low cost deposit base, extend self liquidating short term loans and augment revenue on the

personal banking area, BHOB, in June 2003, came up with a referral with Karvy Investor Services Ltd. (Karvy) who were to direct to BHOB their DP clients/other individuals who were interested in participating in public offer of shares by Maruti Udyog Ltd., which IPO opened on June 12, 2003. Karvy presented an idea paper and a process flow. As per the process flow, the IPO applications would be filled in by the investor and a cheque/DD in favour of the Bank towards the margin amount shall be deposited. The investor would need to open the demat account with Karvy who would place a lien on the shares deposited into the investor's account until the investor clears the loan with the Bank. The client would deposit the payment instrument and bid form with the bank along with the account opening document and other documents for the loan. The Bank would ensure that the Savings Bank (SB) account opened by the Bank is mentioned in the relevant column in the bid form as the Bank account to which the refund is to be sent. The Bank would issue Pay order for the amount of the application by debiting loan account and margin money of the respective applicants. If the investor is not allotted shares against the IPO application, refunds are made to investor by the registrar through the Bank and the refund order credited to the account, after liquidating the loan. In case of allotment, the investor is required to bring in the required amount if there is shortfall and fulfil the obligation with the Bank along with the interest after which the lien is released by the bank and inform the DP for release of bank's lien on the demat account. Thus it appears that the idea presented by Karvy to BHOB started as a practicable business proposition but contained potential ingredients for future mischief, as it turned out in the final denouement."

52. SEBI thus observed :

"This comfort led to a blind trust on the part of the branches in particular where IPO financing was allocated and they became the dupe of a strange delusion. The branches also became permissive and lax on account of Karvy's presence in the entire portfolio."

53. Asked by the Committee as to why Karvy and the depositories did not get alerted when thousands of demat accounts were being opened on the same day with the same bank branch and being introduced by the same bank, SEBI has replied that these should have got alerted.

54. SEBI has also submitted before the Committee that the idea paper and process flow presented by Karvy to Bharat Overseas Bank, *inter-alia*, contained the 'assurance clause' that "applications received from investors for an IPO offer are valid and there are no chances for cases such as benami applications, multiple applications, fraudulent investors, etc." However, they have also stated that Karvy did not possess any authority as an intermediary to prevail upon the bank. It would be inappropriate for any intermediary to hold out any assurance that it cannot take care of when it deals with others.

55. Some of the investors associations, who deposed before the Committee have demanded that 'integrated intermediaries' like Karvy Group of Companies which performed multiple functions as an intermediary in the capital market should have a "Chinese Wall" built around separate organizations to segregate their functions.

56. In this regard, the Ministry of Finance have in a written reply stated as under:—

"The present legal framework does not prohibit the same entity or different entities belonging to the same group from operating in different capacities in the securities market. In some cases, certain restrictions are imposed e.g., regulation 24 of the Mutual Funds Regulations prohibits an AMC from taking up any business activity except that of a portfolio manager and that too subject to certain condition. In other cases, e.g. that of a DP, there is no such restriction, on the other hand, there is an eligibility condition that the entity could be a stock broker, Registrar to an Issue (RTI) etc. It is also to be noted that the Insider Trading Regulations require as part of Code of Conduct (though framed for achieving a different objective) that intermediaries having multiple functions should

have 'Chinese Walls' separating the inside areas of the organization from its public areas."

57. The ad-interim order of SEBI contained the following *prima facie* factual conclusions:

- “(i)It was *prima facie* foundthat Karvy group was the hub of activity having control over the whole process from generation of idea paper to the final execution through key operators in conjunction with afferent accounts. The specific *prima facie* findings were that Karvy opened demat accounts, introduced bank accounts of the key operators and other afferent accounts, arranged for finance from Bharat Overseas Bank (BHOB) for such demat account holders, financed the key operators through its sister concern, Karvy Consultants Ltd. (hereinafter referred to as KCL), received pay order from BHOB, attached pay order to the application forms of various groups and made IPO applications on their behalf, collected refund orders for these 15 groups and put through off market transfers. It appears to be an exercise of the Karvy group of companies while the other players were IPO sub-brokers, banks, financiers, key operators and a large number of name lenders or fictitious entities as evidenced by afferent accounts.
- (2) It was also *prima facie* found that the Karvy group had linkages with the key operators such as Roopal Panchal, Purushottam Budhwani, Dharmesh Mehta etc. They have admitted in their written submissions that certain of them were their IPO sub-brokers. It was *prima facie* found that KSBL had introduced the bank accounts of these groups, and facilitated the entire process starting from making IPO applications for them after collecting pay orders from the bank, arranging finance for them till collecting and distributing their refund orders.
- (3) KSBL not only arranged for finance for the key operators from BHOB, Ahmedabad, Goregaon and Worli branches, but also

itself provided funds through its group concern, Karvy Consultants Ltd. (KCL) which had financial transactions with KSBL as well as various key operators (such as Sugandh Estates, Puroshottam Budhwani, Manoj G. Seksaria, etc.

- (4) It was also *prima facie* found that Karvy group of companies which were acting in various capacities in the IPOs joined hands with other entities as mentioned supra facilitating cornering of shares in IPO process. It was also *prima facie* found that Karvy Computershare Pvt. Ltd. (KCPL) had issued single consolidated refund order payable to BHOB and other financiers in respect of thousands of applicants for the IPOs in which it was the RTI.
- (5) It is to be noted at this point that the SEBI investigations were not directed exclusively at Karvy, as may be seen from the initial parts of the *ad-interim* order. Karvy's involvement at various stages in the rev up to the IPO was pointed out *prima facie*, by relying on factual data as recorded in the *ad-interim* order, and therefore, subsequent investigations were more focused on the Karvy group, besides others."

58. SEBI in its Interim Order subsequently ordered Karvy Stock Broking Ltd. (KSBL) not to buy, sell or deal in securities market including in IPOs, directly or indirectly till further directions. It was *inter-alia* also directed not to carry on activities as DP till completion of enquiry and passing of final order. Aggrieved by the aforesaid order, KSBL filed a writ petition before the Hon'ble High Court of Andhra Pradesh challenging SEBI's order dated 27.4.2006. The Hon'ble High Court had passed the order *inter-alia* containing the following :—

'However, the order dated 27.4.2006 and the first paragraph of the clarification dated 28.4.2006 shall operate *proprio vigore* unhindered by anything stated in this order.'

59. Karvy Group of Companies have appeared before SEBI on 2.5.2006 and submitted their position to them on the factual conclusions.

However, SEBI had *vide* their order dated 26.5.2006 claimed to rebut seriatim all the objections of Karvy Group of Companies and reiterated their earlier findings “(i) relating to the Karvy Group’s involvement in the entire modus operandi, and (ii) relating to the emergent nature of the situation which necessitates immediate action.”

60. The Committee take serious note of the fact that as per the findings of SEBI an intermediary, namely, Karvy DP managed to prevail upon a bank *i.e.* BhoB to such an extent that the bank was lulled into complacency in utter disregard to the KYC norms. In this context, the Committee were dismayed to note that in the IPO of Yes Bank, Karvy Registrar to the issue (RTI) had issued a single refund order No. 400002 favouring BhoB for Rs. 53.89 crores in respect of 12,676 IPO applicants and in the IPO of IDFC, it had issued single refund order No. 610003 for Rs. 27.35 crores favouring BhoB in respect of 6878 IPO applicants. The fact that Karvy RTI had made consolidated refund favouring BhoB in respect of thousands of IPO applicants and that the Karvy Group was directing the investment of funds in respect of IPO applications are real eye openers. The Committee also note that Karvy had very conveniently issued an idea paper to BHoB certifying that the applications received for the IPO offer were valid, which shows the extent to which Karvy could prevail upon the Bank. They feel that the discreet arrangement for mutual benefit of BhoB and Karvy would have gone further ahead had there been no unearthing of the IPO scam.

61. The Committee are convinced that the role of Karvy Group of Companies in the IPO Scam was questionable right from the beginning. They find that SEBI has indicated Karvy in the Directions contained in their interim order dated 27.4.2006. Subsequent to that, Karvy had submitted their position to SEBI which has been refuted by SEBI in its another interim order dated 26.5.2005 wherein the latter has analysed the role of Karvy Group of Companies. The Committee, therefore, expect SEBI to conduct thorough investigation in all areas of manipulation allegedly done by the Karvy Group and take stringent action against them and also present a strong case in the Court of Law.

62. At the same time, the Committee also feel that Government should review the system of an "intergrated Intermediary". As a major part of the malfunctioning leading to the scam could be attributed to the role of the intermediary, the Karvy Group of Companies which performed multiple functions in all directions, the Committee feel that the role of such intermediaries should be examined minutely with a view to see that those operating in multiple capacity are not able to manipulate the system. The Committee feel that law should be examined with a view to separating the various functions of the intermediaries so that not only there is complete separation of functions, but the management including the Board of Directors of different entities is also not common. They feel that perhaps similar steps may also be initiated in the case of intermediaries operating in the primary market, so as to bring the desired impact and thus urge SEBI to actively examined the possibility thereof.

FINDINGS OF RBI REGARDING INVOLVEMENT OF
BANKS IN THE IPO SCAM

63. Banks provided a significant source of funds for investing in the IPOs. The Committee examined the role of some of the banks alleged to have been involved in flouting the KYC norms and other irregularities and the investigation carried out by the Reserve Bank of India that regulates the Banking Sector.

64. To a query raised by the Committee as to how many banks are actually involved in these irregularities, RBI has stated that so far, 10 banks have been found to have violated RBI directives, guidelines and instructions relating to opening of accounts, KYC norms and AML standards, IPO financing and sanctions of loans against shares etc., which facilitated manipulation of the IPO process by certain unscrupulous individuals/entities for cornering the retail portion of shares. RBI has fined these banks to the tune of Rs. 5 to 30 lakh for violation of Know Your Customer (KYC) norms and guidelines relating to IPO financing. The names of these banks as well the details of each bank fined is as below:—

- (1) HDFC Bank (Rs. 30 lakh)
- (2) ING Vysya Bank (Rs. 30 lakh)
- (3) Bharat Overseas Bank Ltd (Rs. 20 lakh)
- (4) Vijaya Bank (Rs. 10 lakh)
- (5) Indian Overseas Bank (Rs. 15 lakh)
- (6) ICICI Bank (Rs. 5 lakh)
- (7) Citibank (Rs. 5 lakh)
- (8) Standard Chartered Bank (Rs. 5 lakh)
- (9) IDBI Ltd. (Rs. 5 lakh)
- (10) Centurian Bank of Punjab (Rs. 15 lakh)

65. RBI has apprised the Committee that they have also advised all scheduled commercial banks, excluding RRBs, on 05.01.2006 to take a review of IPO financing and related matters, like opening of multiple accounts, adherence to KYC/AML guidelines, and RBI instructions on IPO financing, advances against shares, etc. and put up a report on the findings before their Audit Committees.

The RBI's findings about these ten banks are as under:—

(I) Bharat Overseas Bank

- Funded YES bank issue to the extent of Rs. 29.94 crore at both the branches and other IPO issues funded at Goregaon branch Rs. 130.63 crore and Rs. 32.46 crore at Worli branch.
- Extended IPO finance to fictitious/benami individuals without appropriate due diligence to establish their identity of existence.
- Apart from providing intra day funding of margin money to brokers, the bank had extended huge amounts to a group of accounts through these fictitious/benami individuals in violation of RBI directive on limits on funding of IPOs (which specified, *inter-alia*, a limit of Rs. 10 lakh per individual).
- The internal control system has failed to arrest the above irregularities. It also did not act upon the alerts that emanated from the internal audit.
- Collection of account payee cheques of various individuals who were not the customers of the bank, besides crediting the proceeds of the refund orders to accounts other than the accounts of the payees.

66. As per the RBI investigations, Bharat Overseas Bank virtually played assistant to Karvy DP. Asked about the findings as well as steps

taken by RBI to prevent recurrence of such things in future, Ministry of Finance have informed as under:—

“RBI has informed that the IPO related investigations by RBI at Bharat Overseas Bank revealed that the DP provider M/s Karvy Consultants Ltd. approached the bank for opening multiple accounts in the names of purported applicants and also requested the bank to fund the IPOs in respect of various demat holders, who were benami/fictitious persons. The IPO funding was done by the bank directly without opening SB/loan accounts, in violation of KYC guidelines. The bank’s internal guidelines in this regard requiring opening of SB accounts for IPO finance, were blatantly violated by the bank. The irregularities on the part of Bharat Overseas Bank Ltd. were committed primarily by one Senior Manager at Worli branch. The branch manager of its Goregaon branch was also found to have indulged in a similar practice. This was made possible by disregarding the laid down internal guidelines of the bank and violation of RBI directives/guidelines and also with the active support of DP-Karvy. Acting on the instructions of M/s Karvy Securities Ltd., the bank also credited refund amounts to the accounts of a few entities/groups instead of the named payees of the refund orders. This was in violation of the RBI guidelines in this regard. Primarily, banks’ audit system should have detected such irregularities. While some aspects of these IPO irregularities came to the notice of the Top Management, these were neither examined indepth nor pursued effectively for corrective action at any level in the bank. These were also not brought to the notice of RBI at any stage by the bank.

The Ex-Chairman & CEO of the bank was reportedly aware of the unhealthy practices indulged in by M/s Karvy. The bank had also failed to obtain the approval of the Board of Directors (BOD) for financing IPOs and the IPO finance was approved by the then Chairman on case to case basis. The BOD of the bank has charged him with irregularities such as concealing material information from the Board/Audit Committee of the Board, wrong reporting, etc. RBI has also brought this fact to the notice of CBI which is investigating the case.”

(2) Indian Overseas Bank

(The bank did not fund the YES bank issue but funded other issues to the tune of Rs. 93.36 crore)

- Opening multiple accounts without adhering to KYC norms.
- Facilitating manipulation of IPO process by certain group of individuals by extending IPO finance to various fictitious individuals.
- Failing to monitor the unusual and suspicious transactions in the said accounts and the failure of internal controls in monitoring the non-compliance with KYC policies/procedures.

(3) Vijaya Bank, Ahmedabad

- Opening multiple accounts without adherence to KYC norms.
- Failing to monitor large value transactions.
- Failure of internal control to check the irregularities in KYC compliance and monitoring of transactions in deposit accounts.

(4) CITI Bank

The bank violated RBI guidelines/directives/instructions relating to monitoring of suspicious transactions, adherence to KYC norms and issue of large number of cheque leaves not in consonance with the status of the account holder.

