



IGF/SEBI/DEMAT/75/06

February 25, 2006

Mr. Vijay Shankar Tiwari
Director
Central Bureau of Investigation
New Delhi

Ref: IPO-Demat Scam – Investigation/action

Sub: Action on Misdeeds of Karvy

Dear Sir,

Further to our previous letter ref: IGF/DEMAT/KARVY/72/06 dated 23.2.2006, we would like to add few more points. It is not negligence, ignorance at Karvy but connivance. Karvy is the co-conspirator.

We would like to draw your attention towards the observations and findings of SEBI as stated in IDFC Order :

1. Karvy has combined, Registrar, Share broking, financing, investment, DP work – no use of Chinese wall, using the system of each other.
2. DP has transferred shares before listing.
3. Page 34 Para 9.3(1) : Random sampling/checking of 24 application forms clearly state that no details about bank account, payment mode mentioned.
4. Page 34 Para 9.3(2)(3)(4) : 24 entities have issued cheques bearing continuous serial numbers, same address. Panchal, Sugandh, Budhwani. Random testing of applications of all found similar modus operandi and fraud – all at Karvy.
5. Page 35 Para 10.1(a) : Accounts opened mechanically without proper supporting documents.
6. Page 36 Para 10.19 (c)(d) : Processing done without care, etc., violation of code of conduct. **“The above confirms SEBI’s preliminary findings and suspicion.”**
7. Page 36 Para 10.2: SEBI observed, “serious lapses on the part of Karvy, the DP. Karvy the DP collected all the bank account opening documents through sub-broker. When trouble arose, the sub-broker is not traceable.
8. Page 37 Para 10.3: RBI’s findings clearly state that “the concerned DPs specifically Karvy-DP has actively facilitated the opening of Demat accounts in the name of fictitious/benami entities.”

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9. Page 37 Para 11.4 states that "all the 14,807 Demat accounts have been opened with Karvy-DP on July 15-16, 2005".
10. Page 38 Para 11.7: Processing of 49 application forms for DP CDSL, same address has been found, application forms bearing continuous serial numbers, no details of bank account or payment mode.
11. Page 40 Para 11.17: Karvy's internal e-mail correspondence in the NSDL Inspection Report shows that, during November 2005, Karvy-DP were aware of the issue of multiple bogus fictitious Demat accounts opened with same address. SEBI observed, "the above goes to confirm that Karvy-DP had knowledge about the fictitious nature of such multiple accounts."
12. Page 41 Para 11.20 : SEBI states that "the findings of the investigation/inspection of the concerned banks by RBI has fortified the initial findings of SEBI that Karvy-DP has actively colluded with the above entities in opening multiple/benami hank accounts, Demat accounts in the name of fictitious persons."
13. Page 46 Para 12.5 : SEBI states that "**thousands of Demat accounts being opened on the same day with the same branch and being introduced by the same bank should have alerted the DPs at the time of opening of the Demat accounts. However, the fact that DPs failed to exercise even this basic due diligence gives rise to a suspicion that they have actively colluded with the perpetrators. It is a matter of serious concern that Karvy-DP has opened such apparently benami/fictitious accounts working out to over 95% (42,056 Nos. of the multiple Demat accounts in relation to IDFC IPO.)**"

While interacting with Karvy people, we straightaway asked a question as to how many Demat accounts Karvy the DP, with the human resource available in the office, can open in a day. You may cross-check – to open a single Demat account for a Small Investor it takes hours, sometimes days. It is impossible for a DP to open more than one Demat account in a day. We have also visited Karvy-DP's Ahmedabad office. Is it possible to open so many accounts in a single day? (Page 17 Para 6.6 : Purshottam Budhwani opened 2822 Demat accounts in a single day) (Page 4 & 5 Para 4.3 : Roopalben Panchal opened 1001 Demat accounts on 19.7.05, 1525 accounts on 20.7.05, 758 accounts on 21.7.05). Can Karvy's office accommodate so many people - thousands of people in a day? It means a long waiting period for a person for hours. This clearly proves the findings, mili Bhagat, Karvy one of the conspirators.

YES BANK ORDER OF SEBI

In the findings/Order of YES Bank also, same modus operandi has been observed. Karvy has not only acted as a facilitator but seems to be one of the conspirators.

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- i) Para 3.8 : Random sampling/checking of 20 Demat accounts, application forms – same address of Bharat Overseas Bank Ltd. submitted by Roopalben Panchal, Karvy-DP.
- ii) Para 3.14 : Roopalben Panchal – 6315 accounts – same address of Ahmedabad, Bharat Overseas Bank and Karvy-DP.
- iii) Para 5.4 : SEBI report clearly states about opening of 6315 Demat accounts by Karvy of Roopalben and 1315 Demat accounts of Sugandh Investment with Karvy-DP acting as the facilitator or active collusion)gross negligence?).
- iv) Para 6.4 : Karvy-DP has failed to implement “Know your client’ norm. NSDL being directed for full-fledged inspection of Karvy-DP.

We would also like to draw attention towards the provision of Section 153 and 187 of Companies Act. A declaration is needed to be given by a person about “true owner”. If a person, who is not true owner of a share got delivery of shares in his/her Demat account, he /she has to inform in time to concerned authority that they are not the true owner. Gross violation is nothing but a scam.

We have received information and also it is confirmed by the bank and Karvy that the receipt of application money of thousands of applications from Small Investors have been received in a single cheque/credit.amount. It is also confirmed that the delivery of the shares, refund orders have made across the counter, to fictitious person - Panchals, Budhwani and others. It can be easily verified, checked by the expenditure incurred for the dispatch through post office, franking machine, etc.

The Registrar has to submit dispatch certificate to the Stock Exchanges regarding delivery of refunds. Registrar is not allowed to give across the counter delivery, dispatch, refund, etc. Karvy has violated all the above norms.

The Registrar has to submit master data of refund in a soft copy to the refund banker. The copy should be verified. What are the instructions given regarding refund of fictitious accounts, Panchals and others. They have issued single refund order, ECS transfer to the Panchals, etc. It can be verified easily.

The Escrow accounts of the Company should be checked, particularly the section of application money received from Small Investors (retail investors) and the refund order issued to them. All the amount received and refund issued to Small Investors has to be less than/upto Rs.1 lakh. Trace out the entry of more than Rs.1 lakh. This proves Karvy to be facilitator and co-conspirator.

The Registrar has to submit a certificate/declaration regarding weeding out multiple fictitious applications, certificate about faulty applications. Karvy has submitted this also.



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SEBI and CBI have initiated criminal action against the scamsters. It has to be taken to its logical end. Small Investors, Capital Market, financial experts are asking a simple question, what about big people involved in the scam.

Arrest of fictitious account holders, broker is correct. An investor from Mumbai is also arrested. What about other investors of Ahmedabad and other places. There are not only beneficiaries but also co-conspirators. They are not financiers, they are investors, actual applicants.

These investors, whose names have been clearly mentioned in the SEBI order, are to be booked by CBI. SEBI has to ask for criminal action against those investors also. SEBI has already debarred them from the market, IPO market. **We are sure, CBI will immediately book them also.**

Enough and ample proof are available against Karvy. They are one of the main culprits. We are sure CBI and SEBI will take immediate action, criminal action against them also.

Thanking you,

Yours truly,

DR. KIRIT SOMAIYA – Ex MP

President, Investors' Grievances Forum