

**COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
396TH MEETING OF THE COUNCIL –24TH SEPTEMBER, 2020
FINDING OF THE COUNCIL – 24TH SEPTEMBER, 2020
UNDER SECTION 21 OF THE CHARTERED ACCOUNTANTS ACT, 1949**

**PARAG JHAVERI IN RE:
[25-CA (S-80)/2008]**

MEMBERS PRESENT:

CA. Atul Kumar Gupta (President) (In the chair)
CA. Nihar Niranjana Jambusaria
CA. Jay Chhaura
CA. Chandrashekhar Vasant Chitale
CA. Nandkishore Chidamber Hegde
CA. Durgesh Kabra
CA. Aniket Sunil Talati
CA. Babu Abraham Kallivayalil
CA. Dayaniwas Sharma
CA. Prasanna Kumar D
CA. Rajendra Kumar P
CA. G Sekar
CA. Ranjeet Kumar Agarwal
CA. (Dr.) Debashis Mitra
CA. Manu Agrawal
CA. Pramod Kumar Boob
CA. Anuj Goyal
CA. Prakash Sharma
CA. Hans Raj Chugh
CA. Pramod Jain
CA. Sanjeev Kumar Singhal
Dr. P C Jain
Shri Vijay Kumar Jhalani

[Out of three Signatories, two signatories to the Report of the Disciplinary Committee dated 10th January, 2015, namely, CA. Subodh Kumar Agrawal and CA. Sumantra Guha were no longer members of the Council. The remaining third signatory to the Report CA. Tarun Jamnadas Ghia was not present at the time of consideration of this Report on 24th September, 2020.]

[CA. Atul Kumar Gupta, President was in the Chair when this Report was taken up for consideration on 24th September, 2020]

1. On perusal of the Securities and Exchange Board of India (SEBI) Orders dated 15th December, 2005, 12th January, 2006, 27th April 2006 and 9th May, 2007, **CA. Parag Jhaveri**

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(hereinafter referred to as the "**Respondent**") was requested to offer his clarifications thereon vide Institute's letters dated 3rd February, 2006, 3rd November, 2006, 12th December, 2006, 19th April, 2007 and 22nd July, 2008. The Respondent vide letters dated 16th January, 2007 and 1st August, 2008 submitted his clarifications, which was found to be not satisfactory. Accordingly, it has been decided to treat the matter as "Information" falling within the meaning of "Other Misconduct" under section 22 read with section 21 of the Chartered Accountants Act, 1949.

2. The specific charge(s) against the Respondent as per the "Information" letter dated 31st December, 2008 are stated below:-

- 2.1 SEBI found that certain entities had cornered IPO shares reserved for retail applications by making applications in the retail category 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. Subsequent to the receipt of the IPO allotment, these fictitious/ benami allottees had transferred shares to their principals who in turn transferred the shares to the financiers that had originally made available the funds for executing the game plan. The financiers in turn sold most of these shares on the first day of listing thereby realizing the windfall gain of the price difference between IPO price and the listing price.
- 2.2 The Respondent was the Director of M/s Sughandh Estates and Investments Pvt. Ltd. (hereinafter referred to as the "**Company**"). The Respondent informed SEBI that he (the Respondent) and Shri Tushar Shah are the Directors of the Company. The Company mainly deals in shares on behalf of the other Companies. When some entity desires to apply in a public issue, they approach the Company and provide the necessary funds to it for making the applications. The Company, in turn, provides to friends and relatives of its Director for making applications in public issues. In the application forms, the Company address is provided as communication address and upon receipt of allotment /refund, these friends and relatives hand over the shares / money to the Company and the Company in turn hands over the shares/money to the respective entity from funds were originally received. The Company had received 2708944 shares from 10181 dematerialized accounts through off market transactions on 8th August, 2005 prior to listing of IDFC. Out of the above 10181 accounts as many as 9956 have their address as c/o SEIPL, 802 to 806, Abhijit - I. Mithakhali Circle, Ellisbridge, Ahmedabad -380006. Subsequent to the receipt of shares, the Company transferred 2677870 shares in 20 off market transactions.
- 2.3 It appears that unfair gain has been made by abusing the IPO allotment process and cornering the shares meant for the retail applicants. The Company and others and their respective associates have adopted the modus operandi of making applications in fictitious/benami names for cornering the retail of portion of IPO shares. The shares allotted in IPO to the benamis of Roopalben Panchal and Purshottam Budhwani would have otherwise gone to genuine retail applications. The entire gamelan, craftily designed, masterminded and executed by a coterie of operators acting in concert, in a tout ensemble through the mechanism of front entities of name -lenders seeking to impart a veneer of acceptability to a deal which is otherwise sham in an agonistic aggressions in the market through predatory