(5) Standard Chartered Bank

The bank violated RBI guidelines/directives/instructions relating to KYC norms, and had also failed to verify the end use of funds in respect of loans granted against shares to a number of individuals.

(6) ICICI Bank

The bank violated RBI guidelines/directives/instructions relating to opening of accounts, and monitoring of transactions for adherence to KYC norms. There was failure of internal control systems and the bank accepted large number of account payee cheques across the counter without proper authorization.

(7) HDFC Bank

The bank was found to have violated RBI guidelines/directives/instructions relating to opening of SB, Loans Against Shares and Demat accounts, monitoring of transactions for adherence to KYC norms, issue of large number of cheque books, improper credit of third party account payee cheques and failure of internal controls.

(8) ING VYSYA Bank

The bank was found to have violated RBI guidelines/directives/instructions relating to opening of SB, and Demat accounts, monitoring of transactions for adherence to KYC norms, sanction of IPO finance and Loans against shares and failure of internal controls.

(9) IDBI Ltd.

The bank violated RBI guidelines/directives/instructions relating to opening of accounts and monitoring of transactions for adherence to KYC norms. Sanction of IPO finance and loans against shares.

(10) Centurian Bank of Punjab

Several demat accounts were opened by a few individual without adhering to KYC guidelines and through process obtained multiple IPO finance which facilitated making multiple IPO applications.

67. The Committee were informed that RBI had conducted three rounds of investigations/ scrutinies of banks suspected to be involved in the IPO scam. From the details of the three rounds of scrutinies by

RBI which was furnished to the Committee during their study tour at Mumbai, it was noticed that one more bank, namely, Tamil Nad Mercantile Bank has also been suspected to be involved in irregularities and the investigation in this matter has been conducted.

68. Latest position in regard to the examination of staff accountability as on 19.07.2006 along with the examination of criminality on the part of employees by respective banks has also been made available to the Committee, and is given below:—

IPO irregularities—Examination of staff accountability—Latest Position (19-07-2006)

Bank Name	Action taken by the Bank
1	2
1. Bharat Overseas Bank Ltd.	<p>The bank has initiated action against seven officials at HO level and seven officials at branch level.</p> <p>As inordinate delay was observed in taking action against the officials involved, RBI, <i>vide</i> letter dated June 28, 2006, had advised the bank to expedite the disciplinary action. Accordingly the bank has reported (letter dated June 30, 2006) that consequent upon appointment of Shri Y.M. Pai as enquiry officer, the bank had commenced the domestic enquiry of Shri Krishnamurthy, ex-Chairman & CEO. The last hearing was scheduled for July 4, 2006. Cases of three executives were assessed and closed. That apart, one executive has been charge-sheeted under Major Penalty and preliminary hearing in his case was held on June 12, 2006 and the regular hearing posted from July 6, 2006. The five Branch Managers, who were suspended have been issued with charge-sheet under Major Penalty.</p>

1	2
2. Vijaya Bank	The bank initiated major penalty proceedings against 5 officials of which one Senior Branch Manager who was under suspension, has been imposed the punishment of "reduction to a lower grade from MMG to Scale-III." In the case of four others, punishments ranging from 'reduction in grade for a period of one year without cumulative effect' to 'censure' were imposed. The bank is also examining the role of Controlling Office in the matter.
3. Indian Overseas Bank	The bank has initiated action against six officials of the bank of which charge-sheets have been issued to two officials. Show cause memos were issued to three officials and letters of 'censure' issued to them on conclusion of the enquiries.
4. HDFC Bank Ltd.	Show cause notices were issued to 28 officials. Of these, in 16 cases, services were terminated by the bank and in 11 cases warning letters with 'no promotion and performance bonus' were issued. In one case, the official resigned from the bank's services. Another 18 officials (mostly sales executives) had resigned from the services of the bank before investigation.
5. Standard Chartered Bank	Warning letters were issued to nine officials (one of whom since has quit the bank). In the case of three other officials, warning letters were not issued as they are not in the employment of the bank now.
6. Citibank	The bank took action against two officials one of whom was relieved of his responsibilities in the bank. The other officer resigned from the services in the bank.

1	2
7. ING Vysya Bank Ltd.	The bank initiated action against eight officials of the bank which included issue of show cause notice to one official, suspension of one officer, issue of charge-sheets to two officials. Issue of show cause notice to 3 officials is being looked into by the bank.
8. IDBI Ltd.	The bank has sought explanations from five officials of the bank and replies submitted by them are being looked into for further necessary action by the bank.
9. ICICI Bank	The bank reported that there were no lapses on the part of any employees, thus no action was taken against any employee.
10. Centurion Bank of Punjab	The bank has been advised to examine staff accountability aspect and is yet to furnish the reply.

**Examination of criminality on the part of the employees
(19.07.2006)**

Bank Name	Action taken by banks
1	2
1. Indian Overseas Bank	Either during the internal investigation or during the enquiry conducted with regard to the charge-sheets issued to the employees did not reveal any criminality on the part of the employees. Central Bureau of Investigation is also investigating the case. The subject matter was clarified by the banks's CMD while deposing before the Honourable Chairman and Members of the Standing Committee on Finance held on April 20, 2006 at New Delhi. Further, the CBI, Banks

1	2
	Securities and Frauds Cell. Mumbai had seized certain documents from the bank's Thaltej and Stadium Road, Ahmedabad in respect of the case registered by them.
2. Bharat Overseas Bank Ltd.	The bank's Legal Dept. has examined the same in detail and as per the report, there is need of suspicion against Shri S.V. Rajan, the then Manager of Worli branch. As per the report, there is no criminal action on the part of other staff members. Findings of the Legal Dept. have been placed before the Board on June 21, 2006. The Board has advised to interact with CBI for further course of action, since CBI is seized of the matter.
3. Vijaya Bank	The bank has reportedly examined the issue in consultation with the bank's Legal Dept. Though the bank has admitted that "considerably large amounts of transactions have been routed through the account of Sugandh and through the multiple accounts in the joint names of Parag P. Jhaveri and Others to facilitate credit of refund orders", it has stated that it has not found any act of criminality inclusive of corruption and/ or bargains of money/material transaction except the procedural lapses of violation of KYC norms committed by the staff concerned. The reasons given in support of this stand, are : (a) there was no instance of any IPO issue funding or financing of any individual towards subscription to the issue at the branch or any of other branches; (b) No money laundering has taken place, as there are no cash deposits and withdrawals; (c) The account holders involved in these transactions were maintaining accounts since 1984 and were not new to the bank.

1	2
4. ICICI Bank Ltd.	The Corporate Legal Group examined the matter and concluded that no employee appears to have any monetary or other nexus with the persons concerned in the IPO issue or that the irregularities/ violations for wrongful gains or considerations or motivated.
5. HDFC Bank Ltd.	The bank's Legal Dept. has opined that although there is negligence on the part of the employees concerned, the same needs to be supplemented by dishonest intentions in order to file a criminal complaint against them. It is also necessary to establish that there was, in fact a dishonest intention in their acts with a knowledge that it would cause a wrongful gain to the concerned employees or the customers concerned or a wrongful loss to the bank or such employees have acted in connivance with the customers. If and only if a dishonest intention or connivance is established, would it be possible to institute criminal action against them. The bank's Legal Dept. has also opined that the bank does not have the powers which the investigating authorities possess and without these powers, it would be difficult for the bank to make out a criminal case. In these circumstances, the bank has not filed a criminal case against the employees.
6. Citibank	As per a report in the matter submitted by Wadia Ghandy & Co. Advocates & Solicitors, there is no evidence of "active connivance" of the concerned staff in the IP issue at Citibank level; there is no evidence of criminal intent on the part of the concerned officers. For the lack of evidence at

1	2
	<p>least at this stage, it is advisable for Citibank not to proceed against the officers concerned <i>viz.</i> Shri Prashant Patel and Amresh Mohan.</p>
<p>7. Standard Chartered Bank</p>	<p>In consultation with the legal dept. an internal review was initiated specifically on the conduct of the employees concerned to examine the issue of possible criminality. An external legal counsel was also instructed to conduct a parallel investigation at law.</p> <p>The two investigations concluded that no material has been found to conclude on any reasonable basis that the bank's staff was involved in the commission of a crime.</p>
<p>8. ING Vysya Bank Ltd.</p>	<p>The bank's Legal Dept. examined the issue of criminality and has concluded that they do not find any material to substantiate the surmise/apprehension that the acts of negligence/misconduct/violations by the employees concerned constitutes criminality on their part.</p> <p>The dept. also obtained the opinion of M/s Khetty & Co., Advocates, who are of the opinion that "the situation was occasioned, not due to any deliberate criminal intention".</p> <p>The bank has concluded that there are no <i>prima facie</i> grounds to initiate any criminal proceedings against the employees concerned.</p>
<p>9. IDBI Ltd.</p>	<p>The bank is arranging with its Legal Dept. to expeditiously examine the issue of criminality on the part of the employees (Letter dated June 28, 2006).</p>
<p>10. Centurion Bank of Punjab</p>	<p>The bank has been advised to examine criminality aspect and is yet to report the position in the matter.</p>

69. When asked by the Committee as to how could the banks flout the norms or rules in extending finance for IPOs so openly, the Ministry of Finance in a written reply submitted as under:—

“Banks have not directly flouted the norms/rules in extending finance for IPOs. But the banks allowed opening of multiple accounts/adding multiple names to accounts as joint account holders without adhering to the prescribed KYC norms. Non-adherence to the requirements of necessary due diligence led to adding names as joint holders of persons who were merely name lenders (*e.g.* HDFC Bank) or non-existent/fictitious person (BhoB). These accounts were thus, created the IPO finance extending to these account holders was effectively received/pooled and used by the few main operators and enabled these persons to obtain IPO finance much in excess of the prescribed ceiling of Rs. 10.00 lakh per individual.”

70. Asked by the Committee about the pecuniary benefits that the concerned individuals, brokers, DPs and bankers have illegally gained, RBI has explained as under:—

“The IPO related investigations taken up by RBI was focused on bank’s role in the IPO irregularities. The investigations revealed linkages between certain DPs, individual/groups and brokers for manipulating the banking processes for cornering the retail portions of various primary issues.

Our investigations did not reveal any pecuniary benefits to the banks involved. As regards the involvement of bank officials, banks were advised by RBI to fix staff accountability in respect of errant officials and also examine the criminality aspects. Some banks have already taken action including dismissal/suspension of officials, while some others are in the process of taking disciplinary action in the matter.”

71. In this connection when the Committee asked SEBI about the possible benefits that might have accrued to banks, DPs etc. It was stated that ‘it would appear that the banks and depository participants in the process had augmented their income on account of large number of

banks and demat accounts opened with the coupled with the transactions in these accounts’.

72. From the investigations to the activities of certain banks in the IPO scam by RBI, the Committee note that so far, the following ten banks, namely (i) Bharat Overseas Bank Ltd. (BhOB) (ii) Vijaya Bank (iii) Indian Overseas Bank (iv) HDFC Bank (v) ICICI Bank (vi) Citibank (vii) Standard Chartered Bank (viii) ING Vysya Bank (ix) IDBI Ltd. and (x) Centurian Bank of Punjab were found to have violated RBI directives, guidelines and instructions relating to opening of accounts, KYC norms, AML Standards, IPO financing and sanction of loans against shares. This facilitated manipulation of IPO process by certain unscrupulous individuals/entities for cornering the retail portion of shares. It is clear beyond doubt that either these banks allowed their system to be misutilised by the scamsters or fell prey to the traps of ‘key operators’ of this scam. The Committee find that now RBI has advised all scheduled commercial banks (excluding RRBs) to :- (i) take a review of IPO financing and related matters (ii) adhere to KYC/AML guidelines and RBI’s instructions on IPO financing etc. RBI has also taken up examination of the internal control systems of some banks to assess weaknesses with regard to the IPO financing etc. While noting that the inspection of RBI is limited to certain select banks only to detect irregularities, the Committee are also convinced that the primary responsibility lies with the internal control system of the banks which proved to be a complete failure in the wake of IPO scam.

73. The Committee are particularly dismayed at the irresponsible role played by some of the branches of the Bharat Overseas Bank in favour of Karvy DP. The Committee are also surprised to note that serious revelations have come up during the course of investigation by RBI as it has alleged that the then Chairman and CEO of the Bharat Overseas Bank was reportedly aware of the unhealthy practices indulged in by M/s Karvy. The Committee have been informed that the bank has initiated major penalty proceedings against him. The Committee also find in this connection that the Board of Directors of the bank has charged him with certain irregularities such as concealing material information from the Board/

Audit Committee of the Board, wrong reporting etc. and RBI has brought this fact to the notice of CBI which is investigating the case. The Committee are shocked as to how an official, who is at the helm of affairs, can afford to flout the norms so conveniently. They, therefore, urge RBI to issue strict directives to the management/Boards of Directors of all Banks to ensure that prudential norms/instructions/directives/guidelines issued by RBI from time to time are scrupulously followed by all the banks.

74. It was also observed by the Committee, during their study visit at Mumbai that one more bank, namely the Tamil Nadu Mercantile Bank Ltd. has been found to be involved in the irregularities by RBI. RBI has concluded its investigations in respect of the bank and is yet to initiate action based on the findings of the investigation. Moreover, the Committee feel that there may be more banks or the same banks that may have been frequently involved in the irregularities prior to this period. The Committee, therefore, feel that further investigation must be conducted in this respect and appropriate action taken.

75. The Committee note the submission made by RBI that there was no pecuniary benefits to the Banks in the scam. However, on the other hand SEBI's position about informal arrangement between Karvy DP & BhOB, that both came together on commercial considerations and not for any altruistic purposes sounds more convincing to the Committee. The Committee would, at the same time, like to believe that some of the Banks have fallen into the trap rather unwittingly and opine that they could have been saved from this, had they diligently followed KYC norms prescribed by RBI.

76. The Committee take note of the monetary penalties imposed by RBI on erring Banks. They also note the staff accountability fixed by the respective banks. (which were found involved in irregularities in IPOs) as well as the examination of criminality on the part of employees of these banks. RBI has also sought to assure the Committee that regulatory discomfort, in addition to the penalties would be imposed on the Banks involved in the IPO Scam. However, the Committee strongly feel that the

transgression from the guidelines/instructions of the RBI has not taken place without the connivance of officials of the banks, who were found responsible for the irregularities in flouting KYC norms. Therefore, they should be appropriately punished so as to serve as an effective deterrent in future. The Committee further feel that more stringent punishment be meted out to banks which are found to be repeatedly indulging in malpractices. Besides, whenever 'grey areas' in the existing legal provisions are identified, new rules to clear the ambiguities in such grey areas should be made on an urgent basis. They also recommend that criminal proceeding be initiated by these banks against such employees, who were involved in flouting KYC norms, promptly. Merely causing 'Regulator Discomfort' to the "scamster" banks do not convey necessary 'message' to the individuals who are the real culprits. Hence, a clear cut, strong and prompt punishment must be provided for in the system, itself so that the fear of 'personal punishment' is there.

77. The Committee further recommend that the RBI should periodically monitor the stipulated exposure of banks to the capital market.

ROLE OF DEPOSITORIES

78. Investigations were undertaken by SEBI against two Depositories namely National Securities Depository Limited (NSDL) and Central Depository Services Limited in the wake of allegations that their regulation of DPs was ineffective and thus failed to check the irregularities committed by those entities. In this connection, it is pertinent to note certain provisions contained in the Depositories Act, 1996, the SEBI (Depositories and Participants) Regulations, 1996 and the SEBI Act, 1992, which are as follows:—

- A depository can act as a depository only after it has obtained a certificate of commencement of business from SEBI. Such certificate is granted in accordance with the provisions of the SEBI (Depositories and Participants) Regulations, 1996.
- A depository is deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of a beneficial owner.
- Every depository is required to maintain a register and an index of beneficial owners in the manner provided.
- Rights and obligations of depositories and participants are provided in the agreement between them. Bye-laws generally govern the relationship between them.
- SEBI may call for information from a depository and participant and can make an enquiry or inspection in relation to the affairs of the depository or the participant.
- SEBI may issue directions to depository or participant, adjudicate and impose monetary penalty on depository or participant.
- In the interests of investors or orderly development of the securities market or to secure the proper management of the Depositories and Participants, SEBI can issue directions to them.

79. In the context of the IPO scam, the committee note that SEBI in their exparte Ad interim Order dated 27.04.2006, *inter-alia*, has indicted NSDL and CDSL as under :

- a.it can be concluded that the depositories have carried out the inspections of Depository Participants registered with them in a casual, cursory and perfunctory manner.
- b. Also there is recurrence of same errors relating to account opening as noticed in inspection after inspection and NSDL has commented on them in their reports year after year. However, the same error recurs and the cycle goes on. This has made non-compliance while account opening a regular feature.
- c. NSDL imposes penalty for non compliance with NCFM employee requirement however, no penalty is levied on not meeting the statutory requirement.
- d. Regardless of the type of DP (broker, Bank etc.) and regardless of the size of the operations of the DP concerned, NSDL devotes usually only one day for inspection. Also, NSDL has allotted a fixed time for each area of DP's operation and the time allotted remains the same irrespective of the quantum of instructions processed by the DP.
- e. The sample size chosen by NSDL in their inspections is woefully inadequate.
- f. NSDL had not taken appropriate penal action against DPs for acts of repetitive violations, as observed by them during inspections. NSDL's action has never gone beyond imposition of monetary penalties.
- g. Most instances of levying of penalty are for mostly non compliance with NCFM employee requirement where penalties upto Rs. 3,50,000 has been imposed. In case of account opening deficiencies the penalty is only 500-1000 rupees and the instances are few.
- h. The reliability of the inspection reports is very low as there are grave errors like the number of errors being shown lesser than the number of accounts involving errors.

- i. Thus it can be concluded that NSDL was aware of the irregularities in connection with opening of accounts from the year 2003 which is evident from the inspection report of HDFC Bank, Karvy Stock Broking etc. They failed to take prompt action against the DPs and failed to inform SEBI of the same.
- j. As for CDSL their inspection reports are not indicative at all. From the inspection report it is very difficult to draw a conclusion as to whether it is in 'Yes' and 'No' format.
- k. It can also be drawn that the Depositories were aware of the possibility of existence of accounts being opened without proper KYC Process as early as 2003 and has not put in place system to detect such accounts and take appropriate action. Thus it is felt that the depositories have turned a blind eye to these deficiencies which has led to its recurrence of error in account opening repeatedly, in a big way later.
- l. It was also observed that the procedure for inspection, periodicity of inspection and the entity chosen for inspection has not been in line with the responsibility cast on the depositories. Further, from the format of inspection reports of the Depositories it is observed that the inspection is system specific rather than entity specific.
- m. From the above it can be inferred that there is no culture of supervision/compliance and the nature of compliance is merely paper work
- n. There was no application of mind while conducting these inspections. The way in which the penalty was imposed and then again waived when the DPs submit a paper saying they have complied, shows a callous attitude towards statutory requirements by the depositories especially when the account opening deficiencies recur among the large percentage of the sample collected during all inspections from 2003-2006.

- o. The levying of penalties which runs into lakhs for non-compliance with NCFM certification of employees of DPs by NSDL and only penalties in range of hundreds and few thousands for account opening deficiencies shows that NSDL does not use a fair and objective criteria while levying penalty.
- p. The depositories are required to have adequate controls, systems and procedure for monitoring and evaluating its compliances with statutory requirements and prevent any conduct by DPs which is detrimental to the interest of investors or the securities market. In this respect, the depositories have failed to perform and supervise the operations of the DPs and also failed to inform SEBI of the same deficiencies. Hence the depositories have failed to conduct themselves in a manner which is in the interest of investors and the securities market.”

80. SEBI’s Interim Order dated 27.4.2006 contained the following direction against Depositories:—

“The interim findings in this order demonstrate the contributory negligence on the part of the depositories and their management. It is clear that there have been grave management lapses leading to such a situation. It is the responsibility of the promoters to ensure that the depositories are properly managed in the interests of investors. To that end, the promoters of NSDL and CDSL, without further loss of time are directed to take all appropriate actions including revamping of management which clearly has allowed matters to come to such a sorry pass.”

81. From the Interim Order dated 27.4.2006 of SEBI, the Committee note that there is a Disciplinary Action Committee of NSDL having responsibilities and powers as are delegated to it by the NSDL Board, from time to time, which includes the following responsibilities and powers to be discharged in accordance with the provisions of these Bye laws:—

- (i) suspension of a Participant;
- (ii) expulsion of a Participant;

- (iii) declaring a security as is 'ineligible' on the Depository;
- (iv) freezing the account of the Participant;
- (v) powers to conduct inspection; and
- (vi) power to conduct an investigation/inquiry, call for records, to issue show cause notice to Participants for suspension/expulsion.

82. The Committee also note that inspite of repeated violations by DPs, the Depository has not made any reference at all to its Disciplinary Action Committee and the Disciplinary Action Committee (DAC) of the Depository had not met since its inception.

83. While NSDL has approached the Securities Appellate Tribunal (SAT) against the directions contained in the SEBI's interim order, CDSL has forwarded their response to SEBI rebutting the arguments put forth against them. Salient points in its response are as under:—

- I. "Simply because the data in the depository system is available to Depository and Depository Participants, possibility of fabrication by Depository Participant with the connivance of Depository cannot be inferred. The data could have also been available with the Depository Participant otherwise.
- II. The depositories themselves have to furnish dual address under SEBI Regulations, for seeking certificate of registration. The demat account holders of CDSL could have used their permanent address to be recorded by Depository Participant and the financier's address as correspondence address so that refund orders from the IPO application, if any, could be credited directly to the financier's address. Therefore, SEBI's contentions that dual address facility facilitated the financiers to control benami account transactions in the Depository Participant system besides direct control on payments, refunds etc. is untenable.
- III. The inspection of Depository Participants is conducted by CDSL officials/empanelled auditors. Before the inspections, a

detailed training programme is held. The checklist format compels the auditors to clearly indicate as to whether the Depository Participant has complied with the points and helps in maintaining uniformity across the various audits. Inspection Report format is not restricted only to the checklist.

- IV. The depository -DP relationship is not a pure principal agent relationship on the basis of the contractual principles of law of agency. The Dhanuka Committee have also recommended the omission of the words "as agent" from section 4(1) of the Depositories Act.
- V. Merely because a fraud has been perpetrated by abusing the depository system, it does not follow that the depository has been negligent. In the IPO scam, there was no misuse of the securities with the depository system, but unlawful gains were made outside the depository system *viz.* in the IPO allotment process."

84. CDSL was queried by the Committee over the directions passed against them by SEBI as contained in latter's interim order dated 27.4.2006. When the depository's response was sought on the charge in the SEBI report of contributory negligence, CDSL has *inter-alia* in its post evidence written reply submitted as under:

"It is submitted that CDSL conducts inspections of all its DPs and their live-connected branches every year, either by its own officials or by empanelled auditors. In case of large DPs, the inspections are carried on over a period of multiple days with due regard to account holders, population size and frequency of transactions of the DP.

It is further submitted that because a fraud has been perpetrated by abusing the depository system, it does not necessary follow that the depository has been negligent or that there have been grave management lapses on the part of the depository. On the contrary, the depository has been a victim of the fraud committed by the nefarious operators with the possible connivance of the banks, DPs and RTI."

85. The Committee note that as per the Depositories Act, 1996, the Depository is deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of a beneficial owner. They also find that SEBI has full regulatory control over the Depositories.

86. In regard to the role of the Depositories in the IPO scam, the Committee have been informed that SEBI had in its interim order indicated both the depositories, namely NSDL and CDSL for turning a blind eye to the deficiencies in the functioning of DPs and thereby facilitating the irregularities in the IPO Scam of 2005. The Committee also find it very disturbing that NSDL was aware of the irregularities in connection with opening of accounts from the year 2003, which is evident from the inspection report of HDFC Bank, KSBL etc. and that SEBI had accused them of failing to take prompt action against the DPs. The Committee find that NSDL has approached SAT to contest these allegations.

87. The Committee are also disappointed to note SEBI's observation that there was recurrence of the same errors by DPs year after year, relating to account opening and this was noticed by NSDL also in its various inspections and it had commented on them in its reports year after year. However, NSDL took no action against DPs. The Committee view it as a very serious matter that the inspection reports have been reduced to a mere routine formality and scant regard is paid to the implementation of the guidelines/regulations prescribed by SEBI as well as the spirit of the Depositories Act, 1996. The Committee are also of the opinion that had SEBI been vigilant, the overlooking of the recurrence of same errors year after year by the Depositories would have been tackled earlier. They feel that the ultimate onus of regulating the capital market rests with SEBI, which is also vested with the power to call for information from a Depository as well as DP and make an enquiry or inspection in relation to the affairs of the Depository or the DP, as the case may be. That this was not done is nothing but regrettable. The Committee note the observation by SEBI that NSDL conducted inspections in a casual, cursory and perfunctory manner. They

recommend that SEBI should introspect to find out the reasons as to why the matter could not be addressed by SEBI earlier. At the same time, they prima facie feel that both the Depositories have fared poorly in conducting their inspection of Depository Participants registered with them. They, therefore, recommend that both NSDL and CDSL, should devise in consultation with SEBI, a uniform system of inspection of the DPs registered with them. This exercise should incorporate the best practices being followed internationally. The Depositories must strive to see that their inspection process is capable of detecting the irregularities/manipulations being done by individuals/entities rather than being just system/specific. The Committee recommend that serious thought may be given to the suggestion of SEBI regarding revamping of management of the Depositories so that the detection of any possible violation of the KYC norms/guidelines/various regulations that regulate the conduct of the Depository Participants is possible at the initial stage.

88. The Committee have been given to understand the NSDL Board has delegated certain powers and responsibilities in accordance with the provisions of the bye-laws regarding suspensions/expulsions/freezing the accounts of a DP as well as conducting inspections, investigation, inquiries etc., to a Disciplinary Action Committee (DAC). However, as per SEBI's interim order, inspite of repeated violations by DPs, no reference was ever made to the DAC by NSDL. Moreover, the Committee are shocked that even in this scenario the DAC of NSDL had not met since its inception. They wonder as for what purpose the DAC was constituted in NSDL as no reference was ever made to it despite violations of the bye-laws by DPs, being noticed repeatedly by it (NSDL). This puts a question mark over the seriousness with which DPs are being inspected by the NSDL. In case of any such error noticed in future, the matter should invariably be referred to DAC so that exemplary punishment is given to them.

89. The Committee find that as per CDSL, they conduct inspections of all DPs and their 'live connected' branches every year, either by their own officials or by empanelled auditors. In this regard,

the Committee are of the view that the Depositories should streamline their system of inspection with a view to make it a continuous process rather than an 'annual ritual'. Further, the Committee desire that the Depositories should not remain oblivious of what is transpiring below and therefore, should have a system of inspection which could actually detect the irregularities/ manipulations. In line with their above recommendation, the Committee desire that the Depositories should direct the Depository participants to introduce 'concurrent audit', which should also be a continuous process.

CORRECTIVE ACTION TAKEN BY MINISTRY OF FINANCE, SEBI
AND DEPOSITORIES AND SUGGESTIONS FOR
IMPROVEMENT

I. Action taken by Ministry of Finance and SEBI on DPs, Banks & “scamsters”

90. Effective action is required to keep any irregularity/manipulation in check. In this regard, on the query of the Committee as to what action (administrative, statutory and criminal) have been initiated by SEBI on the entities found to be involved in the IPO scam, the Ministry of Finance have in a written reply submitted the following in April, 2006:—

“SEBI has passed Interim Orders restraining entities who were responsible for the irregularities in the cases of Yes Bank and IDFC from participating in all future IPOs and directed the depositories to effectively freeze their dematerialized accounts. It has directed the major DPs involved, namely Karvy-DP and Pratik-DP not to open new dematerialized accounts till further directions. In addition, the following actions have been taken by SEBI:

- Karvy Stockbroking Ltd., the Depository Participant involved in the two IPOs, is being inspected.
- Karvy Computershare Ltd., the Registrar to the Issue in the two IPOs, is being inspected.
- At the direction of SEBI, the depositories have advised their respective DPs to verify the genuineness of the dematerialized account-holders where 20 or more dematerialized account-holders have a common address and to close those dematerialized accounts where the DPs are unable to do the above verifications.
- The depositories have also been advised to identify all the other IPOs during 2004 and 2005 wherein the same *modus operandi*

has been adopted and to identify other entities besides those already identified by SEBI who are indulging in the same *modus operandi*.

- The depositories have been directed to form a co-ordination committee to co-ordinate with the surveillance department of SEBI for monitoring abnormal transactions in dematerialized accounts.
- As an interim measure to check misuse through off-market transfer prior to listing, SEBI has advised the depositories that in case of IPOs they should activate the International Securities Identification Numbers (ISINs) only on the date of commencement of trading on the stock exchanges.
- Further detailed investigations in the matter are in progress. Based on the findings of investigations, suitable action will be initiated against the concerned entities who are found to have violated the provisions of SEBI Act, Rules and Regulations made thereunder.

91. When specifically asked by the Committee as to whether the financiers involved in the IPO irregularities have been identified and whether any action has been taken against them, the Ministry of Finance in their post evidence written reply stated as under:—

“Based on the findings of investigation, SEBI has issued appropriate directions against the financiers. SEBI has initiated adjudication proceedings against the financiers and is also initiating prosecution proceedings. SEBI has also referred the matter to other revenue and enforcement agencies.”

92. It has also been stated before the Committee that the Department of Economic Affairs, Ministry of Finance has been coordinating with various agencies, *viz.* SEBI, RBI, IB, CBDT, Banking Division and Ministry of Company Affairs to ensure that action against the involved entities is taken expeditiously and systemic issues emerging out of the present event are addressed. CBI has also registered criminal cases against the entities involved, conducted search operations and has also arrested 7 persons in the matter.

93. Explaining the action taken by the Income Tax Authorities found, the representative of CBDT, Ministry of Finance, has deposed before the Committee as under:—

“With regard to income-tax violations, the CBDT has directed the matter to be investigated. Then, searches have been conducted in the premises of Roopalben as well as Sugandh Estate. We have found out a lot of breaches. Subsequently the searches were conducted and the matter is under investigation. We have stumbled upon a similar case where we have taken action in October, 2005 and there also we found out similar subscription using the demat accounts. These matters are under investigation, but as far as violation of income-tax in this current affairs of Yes Bank scam and IDFC, the legal position is that, returns showing the income arising out of profits earned from these unfair transactions are due only in financial year 2006-07.

So at that time, if they do not show the profits, then they would definitely be violating and the matter would be taken in due course. Some of them have paid advance tax taking into account the profits which they likely have earned.”

94. When the Committee sought clarification as to whether the source of money of the entities involved would not be questioned at the time, when it is shown in the next year’s return, the representative of CBDT submitted as under:—

“These (all the deposits in the IPOs) are all made by cheques. The second thing is, they would have earned profits when they sold the shares and they have to pay tax on that income. Of course, we are investigating how they got the money for making applications. A few banks have loaned them the money. Naturally, it is an explained source. This source we would be examining.”

II. Action taken by CBI

95. As regards, action taken by CBI in connection with the scam, the Ministry of Finance have furnished as under:—

“CBI has informed that it is investigating two cases of IPO scam on the basis of complaint lodged by SEBI. The first case

(RC. 3(E)/2006) pertains to the scam in the IPO of YES Bank Ltd. (YBL). The second case (RC.4(E)/2006) pertains to the IPO of IDFC Ltd. The investigation so far has established the following:

- A few sub-brokers/brokers to the Depository Participants, M/s. Karvy Consultants Ltd., namely, Deepak Panchal, Parag Jhaveri, Purushottam Budhwani and Manoj Sekseria have opened all the fictitious bank accounts and fictitious demat accounts.
- In the name of fictitious persons, individual applications were filled up for the IPO and were submitted through collection agents to the Registrar to the issue (Karvy) and allotments were made to these fictitious applications.
- A few financiers namely, Bharat Overseas Bank, Karvy Consultants Ltd., Indian Overseas Bank, Dushyant Dalal, Dhiren Vora and Jayesh Khandwala have given loans to these sub-brokers.
- Karvy Consultants Ltd. has given loans of Rs. 44 crores to finance IPO of IDFC. The entire Rs. 44 crore was directly transferred to the Escrow Account (Collection Account) of IDFC IPO, which is a gross violation.
- Bharat Overseas Bank, violating the loan sanction procedures, has sanctioned Rs. 22 crore to Deepak Panchal and the fictitious applications were funded from the single account of Deepak Panchal.
- On allotment, by extensive forgery of the Delivery Instructions Slips in the name of fictitious persons, the allotted shares were transferred to the pool account of the sub-brokers, in off market transactions, one day prior to the date of listing. These shares were further transferred by these sub-brokers to financiers, except Karvy and the Banks. On the date of listing, the financiers sold these shares in the market and made huge profits.

- So far seven persons (sub-brokers and financiers) have been arrested and they are all on bail. No Bank official and no official from Karvy has been arrested by the CBI. There is no absconder in the cases.
- The investigation of the cases is progressing.”

Corrective Measures

1. Action taken by Ministry of Finance for checking unusual activities in the Capital Market

96. It is worthwhile to mention the steps taken over the last few years by the Ministry/institutions concerned to check such unusual activities which may adversely affect the stock market. While replying to the Committee’s query in October 2005, when there were steep rise in the prices of “penny stocks” the Ministry of Finance, in a written note had furnished as under:—

(a) “RBI-SEBI joint group on Integrated System of Alerts

The Joint Parliamentary Committee on Stock Markets Scam and Matters Relating Thereto (JPC) recommended the necessity for RBI and SEBI to put in place an Integrated System of Alerts which would piece together disparate signals from different elements of the market to generate special attention to any unusual activity anywhere in the system which might have a bearing on the integrity of the stock market. They have also noted that regulation of the market could only be provided through constant vigil and coordination with various other regulatory agencies.

In order to review the existing system and to avoid delays, if any, a meeting of the officials of RBI, BSE, NSE, NSDL and CDSL was convened on August 5, 2005. After deliberating over the said issue, it was felt that the information provided by the Stock Exchanges and Depositories should assist in providing

meaningful alerts so that RBI can take up the matter expeditiously with the banks.

(b) Prevention of Money Laundering Act, 2002

Ministry of Finance, Government of India had issued a press release on Prevention of Money Laundering Act, 2002 on June 30, 2005 wherein, *inter-alia*, every banking company, Financial Institution and Intermediary shall have to maintain a record of all transaction. Such transactions include all cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency. The Stock Exchanges were advised to issue a notice in this regard to its members. The Stock Exchanges have issued the said circular on July 06,2005, SEBI has also finalized Know Your Client (KYC) procedures in line with the Act.

(c) Integrated Market Surveillance System (IMSS)

SEBI had signed an agreement with a consortium of HCLT and SMARTS Ply. Ltd., Australia on May 17, 2005 for the implementation of a comprehensive Integrated Market Surveillance System (IMSS) for monitoring the market activities across various stock exchanges and market segments (including both equities and derivatives) in India.”

It was asked by the Committee whether there is any intelligence machinery in place to monitor flow of funds to unscrupulous persons for investment in the capital market. The Ministry in a written reply stated as below—

“There are various agencies in the Ministry of Finance which deal with different aspects of illegal flow of money. For example, Financial Intelligence Unit (FIU) monitors transactions covered by the Prevention of Money Laundering Act. The Enforcement Directorate deals with violations of FEMA, CBDT deals with violations of the Income Tax Act. SEBI does need-

based information sharing with other agencies such as RBI, CBI, Income Tax, MCA and FIU in respect of findings of investigation in stock market transaction.”

(d) Introduction of MAPIN

In order to facilitate checking of identity of a demat account holder, the Committee desired to know specifically about the efforts being made to introduce a Unique Identification Number (UIN) to investors and its compulsory quoting in financial transactions. To this, the Ministry submitted in writing as follows:—

“The SEBI (Central Database of Market Participants) Regulations, 2003 which were notified on 20th November, 2003 provide for the creation of a centralized database of Market Participants and Investors (MAPIN database) for the registration of all the participants *i.e.* intermediaries, listed companies, investors, etc., in the Indian securities market by allotting a Unique Identification Number (UIN), Biometrics impression is used to achieve uniqueness for natural persons. When completed, the MAPIN data base will be the most comprehensive database of its kind in India having key descriptors of all persons participating in the Indian securities market. SEBI has entered into a MoU with NSDL, in terms of which the electronic central database is created and maintained by NSDL as the Designated Service Provider (DSP), for all persons (both natural and juridical). The NSDL had appointed Points of Service (PoS) for collecting data and biometric impressions from investors.

During the process of implementation, certain apprehensions were raised by the market participants. In order to address these issues and concerns raised by market participants and investors, SEBI appointed a Committee under the Chairmanship of Shri Jagdish Capoor former Dy. Governor, Reserve Bank of India and current Chairman of HDFC Bank. Pending a final view on the Committee report, SEBI suspended all fresh

registrations of UIN under SEBI (Central Database of Market participants) Regulations, 2003 and the requirement to obtain/quote UIN, under the existing MAPIN regulations with effect from July 1, 2005.”

97. In a related submission, it was further informed by the Ministry of Finance about MAPIN database as follows:

“...Once created, the database would not only help the regulator in establishing the identity of person(s) who have taken large exposures in the market and/or who are trading through a large number of different brokers but also enable the regulator to take adequate risk containment measures such as imposition of margins, trading or exposure limits etc., depending upon the exposures of various investors. Hence in the event of a failure of market integrity an immediate audit trail would be possible and the regulator would be able to take early preventive and/or remedial measures and track down the defaulters and / or manipulators. Needless to say this would enable risk containment in the event of a systemic failure and help in minimizing the cascading effects of such a failure. The database would also cover regulatory actions taken by SEBI against entities/personnel operating in the securities market which would be made accessible to the public in order to enable the investors to make a rational choice about the entities they choose to deal with. Further, an UIN would help to detect the existence of multiple accounts and to reduce, if not eliminate, benami transactions in securities.

The cut off limit for obtaining UIN with biometric impressions for natural persons has been raised to Rs.5.00 lakh or more from the existing limit trade order value of Rs.1.00 lakh. For trade order value of less than Rs.5.00 lakh, a choice is given to investors to provide either the Permanent Account Number of Income Tax Department or UIN obtained under MAPIN.”

98. It was further informed that the state of progress in the work relating to creation of Central database of MAPIN for registration of all market participants by allotting a UIN was as follows:

- (a) Till September 30, 2005 a total of 3,84,663 number of UINs were allotted as given in the table below:

*No. of UINs allotted under MAPIN database
upto September 30, 2005*

Sr. No.	Category	No. of UINs
1.	Retail individual investors	266781
2.	Individuals linked as Employees/Directors/ Promoters	46054
3.	Total no. of UIN allotted to Natural persons (total of (1) above)	312835
4.	SEBI Registered Intermediaries	8639
5.	Other Corporate bodies	63189
6.	Total no. of UIN allotted to Non-Natural persons (total of (5) above)	71828
7.	Total no. of UIN allotted (total of (3) and (6) above)	384663

- (b) During the course of implementation the following difficulties and concerns were expressed by the common investors.
- (i) Common investors expressed a general apprehension regarding the use of biometric expression which is generally associated with persons with criminal record.
- (ii) The cost incurred by the common investor in obtaining UIN alongwith hidden cost of travel.
- (iii) Difficulties faced by common investors in reaching the Point of Service as the number of Point of Service were limited and were not widely available.

II. Corrective action taken by Depositories and suggestions for improvement in the system

99. NSDL had proposed the following measures as corrective steps to check scams in the primary market for consideration of the Committee.

(i) In view of recent anti-money laundering guidelines, it has become imperative that every investor has a unique ID. Our proposal about unique ID and its usefulness is as under:

1. A mechanism should be established for allotting unique IDs to all investors such that:
 - (a) The investor has to be personally present to register while obtaining the ID.
 - (b) It is not possible for the same investor to get two IDs.
 - (c) It is possible to verify from the central database, whether a particular investor has indeed been allotted an ID that he/she claims.

This will make it difficult for the investor to hide his/her identity while applying for shares or while opening a demat account.

2. The Registrar to the issue may then be told to reject the applications that do not mention the unique ID as well as the demat account number.
 3. Applications with the same unique ID should be clubbed together.
 4. No demat account should be opened without the investor having obtained such an unique ID.
- (ii) The system of proportionate allotment should be introduced.
- (iii) If it has been found (and not suspected) that applications in fictitious names were made by any entities say Deepak Panchal or Roopalben Panchal etc. they should be prosecuted u/s 68A

of the Companies Act. which prescribes imprisonment upto 5 years. Even if a single case is investigated and prosecuted successfully, it will send a powerful signal in the market that wrong doors will be dealt with firmly. It will also discourage many fence sitters from venturing in the same direction.”

(a) Compulsory quoting of PAN

100. Responding to a query made by the Committee about the efforts being made to introduce PAN compulsorily as a requirement for opening the demat accounts, the Ministry of Finance has submitted as under:—

“Meanwhile PAN card has been made mandatory for opening new demat accounts from April 1, 2006. Existing demat accounts holders would have to submit PAN details by September 30, 2006 and they would not be able to operate their accounts from October 1, 2006 unless they submit copy the PAN Cards to their respective DPs. The above requirements relating to compulsory requirement of PAN for opening/operating demat accounts are being implemented by the depositories.”

101. In this regard, (i) NSDL has submitted as under:—

“SEBI has made PAN Card compulsory for all categories of investors for opening a demat account w.e.f. April 1, 2006. According to SEBI directive, existing demat account holders would not be able to operate the accounts if they do not produce the PAN Card or do not resolve discrepancies, if any, in the PAN details by September 30, 2006. Based on this, NSDL has advised its DPs to follow the SEBI directive. Every PAN holder is not required to file an income tax return and obtaining a PAN is not a difficult process.”

102. (ii) CDSL has submitted as under:—

“In the past, SEBI has prescribed that documents like Voter Identity Card. Passport, Driving License etc. can be submitted as proof of Identity, PAN Card was also one of the eligible documents. Other documents, like Ration Card etc. could be submitted as proof of address. It can be seen that these documents were obtained by investors (or prospective investors) for reasons other than investing

in the securities market or opening demat accounts. Further, the use of bank's letters (issued by Scheduled Commercial Banks containing the applicant's photo/address) was permitted by SEBI vide their Circular no. MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004. In other words, investors would not have to obtain a document specially for opening demat accounts.

However, except for PAN Cards, where the DP could perform a check on the web site of the Income Tax authorities, the other documents did not have an easily accessible authentication mechanism. Therefore, the thought of making PAN Cards mandatory was considered, and subsequently implemented by SEBI. Thus, presently, an intending demat account holder who does not otherwise require a PAN Card, is also required to obtain one.

However, it may be noted that while there are approx, 4.33 crore PAN Card holders as on March 1, 2006, the total number of depository accounts in the country is approx, 90 lakh. Therefore, it can be surmised that many of existing demat account holders would already have PAN Cards and would be able to furnish them to their DPs before October 1, 2006, in order to operate their demat accounts. It may also be noted that PAN Card applications are now processed by NSDL and UTI Technology Services Ltd. at an approximate cost of Rs. 72/- Thus, obtaining a PAN Card does not place an onerous burden on a prospective demat account holder. However, in view of the discomfort that this step may cause to a section of prospective investors, the matter can receive further consideration."

103. In addition, CDSL has also in its post evidence written reply submitted the following suggestions to the Committee:—

"It is suggested that submission of multiple applications in IPOs must be made an offence under the Companies Act, punishable with fine and/or imprisonment. Secondly, the quality and adequacy of Registrar and Transfer Agents is an issue that could be examined. It is observed that almost all the IPOs are handled by a few such Agents. The number of R & T Agents has

shrunk mainly because the primary market was listless for many years after the problems of the early 1990s, when many companies which had launched IPOs, were subsequently untraceable. Also, the scope of these agents activities was considerably diminished with the advent of the depository system. In recent years, while the IPO market has flourished, yet the R&T Agents business has not drawn new entrants. It may therefore be considered that the fee structure of all market intermediaries, especially R&T Agents be examined to ensure that margins and profit distribution is equitable without casting an unfair burden on investors. In view of the success of a stock exchange and depositories set up by leading financial institutions, similar setting up of an R&T Agent could be considered. Thirdly, as already submitted above, suitable penal action must be taken against all the errant parties be they DPs, RTI or banks. In addition the Companies Act must be amended to make the submission of multiple applications, an offence."

104. In this connection, the Committee recall their recommendations in their fortieth report, 2006-07 regarding comprehensive review of the Companies Act, 1956 wherein the Committee have *inter-alia* recommended as under:—

"From the response of the Government, they gather the impression that the Comprehensive Bill amending provisions of Companies Act may be Tabled on the floor of the House shortly. They expect that this long awaited piece of legislation will soon see the light of the day and many provisions of the Companies Act needing reforms, as per the requirements of modern day corporate governance practices as well as investors protection, may be amended suitably."

(b) Checking Off-Market Transactions

105. Asked whether SEBI's order of activating ISIN only on the date of listing would eliminate misuse through off-market transactions before listing, SEBI in a written reply stated as under:—

"In the case of IPOs, there is a gap of 4-5 days between the date of crediting the shares to the allottees and the date of listing and

commencement of trading on the stock exchanges. Off-market transactions during the above gap, also known as grey market transactions, has been engaging the attention of SEBI since April – May 2005. Examination of such transactions by SEBI in the Yes Bank IPO, in the first instance, led to the uncovering of the irregularities. Thereafter, SEBI *vide* a circular dated January 19, 2006 issued the directions as stated in the question. Amendment to SEBI (D&P) Regulation is proposed to supplement this by casting an obligation on the depositories to prevent transfer of such securities till listing and trading permission are given by all the stock exchanges to whom listing application is made under section 73(1) of the Companies Act. Accordingly, on June 19, 2006 a discussion paper has been put up on the SEBI website seeking public comments on the proposed regulation to prevent transfer of such securities till listing and trading permission are given by all the stock exchanges to whom listing application is made.”

106. As regards, off-market transactions SEBI has furnished as under:—

“As long as spot transactions are recognized under Securities Contract Regulation Act (SCRA), it may not be possible to prohibit off-market transactions. Transferability is the basic characteristic of a security. However, certain limited restrictions could be imposed on off-market transactions in case of securities which are offered under IPO.

Off-market transactions in notified areas is already prohibited by section 13 of the SCRA 1956, except in case of spot delivery contracts. SEBI has not suggested such prohibition in the SCRA for spot delivery contracts also.

However, SEBI proposes to impose certain limited restrictions on spot delivery contracts also through appropriate provisions in the SEBI (Depositories and Participants) Regulations, 1996, as follows:—

- (a) in case of shares allotted in an IPO, they will be frozen till trading permission is given by all stock exchanges to which listing application was made by the issuer;

- (b) In case of any further issue of shares made by a listed company in the dematerialized form (including preferential allotments), the shares will be frozen in the demat account of the allottees till listing permission is given by all stock exchanges where the original shares of the same class are listed.

A Discussion Paper containing these proposals along with the Draft Amendments is currently placed for public comments in the SEBI website. They will be finalized after consideration of public comments received.”

107. when the Ministry was asked to consider the possibility of amending SCRA so that off-market transactions are prevented, they have replied as under:—

“SEBI has informed that off-market transactions in notified areas are already prohibited by section 13 of the SCRA, except in case of spot delivery contracts. It proposes to impose certain limited restrictions on spot delivery contracts also through appropriate provisions in the SEBI (Depositories and Participants) Regulations, 1996.

108. The Committee find that in the recent IPO scam several rules/guidelines prescribed by SEBI, as well as some provisions of the Companies Act, 1956 have been blatantly violated as is evident from the conclusions following the investigations carried out by RBI and SEBI. They note that adherence to KYC/AML guidelines was almost nil both by the banks as well as the DPs. As per the action taken by SEBI, the Committee note that so far SEBI has passed Interim Orders restraining some entities, (who were responsible for the irregularities in the case of Yes Bank & IDFC IPOs) from participating in all future IPOs and have directed the Depositories to activate International Securities Identification Numbers (ISINs) only on the date of commencement of trading on stock exchanges. They feel that this measure would be helpful in restraining off-market transaction, which have been grossly abused in the present case to corner the benefits by the ‘scamsters’, and recommend the Government to explore the option of making it a

permanent feature. The Committee also expect that investigations will be finalized at the earliest so that SEBI comes out with a final report on the IPO scam.

109. The Committee note that CBDT is also investigating the matter as they have detected a number of breaches with respect to income tax. However, the legal position according to CBDT is that the returns showing the income arising out of profits earned from the unfair transactions by the beneficiaries of the scam are due in the Financial year, 2006-07. The Committee further note that as per CBDT, some of the entities involved in the scam have paid advance tax taking into account the profits which they would have earned. In this connection, CBDT has sought to assure the Committee that the source of money for making applications by the entities involved is under their investigation. In this regard, the Committee urge CBDT to select these particular cases for scrutiny assessment and proceed on the matter accordingly. The CBDT should ensure that the illegal benefits earned by the scamsters are retrieved in full.

110. The Committee also observe that section 68A of the Companies Act very clearly lays down that any person who attempts to and induces to issue a security in a fictitious name, is guilty of violation of the relevant provision of the Act and can be prosecuted and imprisoned up to 5 years. The Committee opine that in the instant case, the stringent implementation of the law has left much to be desired. They feel that the law regarding fake accounts is quite clear and recommend that the perpetrators of the opening of fictitious/benami accounts be prosecuted under this section.

111. The Committee are concerned to note that the law as such does not impose any restriction on multiple applications. They note that the maximum consequence that a person indulging in making multiple applications, is rejection of all applications. In this regard, they take note of the suggestion made by CDSL, that the Companies Act must be amended to make the submission of multiple applications, an offence. The Committee recall that they had in their 40th Report on Demands for Grants (2006-07) of the Ministry of Company Affairs emphasized that the Government should expedite

the introduction of the comprehensive amendment to Companies Act. The Committee recommend that the above submission by CDSL may be examined as a part of the exercise for comprehensive revision of the Companies Act, 1956.

112. The Committee also recall that the JPC on Stock Market scam, in their report presented in December, 2002 had recommended the necessity of a Joint Group of RBI-SEBI on Integrated System of Alerts. They also observe that accordingly an Integrated Market Surveillance System has been designed to monitor the market activities across various stock exchanges and market segments. This, they feel, is essential so as to detect the irregularities at the initial stages. In this connection, the officials of RBI, BSE, NSE, NSDL and CDSL have stated to have met and decided that information provided by Stock Exchanges and Depositories should assist in providing meaningful alerts so as to enable the RBI to take up the matter. The Committee also note that SEBI has signed an agreement with a consortium of HCLT and SMARTS Ply. Ltd. Australia in May, 2005 for implementation of a Comprehensive Integrated Market Surveillance System for monitoring market activities in India. The Committee feel that an early action should be taken by authorities on these matters. The Committee would also like to place on record their unhappiness over the fact that overall the Government have failed to impart due seriousness to the recommendations given by the two JPCs on scams.

113. The *modus operandi* involved in the IPO scam was to open multiple or fake accounts. In this regard, the Committee have been informed by the Depositories that as an interim measure, quoting of PAN has been made compulsory from April, 1, 2006 for new accounts and mandatory submission of copy of PAN card till October, 2006 for old demat accounts. Besides, the Committee note that efforts are being made to introduce a Unique Identification Number (UIN) for investors and compulsory quoting of the same in financial transactions. For this, a centralized database of Market Participants and Investors (MAPIN) for the registration of all the participants is being created. The Committee find that there has been some progress in allotting a Unique Identification Number (UIN) as part

of the work relating to the creation of central database of MAPIN for registration of all market participants. They, however, note that certain concerns and difficulties have been expressed by the common investors, during the course of implementation of allotment of a UIN. The Committee are disappointed with the current scenario of delay and uncertainty in so far as introduction of UIN and creation of MAPIN is concerned which in their view, could have contributed substantially in making perpetuation of this kind of scam difficult. They expect the Ministry of Finance and SEBI to attend to the difficulties expeditiously with a view to find an amicable solution and create a comprehensive central database of MAPIN at the earliest. They feel that this move will impart uniqueness to natural and juridical persons thereby enabling the regulator to take adequate risk containment measures which, in turn, will go a long way in reducing and ultimately eliminating benami transactions in securities.

114. Though the Committee find that SEBI, RBI and CDDT have taken action against DPs, Banks, Depositories as well as individual perpetrators of the scam, it would have been in the fitness of things, had SEBI acted timely in taking action against the damage that has already been done by way of irregularities in the IPO process. However, they are perturbed over the fact that the irregularities in the IPOs are believed to have been going on since 1999 and the authorities have not made any effort so far to detect the irregularities in the IPO process since 1999 to 2003. The Committee, therefore, recommend SEBI to first expedite its investigations and take suitable action against concerned entities involved in the IPO scam. In addition, they recommend that the Government should spare no efforts to investigate and unearth any kind of manipulations in the IPOs since 1999 without further delay. Besides, the pace of progress in various areas of market reforms needs to be speeded up to deal with such scams in future.

NEW DELHI;
24 November, 2006

3 Agrahayana, 1928 (Saka)

MAJ. GEN. (RETD.) B.C. KHANDURI,
Chairman,
Standing Committee on Finance.

IPOS EXAMINED BY SEBI

Based on the investigations, subject to certain benchmarks, SEBI found that the *modus operandi* of cornering the retail portion of IPOs through opening numerous demat accounts in benami/fictitious names and making IPO applications using these demat accounts had been adopted in respect of the following 21 IPOs:—

1. Amar Remedies Ltd. (Aug. 2005)
2. Datamatics Technologies Ltd. (Apr. 2004)
3. Dishman Pharma & Chemicals Ltd. (Mar. - Apr. 2004)
4. FCS Software Solutions Ltd. (Apr. 2005)
5. Gateway Disriparks Ltd. (Mar. 2005)
6. Gokaldas Export (Mar. - Apr. 2005)
7. ILFS Investmart (Jul. 2005)
8. Indraprasth Gas Eq (Nov. - Dec. 2003)
9. Infrastructue Development Finance Co. Ltd. (Jul. 2005)
10. Jet Airways (India) Ltd (Feb. 2005)
11. Nandam Exim Ltd. (May 2005)
12. National Thermal Power Corporation Ltd. (Oct. 2004)
13. Nectar Lifesciences Ltd. (Jun. 2005)
14. Patni Computer Systems Ltd. (Jan. - Feb. 2004)
15. Sasken Communication Technologies Ltd. (Aug. 2005)
16. Shoppers Stop Ltd. (Apr. - May 2005)
17. SPL Industries Ltd. (Jun. - Jul. 2005)
18. Suzlon Energy Ltd. (Sep. 2005)
19. T.V. Today Network Ltd. (Dec. 2003)
20. Tata Consultancy Services Ltd. (Jul. 2004)
21. Yes Bank Ltd. (Jun. 2005)

SECURITIES AND EXCHANGE BOARD OF INDIA

IPOs - Equity : January 1999 - December 2002

S. No.	Company	Issue Open Date	Issue Close Date	Face Value (Rs.)	Premium (Rs.)	Issue Price (Rs.)	Issue Size (No. of Shares)	Issue Amount (Rs. lacs)	List Date
1	2	3	4	5	6	7	8	9	10
1999									
1.	IDBI Bank Ltd.	2/9/1999	2/18/1999	10.00	8.00	18.00	4000000	7200.00	4/12/1999
2.	SQL Star International Ltd.	6/18/1999	6/24/1999	10.00	45.00	55.00	2600000	1430.00	8/24/1999
3.	Times Bank Ltd.	6/30/1999	7/10/1999	10.00		10.00	3500000	3500.00	9/20/1999
4.	Polaris Software Lab Ltd.	8/4/1999	8/10/1999	10.00	200.00	210.00	4365648	9167.86	9/29/1999
5.	Hughes Software Lab Ltd.	9/22/1999	9/28/1999	10.00	620.00	630.00	4375000	27562.50	11/11/1999
6.	Kale Consultants Ltd.	9/17/1999	9/23/1999	10.00	110.00	120.00	2875000	3450.00	11/24/1999
7.	Centurion Bank Ltd.	9/20/1999	9/29/1999	10.00		10.00	33750000	3375.00	12/6/1999
8.	Vintage Cards & Creations Limited	9/29/1999	10/6/1999	10.00	215.00	225.00	1260250	2835.58	12/8/1999

1	2	3	4	5	6	7	8	9	10
9.	Syndicate Bank	10/25/1999	10/30/1999	10.00		10.00	125000000	12500.00	12/27/1999
10.	HCL Technologies Ltd.	11/16/1999	11/24/1999	4.00	576.00	580.00	14200000	82360.00	1/11/2000
11.	Visesh Infosystems Limited (currently known as Visesh Infotecnics Limited)	11/24/1999	11/29/1999	10.00	40.00	50.00	27775000	1387.50	1/14/2000
12.	S.Kumars Power Corp. Ltd.	12/14/1999	12/20/1999	10.00		10.00	1500000	1500.00	1/27/2000
13.	Software Technology Group International Ltd.	12/9/1999	12/14/1999	10.00	56.00	66.00	3125000	2052.50	2/7/2000
14.	Glenmark Pharmaceuticals Ltd.	12/10/1999	12/16/1999	10.00	190.00	200.00	2570000	5140.00	2/10/2000
15.	Zenith Infotech Ltd.	12/15/1999	12/22/1999	10.00	100.00	110.00	2875000	3162.50	2/14/2000
16.	Television Eighteen India Ltd.	12/16/1999	12/21/1999	10.00	170.00	180.00	2738000	4924.80	2/16/2000
17.	Sibar Software Services (India) Ltd.	12/29/1999	1/4/2000	10.00		10.00	2500000	250.00	2/28/2000
18.	Integrated Hitech Ltd.	12/20/1999	12/23/1999	10.00		10.00	5000000	500.00	3/2/2000
2000									
1.	Melstar Information Tech- nologies Ltd.	1/17/2000	1/22/2000	10.00	82.00	72.00	3150000	2268.00	3/9/2000

1	2	3	4	5	6	7	8	9	10
2.	Shree Rama multi-tech Ltd.	1/15/2000	1/21/2000	5.00	115.00	120.00	13647750	16377.30	3/23/2000
3.	Geometric Software Solutions Co. Ltd.	1/28/2000	2/2/2000	10.00	290.00	300.00	1310000	3930.00	3/29/2000
4.	Pentagon Global Solutions Ltd.	2/4/2000	2/9/2000	10.00	2.00	12.00	2500000	300.00	4/4/2000
5.	Telesys Software Ltd.	2/10/2000	2/14/2000	10.00	5.00	15.00	5000000	750.00	4/10/2000
6.	Cadila Healthcare Ltd.	2/9/2000	2/16/2000	5.00	245.00	250.00	14886000	37215.00	4/27/2000
7.	Elder Pharmaceuticals Ltd.	2/18/2000	2/22/2000	10.00	100.00	110.00	4283000	4711.30	4/28/2000
8.	Cinevista Communications Ltd.	2/7/2000	2/11/2000	10.00	290.00	300.00	2533500	7600.50	5/3/2000
9.	Biopac India Corp. Ltd.	4/15/2000	4/24/2000	10.00		10.00	403000	403.00	5/30/2000
10.	Ajanta Pharma Ltd.	3/23/2000	3/28/2000	10.00	215.00	225.00	3000000	6750.00	6/5/2000
11.	Softpro Systems Ltd.	3/20/2000	3/24/2000	10.00	76.00	85.00	1500000	1275.00	6/5/2000
12.	Mascot Systems Ltd.	4/10/2000	4/18/2000	4.00	476.00	480.00	3000000	14400.00	6/12/2000
13.	Baron Infotech Ltd.	4/17/2000	4/20/2000	10.00		10.00	2600000	260.00	6/19/2000
14.	GDR Software Ltd.	4/11/2000	4/18/2000	10.00		10.00	2864700	266.47	6/26/2000
15.	Omni Axs software Ltd.	4/24/2000	4/27/2000	10.00	5.00	15.00	4750000	712.50	6/30/2000
16.	Balwas E-COM India Ltd.	6/15/2000	5/20/2000	10.00		10.00	3500000	350.00	7/3/2000

1	2	3	4	5	6	7	8	9	10
17.	Softbol India Ltd.	5/3/2000	5/8/2000	10.00	85.00	95.00	3592484	3412.86	7/12//2000
18.	Padmalaya Telefilms Ltd.	5/31/2000	6/6/2000	10.00	90.00	100.00	2600000	2500.00	8/14/2000
19.	Kirloskar Multimedia Ltd.	6/12/2000	6/19/2000	10.00		10.00	3650000	365.00	8/21/2000
20.	Aksh Optifibre Ltd.	6/28/2000	7/4/2000	5.00	55.00	60.00	5950000	3576.00	8/23/2000
21.	Sibar Media & Entertainment Ltd.	7/3/2000	7/7/2000	10.00		10.00	5500000	550.00	8/28/2000
22.	Online Media Solution Ltd.	8/19/2000	6/26/2000	10.00		10.00	2700000	270.00	9/4/2000
23.	Telephoto Entertainment Ltd.	6/19/2000	6/24/2000	10.00		10.00	2750000	275.00	9/4/2000
24.	Teledata Informatics Ltd.	7/20/2000	7/24/2000	10.00	15.00	28.00	2600000	625.00	9/11/2000
25.	Mukta Arts Ltd.	7/10/2000	7/15/2000	5.00	160.00	168.00	6060697	10000.15	9/13/2000
26.	Comp-U-Learn Tech India Ltd.	7/3/2000	7/7/2000	10.00		10.00	2500000	250.00	9/18/2000
27.	Cyberscafe Multimedia Ltd.	7/10/2000	7/15/2000	10.00		10.00	3400000	340.00	9/18/2000
28.	Dynacons System & Solutions Ltd.	7/21/2000	7/28/2000	10.00	20.00	30.00	7200000	2160.00	9/20/2000
29.	PNS Gilts Ltd.	7/11/2000	7/18/2000	10.00	20.00	30.00	35000000	10500.00	9/22/2000
30.	Kamika Infotech Ltd.	7/11/2000	7/17/2000	10.00		10.00	3800000	380.00	10/3/2000

1	2	3	4	5	6	7	8	9	10
31.	Lanco Global Systems Ltd.	7/21/2000	7/26/2000	10.00		10.00	2670000	267.00	10/3/2000
32.	Virinchi Consultants Ltd.	8/9/2000	8/14/2000	10.00	9.00	19.00	3000000	570.00	10/23/2000
33.	Hughes Telecom. (India) Ltd.	8/29/2000	8/3/2000	10.00	2.00	12.00	624342833	74921.14	10/26/2000
34.	MRO-TEK Ltd.	9/4/2000	9/9/2000	5.00	90.00	95.00	5109000	4853.55	11/8/2000
35.	Datanet Systems Ltd.	8/23/2000	8/26/2000	10.00		10.00	3150000	315.00	11/8/2000
36.	Tabassum International Ltd.	9/8/2000	9/12/2000	10.00		10.00	4000000	400.00	11/13/2000
37.	IQMS Software Ltd.	9/28/2000	13/3/2000	10.00		10.00	4500000	450.00	11/15/2000
38.	Galaxy Multimedia Ltd.	9/22/2000	9/27/2000	10.00		10.00	2550000	255.00	11/16/2000
39.	Tips Industries Ltd.	9/5/2000	9/12/2000	10.00	315.00	325.00	3000000	9750.00	11/20/2000
40.	Balaji Telefilms Ltd.	10/8/2000	10/12/2000	10.00	120.00	133.00	2300000	3640.00	11/22/2000
41.	Vision Organics Ltd.	10/19/2000	10/21/2000	10.00	30.00	40.00	3525000	1450.00	11/23/2000
42.	Siris Soft Ltd.	9/25/2000	10/3/2000	10.00		10.00	2600000	260.00	11/28/2000
43.	AZTEC Software & Technology Services Ltd.	10/12/2000	10/18/2000	3.00	77.00	80.00	6500000	6200.00	11/29/2000
44.	Pritish Nandy Communications Ltd.	9/4/2000	9/11/2000	10.00	145.00	155.00	2617000	4056.35	12/11/2000

1	2	3	4	5	6	7	8	9	10
45.	Indian Overseas Bank	9/25/2000	9/29/2000	10.00		10.00	111200000	11120.00	12/11/2000
46.	Creative Eye Ltd.	11/3/2000	11/9/2000	5.00	45.00	50.00	5004800	2502.40	12/10/2000
47.	Opto Circuits (India) Ltd.	9/29/2000	10/6/2000	10.00	40.00	50.00	2702000	1351.00	12/18/2000
48.	IT&T Ltd.	10/18/2000	13/24/2000	5.00	78.00	81.00	3910000	3167.10	1/1/2001
49.	Adlabs Films Ltd.	12/11/2000	12/16/2000	5.00	115.00	120.00	4400000	5280.00	1/8/2001
50.	Vijaya Bank	11/27/2000	12/4/2000	10.00		10.00	100000000	10000.00	1/9/2001
51.	V&K Softech Ltd.	11/29/2000	12/4/2000	10.00		10.00	3750000	375.00	1/11/2001
52.	Fourth Generation Information Systems Ltd.	11/8/2000	11/10/2000	10.00		10.00	4750000	475.00	1/12/2001
53.	CCS Infotech Ltd.	11/2/2000	11/8/2000	10.00		10.00	5000000	500.00	1/18/2001
54.	Saven Technologies Ltd.	12/7/2000	12/12/2000	10.00		10.00	3500000	380.00	1/18/2001
55.	Moschip Semiconductor Technology Ltd.	12/14/2000	12/19/2000	10.00		10.00	2679500	267.95	1/29/2001
2001									
1.	IKF Software Com. Ltd.	2/19/2001	2/24/2001	10.00		10.00	4000000	400.00	3/30/2001
2.	Mid-day Multimedia Ltd.	2/12/2001	2/18/2001	10.00	60.00	70.00	7142887	5000.00	4/2/2001

1	2	3	4	5	6	7	8	9	10
3.	Andhra Bank	2/14/2001	2/23/2001	10.00		10.00	15000000	15000.00	4/4/2002
4.	D-Link (India) Ltd.	2/20/2001	2/27/2001	10.00	290.00	300.00	1523740	4571.22	4/11/2002
5.	E. Star Infotech Ltd.	2/15/2001	2/24/2001	10.00		10.00	4000000	400.00	4/16/2002
6.	IQ Infotech Ltd.	2/8/2001	2/12/2001	10.00	6.00	16.00	5500000	880.00	4/23/2002
7.	Sequelsoft India Ltd.	3/19/2001	3/23/2001	10.00		10.00	6000000	600.00	4/24/2002
8.	SMR Universal Softech Ltd.	8/9/2001	8/18/2001	10.00		10.00	4500000	450.00	10/28/2002
9.	South Asian Petrochem Ltd.	12/20/2001	12/29/2001	10.00		10.00	5000000	500.00	2/11/2002
2002									
1.	Bharti Tele-ventures Ltd.	1/28/2002	2/2/2002	10.00	35.00	45.00	185336689	83401.51	2/18/2002
2.	Punjab National Bank	3/21/2002	3/28/2002	10.00	21.00	31.00	53060710	16448.82	4/26/2002
3.	I-Flex Solutions Ltd.	6/5/2002	6/11/2002	5.00	525.00	530.00	3961700	20997.01	6/28/2002
4.	Union Bank of India	8/20/2002	8/28/2002	10.00	6.00	16.00	180000000	28800.00	9/24/2002
5.	Allahabad Bank	10/23/2002	10/31/2002	10.00		10.00	100000000	10000.00	11/29/2002
6.	Canara Bank	11/18/2002	11/27/2002	10.00	25.00	35.00	110000000	38500.00	12/23/2002

*Listing price available only for issues listed at BSE/NSE

IPOs during 2003-2005

Sr. No.	Name of the Company	Type of Issue	Designated St. Exch.	Issue size (No. of shares)	Issue open date	Issue close date	Issue Price (Rs.)	Listing date
1	2	3	4	5	6	7	8	9
1.	Radean Media Works India Limited	IPO	Madras Stock Exchange	2,700,200	5-Feb-03	8-Feb-03	40	2/27/2003
2.	Divi's Laboratories Ltd.	IPO	NSE	3,204,684	17/02/2003	21/02/2003	140	3/12/2003
3.	Maruti Udyog Ltd.	IPO	BSE	72,243,300	12/06/2003	19/06/2003	125	7/9/2003
4.	UCO Bank	IPO	NSE	200,000,000	03/09/2003	12/09/2003	12	10/9/2003
6.	B.A.G. Films Ltd.	IPO	NSE	14,860,000	06/09/2003	17/19/2003	10	10/17/2003
7.	Vardhman Acrylics Limited	IPO	NSE	27,658,527	15-Sep-03	19-Sep-03	10	9/30/2003
		(Offer for Sale)						
9.	Jai Balaji Sponge Ltd.	IPO	NSE	10126900	21/Oct/2003	21/Oct/2003	10	12/9/2003
10.	Indraprastha Gas Ltd.	IPO	BSE	40000000	28/11/2003	05/12/2003	48	12/26/2003
11.	T.V. Today Network Ltd.	IPO	BSE	14500000	18/12/2003	27/12/2003	95	1/16/2004
12.	Surya Pharmaceuticals Ltd.	IPO	NSE	3000000	18/12/2003	22/12/2003	45	1/21/2004

1	2	3	4	5	6	7	8	9
13.	Patni Computer Systems Ltd.	IPO	BSE	18,724,000	27/01/2004	05/02/2004	230	2/25/2004
14.	Four Soft Ltd.	IPO	NSE	7,950,000	16/02/2004	23/02/2004	25	3/12/2004
20.	Petronet LNG Ltd.	IPO	BSE	260,979,900	01/03/2004	09/03/2004	15	3/26/2004
22	Biocon Ltd.	IPO	NSE	10,000,000	11/03/2004	18/03/2004	315	4/7/2004
23.	PTC India Ltd.	IPO	BSE	58,499,990	01/03/2004	08/03/2004	16	4/7/2004
24.	Bank of Maharashtra	IPO	BSE	100,000,000	25/02/2004	04/03/2004	23	4/12/2004
25.	Dishmax Pharma. & Chemicals Ltd.	IPO	NSE	3,433,500	29/03/2004	07/04/2004	175	4/22/2004
27.	Ramkrishna Forgings Ltd.	IPO	NSE	6,125,000	02/04/2004	10/04/2004	20	5/5/2004
28.	Datamatics Technologies Ltd.	IPO	BSE	10,300,000	12/04/2004	19/04/2004	110	5/7/2004
29.	New Delhi Television Ltd.	IPO	BSE	15,571,428	21/04/2004	28/04/2004	70	5/19/2004
30.	Vishal Exports Overseas Ltd.	IPO	NSE	6,000,000	29/Apr./2004	7-May-04	45	5/28/2004
		(Offer for Sale)						
31.	Tata Consultancy Services Ltd.	IPO	NSE	63,770,480	29/07/2004	05/08/2004	850	8/25/2004
32.	Indiabulls Financial Services Ltd.	IPO	BSE	27,187,519	06/09/2004	10/09/2004	19	9/24/2004
33.	Crew B.O.S. Products Ltd.	IPO	BSE	4,000,724	19/08/2004	27/08/2004	35	9/24/2004

1	2	3	4	5	6	7	8	9
34.	Sah Petroleums Ltd.	IPO	NSE	9,080,000	30/08/2004	06/09/2004	35	9/24/2004
35.	MSK Projects (India) Ltd.	IPO	BSE	6,000,000	27/09/2004	08/10/2004	40	11/4/2004
36.	National Thermal Power Corporation Ltd.	IPO	NSE	865,830,000	07/10/2004	14/10/2004	62	11/5/2004
37.	S.A.L. Steel Limited	IPO	NSE	42,000,000	01/11/2004	05/11/2004	14	11/24/2004
39.	Deccan Chronicle Holdings Ltd.	IPO	BSE	9,215,060	25/11/2004	02/12/2004	162	12/22/2004
40.	Bharati Shipyard Ltd.	IPO	BSE	12,500,000	02/12/2004	08/12/2004	66	12/30/2004
41.	Dwarikesh Sugar Industries Ltd.	IPO	BSE	5,000,000	29/11/2004	03/12/2004	65	12/31/2004
42.	Indoco Remedies Ltd.	IPO	NSE	3,000,000	17/12/2004	23/12/2004	245	1/14/2005
43.	Imped Ferro Tech. Ltd.	IPO	BSE	8,000,000	22/12/2004	31/12/2004	10	2/3/2005
45.	Jet Airways (India) Ltd.	IPO	NSE	17,266,801	18/02/2005	24/02/2005	1100	3/14/2005
46.	UTV Software Communications Ltd.	IPO	NSE	6,999,950	21/02/2005	25/02/2005	130	3/17/2005
49.	Gateway Distriparks Ltd.	IPO	BSE	21,000,000	9-Mar-05	14/03/2005	72	3/31/2005
51.	Jaiprakash Hydropower Ltd.	IPO	NSE	180,000,000	22/03/2005	29/03/2005	32	4/18/2005
52.	31 Infotech Ltd.	IPO	NSE	23,000,000	30/03/2005	04/04/2005	100	4/22/2005
53.	Gokaldas Exports Ltd.	IPO	BSE	3,125,000	30/03/2005	06/04/2005	425	4/27/2005

1	2	3	4	5	6	7	8	9
54.	Saksoft Limited	IPO	NSE	2,500,000	30-03-05	7/4/2005	30	5/9/2005
56.	Shrinagar Cinemas Ltd.	IPO	BSE	8,150,000	05/04/2005	11/04/2005	53	4/29/2005
57.	Allsec Technologies Ltd.	IPO	NSE	3,141,200	13/4/2005	20/04/2005	135	5/9/2005
59.	India Infoline Ltd.	IPO	NSE	11,878,138	21/4/2005	27/04/2005	76	5/17/2005
60.	Mangalam Drugs & Organics Ltd.	IPO	BSE	6,500,000	19/4/2005	26/04/2005	22	5/23/2005
61.	Shoppers Stop Ltd.	IPO	BSE	6,946,033	28/4/2005	04/05/2005	238	5/23/2005
62.	Cyber Media (India) Ltd.	IPO	NSE	2,822,500	4/5/2005	09/05/2005	60	6/10/2005
63.	Nandan Exim Ltd.	IPO	BSE	6,000,000	12/5/2005	20/05/2005	20	6/13/2005
64.	Shree Ganesh Forgings Ltd.	IPO	BSE	5,000,000	18/5/2005	24/05/2005	30	6/22/2005
67.	Uniply Industries Ltd.	IPO	BSE	5,000,000	09/06/2005	16/06/2005	24	7/6/2005
68.	Provogue (India) Ltd.	IPO	BSE	4,049,402	10/06/2005	16/06/2005	150	7/7/2005
69.	Yes Bank Ltd.	IPO	BSE	70,000,000	15/06/2005	21/06/2005	45	7/12/2005
70.	MSP Steel & Power Ltd.	IPO	BSE	16,000,000	20/06/2005	24/06/2005	10	7/18/2005
71.	Nectar Lifesciences Ltd.	IPO	NSE	3,870,000	22/06/2005	28/06/2005	240	7/18/2005
72.	SPL Industries Ltd.	IPO	NSE	9,000,000	29/06/2005	06/07/2005	70	7/26/2005

1	2	3	4	5	6	7	8	9
73.	IL&FS Investment Ltd.	IPO	NSE	11,400,000	04/07/2005	08/07/2005	125	7/27/2005
76.	Shri Ramrupai Balaji Steels Ltd.	IPO	NSE	20,000,000	08/07/2005	14/07/2005	22	8/2/2005
77.	Infrastructure Development Finance Co. Ltd.	IPO	NSE	403,600,000	15/07/2005	22/07/2005	34	8/12/2005
79.	Vivimed Labs Ltd.	IPO	NSE	2,500,000	09/07/2005	13/07/2005	70	8/17/2005
80.	HT Media Ltd.	IPO	BSE	6,995,000	4/8/2005	10/8/2005	530	9/1/2005
81.	Sasken Communication Technologies Ltd.	IPO	BSE	5,000,000	11/8/2005	17/8/2005	260	9/9/2005
82.	Amar Remedies Ltd.	IPO	BSE	15,000,000	25/8/2005	31/8/2005	28	9/16/2005
83.	FCS Software Solutions Ltd.	IPO	BSE	35,000,000	22/8/2005	26/8/2005	50	9/21/2005
85.	Suzlon Energy Ltd.	IPO	NSE	29,340,000	23/9/2005	29/9/2005	510	10/19/2005
87.	Aurionpro Solutions Ltd.	IPO	BSE	3,000,000	27/9/2005	4/10/2005	90	10/25/2005
88.	Shree Renuka Sugars Ltd.	IPO	BSE	35,08,722	7/10/2005	14/10/2005	285	10/31/2005
90.	Paradyne Infotech Ltd.	IPO	BSE	3,300,000	30/9/2005	7/10/2005	42	11/10/2005
91.	K.M. Sugar Mills Ltd.	IPO	BSE	6,400,000	14/10/2005	19/10/2005	52	11/14/2005

1	2	3	4	5	6	7	8	9
92.	Bannari Amman Spinning Mills Ltd.	IPO	NSE	7,000,000	19/10/05	25/10/05	135	11/14/2005
93.	Prithvi Information Solutions Ltd.	IPO	BSE	5,000,000	25/10/05	28/10/05	270	11/16/2005
94.	PBA Infrastructure Ltd.	IPO	BSE	5,000,000	24/10/05	28/10/05	60	11/24/2005
95.	Vikash Metals Ltd.	IPO	BSE	18,902,900	24/10/05	28/10/05	20	11/28/2005
96.	Bombay Rayon Fashions Ltd.	IPO	BSE	13,475,000	11/11/05	17/11/05	70	12/5/2005
97.	Pyramid Retail Ltd.	IPO	BSE	9,000,000	10/11/05	16/11/05	120	12/6/2005
98.	ABG Shipyard Ltd.	IPO	BSE	8,500,000	18/11/05	24/11/05	185	12/13/2005
100.	AIA Engineering Ltd.	IPO	NSE	4,700,000	17/11/05	22/11/05	315	12/14/2005
101.	Everest Kanto Cylinder Ltd.	IPO	BSE	5,625,000	22/11/05	25/11/05	160	12/15/2005
103.	Kamex Micorsystems (India) Ltd.	IPO	BSE	3,960,444	28/11/05	3/12/05	250	12/20/2005
104.	Repro India Ltd.	IPO	BSE	2,620,037	26/11/05	1/12/05	165	12/22/2005
105.	Compulink Systems Ltd.	IPO	NSE	4,538,462	25/11/05	30/11/05	60	12/28/2005

APPENDIX

MINUTES OF THE SEVENTEENTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, 7 March, 2006 from 1500 to 1630 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Bhartruhari Mahtab
4. Shri A. Krishnaswamy
5. Shri Shriniwas D. Patil
6. Shri K.S. Rao
7. Shri G.M. Siddeshwara
8. Shri M.A. Kharabela Swain

Rajya Sabha

9. Shri Yashwant Sinha

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Smt. Anita B. Panda — *Under Secretary*

WITNESSES

MINISTRY OF FINANCE

A. Department of Economic Affairs

1. Shri Ashok Jha, Secretary,
2. Shri Amitabh Verma, Joint Secretary (Banking)
3. Dr. K.P. Krishnan, Joint Secretary (CM)

B. Central Board of Direct Taxes (CBDT)

Shri J.G. Pendse, Member (Investigation), CBDT

2. At the outset, the Chairman welcomed the representatives of the Ministry of Finance to the sitting of the Committee and invited their attention to the provisions contained in direction 55 of the Directions by the Speaker.

3. Then the Chairman invited the representatives of the Ministry of Finance to brief the members on 'IPO Scam in Capital Market involving multiple demat accounts'.

4. Thereafter, the Chairman asked the representatives of Ministry of Finance to furnish notes on certain points raised by the Members to which replies were not readily available with them during the discussion.

5. The briefing was concluded.

6. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

MINUTES OF THE NINETEENTH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Tuesday, 4th April, 2006 from 1030 to
1300 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Bhartruhari Mahtab
4. Shri A. Krishnaswamy
5. Shri Bir Singh Mahato
6. Shri Madhusudan Mistry
7. Shri Rupchand Pal
8. Shri Shriniwas D. Patil
9. Shri K.S. Rao
10. Shri Jyotiraditya Madhavrao Scindia
11. Shri G.M. Siddeshwara
12. Shri Ajit Singh
13. Shri M.A. Kharabela Swain
14. Shri Vijoy Krishna

Rajya Sabha

15. Shri Yashwant Sinha
16. Shri Chittabrata Majumdar
17. Shri C. Ramachandraiah
18. Shri Mangani Lal Mandal
19. Shri Santosh Bagrodia
20. Smt. Shobhana Bhartia

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Additional Secretary*
2. Shri S.B. Arora — *Deputy Secretary*
3. Shri T.G. Chandrasekher — *Under Secretary*
4. Smt. Anita B. Panda — *Under Secretary*

WITNESSES

Investors' Grievances Forum

1. Dr. Kirit Somaiya, President
2. Shri Hinesh Doshi, Vice President
3. Shri S. Vedula, General Secretary

2. At the outset, the Chairman welcomed the representatives of the Investors' Grievances Forum and invited their attention to the provisions contained in the Direction 55 of the Directions by the Speaker.

3. The Committee, then took oral evidence of the witnesses on the subject, 'Working of Capital Market including the recent IPO Scam and Efficacy of Reform Processes'. The Members asked clarificatory questions which were replied to by the representatives. The Chairman, then, directed the representatives that the information with regard to queries of the Members which was not readily available with them might be furnished to the Committee later on.

4. The evidence was concluded.
5. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

6. ** ** ** **

The Committee then adjourned

MINUTES OF THE TWENTIETH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Tuesday, 5th April, 2006 from 1030 to 1200
hrs. and 1210 to 1400 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Bhartruhari Mahtab
3. Shri Bir Singh Mahato
4. Shri Madhusudan Mistry
5. Shri Danve Raosaheb Patil
6. Shri Jyotiraditya Madhavrao Scindia
7. Shri M.A. Kharabela Swain
8. Shri Vijoy Krishna

Rajya Sabha

9. Shri M. Venkaiah Naidu
10. Shri Yashwant Sinha
11. Shri Chittabrata Majumdar
12. Shri C. Ramachandraiah
13. Shri Mangani Lal Mandal
14. Shri Santosh Bagrodia

SECRETARIAT

- | | | |
|----------------------------|---|-------------------------|
| 1. Shri S.B. Arora | — | <i>Deputy Secretary</i> |
| 2. Shri T.G. Chandrasekher | — | <i>Under Secretary</i> |
| 3. Smt. Anita B. Panda | — | <i>Under Secretary</i> |

PART-I

(1030 to 1200 hrs.)

WITNESSES

SEBI

1. Shri M. Damodaran, Chairman
2. Shri G. Anantharaman, Whole Time Member
3. Dr. T.C. Nair, Whole Time Member
4. Shri R. Ravichandran, Chief General Manager

2. At the outset, the Chairman welcomed the representatives of the Securities and Exchange Board of India (SEBI) and invited their attention to the provisions contained in the Direction 55 of the Directions by the Speaker.

3. Then the representatives of SEBI briefed the Committee on the subject 'Working of Capital Market including the recent IPO Scam and Efficacy of Reform Processes'. The Members asked clarificatory questions which were replied to by the representatives. The Chairman, then, directed the representatives of SEBI that the information with regard to queries of the Members which was not readily available with them might be furnished to the Committee later on.

4. The evidence was concluded.
5. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

PART-II

(1210 to 1400 hrs.)

WITNESSES

Reserve Bank of India (RBI)

1. Dr. Y.V. Reddy, Governor
2. Shri V. Leeladhar, Dy. Governor
3. Shri Anand Sinha, Executive Director

2. At the outset, the Chairman welcomed the representatives of Reserve Bank of India (RBI) and invited their attention to the provisions contained in the Direction 55 of the Directions by the Speaker.

3. Then the representatives of RBI briefed the Committee on the subject 'Working of Capital Market including the recent IPO Scam and Efficacy of Reform Processes'. The Members asked clarificatory questions which were replied to by the representatives. The Chairman, then, directed the representatives of RBI that the information with regard to queries of the Members which were not readily available with them might be furnished to the Committee later on.

4. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned

MINUTES OF THE TWENTY-THIRD SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Wednesday, 20th April, 2006 from 1030 to 1315 hrs. and 1430 to 1630 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Bhartruhari Mahtab
3. Shri Bir Singh Mahato
4. Shri Jyotiraditya Madhavrao Scindia
5. Shri M.A. Kharabela Swain

Rajya Sabha

6. Shri C. Ramachandraiah
7. Shri Mangani Lal Mandal
8. Smt. Shobhana Bhartia

SECRETARIAT

- | | | |
|----------------------------|---|-----------------------------|
| 1. Dr. (Smt.) P.K. Sandhu | — | <i>Additional Secretary</i> |
| 2. Shri A.M. Mukhopadhyay | — | <i>Joint Secretary</i> |
| 3. Shri S.B. Arora | — | <i>Deputy Secretary</i> |
| 4. Shri T.G. Chandrasekher | — | <i>Under Secretary</i> |
| 5. Smt. Anita B. Panda | — | <i>Under Secretary</i> |

PART-I
(1030 to 1145 hrs.)

WITNESSES

Indian Overseas Bank

1. Shri T.S. Narayanasami, Chairman & Managing Director
2. Shri A.P. Nagappan, Executive Director

3. Shri G. Gopinath, General Manager
4. Shri C. Badri, Chief Vigilance Officer

Vijaya Bank

1. Shri Prakash P. Mallya, Chairman & Managing Director
2. Shri B. Mahabala Shetty, General Manager (Inspection)
3. Shri H. Rathnakara Hegde, General Manager

ICICI Bank

1. Shri K.V. Kamath, Managing Director and CEO
2. Smt. Kalpana Morparia, Deputy Managing Director
3. Smt. Chanda Kochhar, Executive Director
4. Shri C. Sundareswaran, Senior Officer
5. Dr. Sanjay Chougule, Joint General Manager
6. Mr. Kedar Deshpande, Assistant General Manager

HDFC Bank

1. Shri Aditya Puri, Managing Director
2. Shri G. Subramanian, Country Head-Audit & Compliance
3. Shri Rajender Sehgal, Senior Vice-President

2. The representatives of Bharat Overseas Bank were also scheduled to tender evidence before the Committee. The Committee, however decided that the representatives of the Bank may be called separately at 1400 hrs. for tendering evidence.

3. The Chairman welcomed the representatives of the Indian Overseas Bank, Vijaya Bank, ICICI Bank and HDFC Bank and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

4. The Committee then took oral evidence of the witnesses on the subject 'Working of Capital Market including the recent IPO Scams and Efficacy of reform processes'. The Members asked clarificatory questions which were replied to by the representatives. The Chairman, then, directed the representatives that the information with regard to queries of the Members which was not readily available with them might be furnished to the Committee later on.

5. The evidence was concluded.

A verbatim record of proceedings has been kept.

The witnesses then withdrew.

(1400 to 1430 hrs.)

WITNESSES

Bharat Overseas Bank

1. Shri G. Chandran, Sr. General Manager
2. Shri R.D. Sharma, Deputy General Manager
3. Shri S. Venkatesh, Chief Manager
4. Shri Vinod Juneja, Director
5. Shri Sella Ganapathy, Director
6. Shri P.C. Kudaisya, Territory Head (North)

6. At the outset, the Chairman welcomed the representatives of the Bharat Overseas Bank and invited their attention to the provisions contained in the Direction 55 of the Directions by the Speaker.

7. The Committee then took oral evidence of the witnesses on the subject 'Working of capital market including the recent IPO Scams and Efficacy of reform processes'. The Members asked clarificatory questions which were replied to by the representatives. The Chairman, then, directed the representatives that the information with regard to queries of the Members which was not readily available with them might be furnished to the Committee later on.

8. The evidence was concluded.

9. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

Part-II

(1430 to 1510 hrs.)

** ** ** ** **

The evidence was concluded.

A verbatim record of proceedings has been kept.

The witnesses then withdrew.

MINUTES OF THE TWENTY-NINTH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Wednesday, 1st June, 2006 from 1030 to
1230 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Gurudas Dasgupta
3. Shri Bhartruhari Mahtab
4. Shri Madhusudan Mistry
5. Shri Rupchand Pal
6. Shri Jyotiraditya Madhavrao Scindia
7. Shri M.A. Kharabela Swain
8. Shri Vijoy Krishna

Rajya Sabha

9. Shri Chittabrata Majumdar
10. Shri Mangani Lal Mandal
11. Shri Santosh Bagrodia

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri S.B. Arora — *Deputy Secretary*
3. Smt. Anita B. Panda — *Under Secretary*

WITNESSES

(A) National Stock Exchange (NSE)

1. Shri Ravi Narain, MD & CEO
2. Ms. Chitra Ramakrishna, Deputy Managing Director

(B) Bombay Stock Exchange (BSE)

1. Shri Rajnikant Patel, CEO/MD
2. Shri P.R. Prasad, Consultant

(C) National Securities Depository Ltd. (NSDL)

1. Shri C.B. Bhave, Chairman and Managing Director
2. Shri Gagan Rai, Executive Director
3. Shri Jayesh Sule, Sr. Vice President

(D) Central Depository Service Ltd. (CDSL)

1. Shri V.V. Raut, Managing Director & CEO
2. Shri Umesh Maskeri, Vice President — Legal & Company Secretary
3. Shri Dominic Fernandes, Assistant Vice President — Business Development.

2. At the outset, the Chairman welcomed the representatives of the National Stock Exchange (NSE), Bombay Stock Exchange (BSE), National Securities Depository Ltd. (NSDL) and Central Depository Services Ltd. (CDSL) to the sitting of the Committee and invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives in connection with the examination of the subject 'Efficacy of Reform Process in Capital Market – Recent IPO Scam'. The Chairman then asked the representatives to furnish written notes on certain issues on which clarifications were sought by the Members, in respect of which information was not readily available with them.

4. As the Committee found the replies of the representatives of NSE and BSE unsatisfactory, it was decided to call them again to tender evidence before the Committee.

5. The evidence of NSDL and CDSL was concluded.
6. A verbatim record of the proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned

MINUTES OF THE THIRTIETH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Monday, 12th June, 2006 from 1100 to
1210 hrs. and 1225 to 1340 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Bhartruhari Mahtab
3. Shri A. Krishnaswamy
4. Dr. Rajesh Kumar Mishra
5. Shri Madhusudan Mistry
6. Shri Jyotiraditya Madhavrao Scindia
7. Shri M.A. Kharabela Swain
8. Shri Vijoy Krishna

Rajya Sabha

9. Shri M. Venkaiah Naidu
10. Shri Yashwant Sinha
11. Shri Mangani Lal Mandal
12. Shri Santosh Bagrodia
13. Shri Raashid Alvi

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri S.B. Arora — *Deputy Secretary*

PART-I
(1100 to 1210 hrs.)

WITNESSES

(A) National Stock Exchange (NSE)

1. Shri Ravi Narain, MD & CEO
2. Ms. Chitra Ramakrishna, Deputy Managing Director
3. Shri Ravi Varanasi, Assistant Vice President
4. Shri K. Hari, Assistant Vice President
5. Shri T. Venkat Rao, Branch-in-Charge, Delhi

(B) Bombay Stock Exchange (BSE)

1. Shri Rajnikant Patel, CEO/MD
2. Shri P.S. Reddy, Chief General Manager
3. Shri P.R. Prasad, Consultant

2. At the outset, the Chairman welcomed the representatives of the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), to the sitting of the Committee and invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives in connection with the examination of the subject 'Efficacy of Reform Process in Capital Market – Recent IPO Scam'. The Chairman then asked the representatives to furnish written notes on certain issues on which clarifications were sought by the Members, in respect of which information was not readily available with them.

4. The evidence was concluded.
5. A verbatim record of the proceedings has been kept.

The witnesses then withdrew.

Part-II
(1225 to 1340 hrs.)

2. ** ** ** ** **
3. The evidence was concluded.
4. A verbatim record of the proceedings has been kept.

The witnesses then withdrew.

MINUTES OF THE THIRTY-FIRST SITTING OF THE STANDING
COMMITTEE ON FINANCE

The Committee sat on Monday, 13th June, 2006 from 1030 hrs. to
1230 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Bhartruhari Mahtab
3. Shri M.A. Kharabela Swain
4. Shri Vijoy Krishna

Rajya Sabha

5. Shri M. Venkaiah Naidu
6. Shri Yashwant Sinha
7. Shri Chittabrata Majumdar
8. Shri S.P.M. Syed Khan
9. Shri Mangani Lal Mandal
10. Shri Santosh Bagrodia
11. Shri Raashid Alvi

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri S.B. Arora — *Deputy Secretary*

WITNESSES

MINISTRY OF FINANCE

Department of Economic Affairs

1. Shri A.K. Jha, Secretary
2. Dr. K.P. Krishnan, Joint Secretary (Capital Markets)
3. Shri M.S. Sahoo, Director (Capital Markets)

4. Dr. Shashank Saksena, Director (Stock Exchange)
5. Shri Vikram Sahay, Deputy Secretary (Inv.)
6. Ms. Sangeeta Saxena, A.D. (Capital Markets)

2. At the outset, the Chairman welcomed the representatives of the Ministry of Finance (Department of Economic Affairs) to the sitting of the Committee and invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives in connection with the examination of the subject 'Efficacy of Reform Process in Capital Market – Recent IPO Scam'. The Chairman then asked the representatives to furnish written notes on certain issues on which clarifications were sought by the Members, in respect of which information was not readily available with them.

4. The evidence was concluded.
5. A verbatim record of the proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned

MINUTES OF THE TENTH SITTING OF STANDING COMMITTEE
ON FINANCE

The Committee sat on Monday, the 6th November, 2006 from 1030 hrs. to 1130 hrs., 1145 hrs. to 1300 hrs. and 1430 hrs. to 1630 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Bhartruhari Mahtab
4. Shri Rupchand Pal
5. Shri Prakash Paranjpe
6. Shri P.S. Gadhavi
7. Shri K.S. Rao
8. Shri A.R. Shaheen
9. Shri G.M. Siddeshwara
10. Shri M.A. Kharabela Swain
11. Shri Bhal Chand Yadav

Rajya Sabha

12. Shri Yashwant Sinha
13. Shri Raashid Alvi
14. Shri Chittabrata Majumdar
15. Shri S.P.M. Syed Khan
16. Shri C. Ramachandraiah

SECRETARIAT

- | | | |
|----------------------------|---|-----------------------------|
| 1. Dr. (Smt.) P.K. Sandhu | — | <i>Additional Secretary</i> |
| 2. Shri S.B. Arora | — | <i>Deputy Secretary</i> |
| 3. Shri T.G. Chandrasekher | — | <i>Under Secretary</i> |
| 4. Smt. Anita B. Panda | — | <i>Under Secretary</i> |

PART-I**(1030 to 1130 hrs.)**

2. At the outset, the Chairman welcomed the Members of the Committee. The Committee took up for consideration the draft report on subject. 'Efficacy of Reform Process in Capital Market – Recent IPO Scam'. The Committee after deliberation adopted the report with the modifications/amendments as shown in *Annexure*.

3. The Committee authorised the Chairman to finalise the report in the light of the amendments/suggestions made by the Members and also to make consequential verbal changes and present the same to both the Houses of Parliament.

PART-II**(1145 to 1340 hrs.)**

2. ** ** ** **

PART-III**(1430 to 1630 hrs.)**

2. ** ** **

3. The evidence was concluded.

4. A verbatim record of proceedings has been kept.

The Committee then adjourned.

[MODIFICATIONS/AMENDMENTS MADE BY STANDING
COMMITTEE ON FINANCE IN THEIR DRAFT REPORT ON
THE SUBJECT 'EFFICACY OF REFORM PROCESS IN THE
CAPITAL MARKET – RECENT IPO SCAM' AT THEIR
SITTING HELD ON 6 NOVEMBER, 2006]

Page No. 12 Last Para

Delete

"The Committee are apprehensive that though as per SEBI irregularities were committed in respect of 21 IPOs during 2003-2005, yet the scam with such seemingly simple *modus operandi* may have been continuing, in a clandestine manner for a long time. They have examined this matter in detail, which is given in subsequent pages of this Report under the Chapter 'Extent of scam and benefits to scamsters'."

Page No. 21 Line 3

Insert before last para

"The Committee are apprehensive that though as per SEBI irregularities were committed in respect of 21 IPOs during 2003-2005, yet the scam with such seemingly simple *modus operandi* may have been continuing, in a clandestine manner for a long time. In this connection, the Committee note the submission made by Ministry of Finance that investigation by SEBI as well as Income Tax Department seem to indicate that to a limited extent this started in 1999. Although, the Ministry of Finance were repeatedly asked to furnish information about IPOs where irregularities were noticed since 1999, the Committee are disappointed that no such information was furnished to them.

For The Committee, however, are of the view that there is enough scope for further probe in the matter. More so, because they are given to understand that the irregularities in the IPOs by utilising multiple fake accounts had begun in 1999.

Substitute They are of the view that there is enough scope for further probe in the matter.

**Page No. 26 Line 3
from below**

After the word 'which'

add "affects the credibility of its investigation and therefore"

Page No. 27 Last Sentence

for The Committee, therefore, desire that a time-frame for codifying these be fixed.

Substitute "The Committee, therefore, desire that a time-frame not exceeding three months for codifying these be fixed."

Page No. 34 Line 1

For In this connection, the Committee have been given to understand that certain regulations do direct the intermediaries to have 'Chinese Walls' separating their multiple functions from one another.

Substitute "The Committee feel that law should be examined with a view to separating the various functions of the intermediaries so that not only there is complete separation of functions, but the management including the Board of Directors of different entities is also not common.

Page No. 46 Line 26

For In view of the fact that transgression from the guidelines/instructions of RBI needs to be taken very seriously, the Committee are

of the opinion, that it would be more appropriate, if accountability is fixed on those officials of the banks who were found responsible for the irregularities in flouting KYC norms and they should be appropriately punished so as to serve as an effective deterrent in future.

Substitute

“However, the Committee strongly feel that the transgression from the guidelines/ instructions of the RBI has not taken place without the connivance of officials of the banks, who were found responsible for the irregularities in flouting KYC norms. Therefore, they should be suitably punished so as to serve as an effective deterrent in future.”

Line 26

after

...effective deterrent in future.

Insert

“The Committee further feel that more stringent punishment be meted out to banks which are found to be repeatedly indulging in malpractices. Besides, whenever ‘grey areas’ in the existing legal provisions are identified, new rules to clear the ambiguities in such grey areas should be made on an urgent basis.

**Page No. 55 Line 10
from below**

For

They therefore urge NSDL to carry out their inspections of DPs seriously and refer the matter immediately to its DAC in case recurrence of errors are noticed so that suitable action could be initiated.

Substitute

“This puts a question mark over the seriousness with which DPs are being inspected by the NSDL in case of any such error noticed in future the matter should invariably be referred to DAC so that exemplary punishment is give to them.”

Page 71 Line 5 from below

For In addition, the Committee would also like to see that illegal benefits earned by the scamsters are retrieved in full.

Substitute "The CBDT should ensure that the illegal benefits earned by the scamsters are retrieved in full."

**Page 72 Line 30 &
Page 73 line 1**

For The Committee feel that these are steps in the right direction and hope that an early action would be taken by authorities on these matters.

Substitute "The Committee feel that an early action should be taken by authorities on these matters. The Committee would also like to place on record their unhappiness over the fact that overall the Government have failed to impart due seriousness to the recommendations given by the two JPCs on scams."

Page No. 73 Line 16

After ...implementation of allotment of a UIN.

Insert The Committee are disappointed with the current scenario of delay and uncertainty in so far as introduction of UIN and creation of MAPIN is concerned which in their view could have contributed substantially in making perpetuation of this kind of scam difficult.