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- cornering is a clear abuse of the very process of IPO, meant to shore up the participation of retail investors.
- 2.4 It is seen that there were number of IPOs during 2003-2005, in which 23 dematerialized account holders received off market credit of shares from 500 or more dematerialized account holders having certain commonalities. In the case of IDFC, the Respondent got transferred 554078 shares from 2083 accounts and the Company got shares from 10194 accounts.
 - 2.5 The Respondent was one of them. Further, the Respondent was also one of the financiers of other Master Account Holders and the financiers of the Company and made handsome gains in the said IPOs 2003-2005. There were inert linkages between the Company, the Respondent and others.
 - 2.6 198 accounts were opened by the Respondent and his associates and having common addresses as A/3. Embassy Apartments, Dr. V. S. Road, Ambawadi, Ahmedabad. It observed that all the account holders have their bank account with Vijaya bank.
 - 2.7 In Yes Bank IPO, the Respondent had deposited refund instruments in the name of 200 different persons into one account. There were many such deposits into various accounts.
 - 2.8 Jhaveri group held numerous bank account with Vijaya Bank, Ambawadi, Ahmedabad branch. An examination of opening forms of some of these bank accounts revealed that at the Respondent's request, joint names were added in the bank accounts held by the Respondent with Vijay Bank to facilitate the opening of individual dematerialized accounts. The photographs were abused in the said process. No such proof of identity was submitted in respect of the other joint account holders except the Respondent and Shri Tushar Shah. Jahveri group opened 10750 dematerialized accounts with Karvy DP using 43 bank accounts held with Vijaya Bank.
3. The Respondent vide his letter dated 12th January, 2009 submitted his written statement. Thereafter, in accordance with the provisions of Regulation 12(11) of the Chartered Accountants Regulations, 1988, the above papers containing the 'information' along with the Written Statement, were considered by the Council at its meeting held in August, 2009 at New Delhi. The Council being prima facie of the opinion that the Respondent was guilty of professional and/or other misconduct, decided to cause an enquiry to be made in the matter by the Disciplinary Committee.
4. The Disciplinary Committee conducted the enquiry in the case and the hearing in the matter was concluded at its meeting held on 29th March, 2013 at Mumbai. The Disciplinary Committee submitted its report dated 10th January, 2015 with the conclusion that the Respondent is guilty of "Other Misconduct "under Section 22 read with Section 21 of the Chartered Accountant Act 1949.
5. While arriving at its aforesaid conclusion, the Disciplinary Committee had relied on Supplementary Investigation Report submitted by Chief General Manager, Integrated

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Surveillance Department of SEBI who appeared before the Committee and deposed as the witness. The Committee perused the said report and noted that Respondent has played a very crucial role in the whole process of the IPO scam whereby he has flouted various guidelines and provisions as laid down under the SEBI Act, 1992, SEBI (Fraudulent and Unfair Trade Practices related to Securities Market) Regulations, 2003 and the Provisions of the SEBI (Disclosure and Investor Protection) Guide Lines 2000. The modus operandi adopted by SEIPL as detailed out in the Supplementary Investigation Report by SEBI has been dealt with as under:

- 1) Opening of fictitious bank accounts and de-mat accounts
- 2) Controlling such afferent de-mat accounts
- 3) Acting in concert with the financiers.

5.1 **Stage 1: Opening of fictitious bank accounts and de-mat accounts**

The Respondent and Shri Tushar Shah who were the Directors of SEIPL held numerous current bank accounts such as CA-2051 to CA-2060 with Vijaya Bank, Ambawadi, Ahmadabad Branch. The Respondent, thereafter, had sent letters to Vijaya Bank to include 10 people as joint holders in each of the above bank accounts. An examination of the account opening forms of some of these bank accounts revealed that many of the photos carried an impression "Shaad". An examination of the photos at the matrimonial website 'Shaadi Com' revealed that the photos displayed at the website carry an impression "Shaadi.Com". It was further noted during the course of examination that the font and style of the impression as contained in the photos attached to the letter and as appearing on the website 'Shaadi.Com' appeared to be the same. This indicated the possible source of the photographs attached to the Respondent's letter and showed the dubious design of Jhaveri Group in opening bank accounts in fictitious / benami names probably without even the knowledge of the persons whose photographs were abused in such a manner.

- 5.2 The said Bank Accounts have been introduced by Shri Kamal Jhaveri, the brother of the Respondent and in each of these accounts, 10 other account holder names were added without any proof of address based on letters issued by the Respondent and the address of the Jhaveri group were indicated as the address of the joint account

holders in the bank accounts. Similar letters were issued for including joint bank account holders in Bank Accounts CA-2051, CA 2052, CA-2053, CA-2054, CA-2055, CA-2056, CA-2057, CA-2058, and CA-2060. Further, a perusal of specimen signature cards, it is observed that signatures of the joint account holders prima facie appear to have been made with the same writing instrument and all the joint account holders have apparently written their first name as their signature. The Respondent has adopted same pattern of sending letters for other current accounts numbered CA-2051, CA 2052, CA-2053, CA-2054, CA-2055, CA-2056, CA-2057, CA-2058, CA-2060 held with Vijaya Bank. It has been further noted during investigation that even in the Income Tax Declaration Form 60 submitted to Vijaya Bank, the signatures of the joint account holders appeared to have been made with the same writing instrument and all the joint account holders have written their first name as their signature. The striking similarities of calligraphic features casts a serious doubt as to the genuineness of the joint account holders.

- 5.3 Thus, it is observed that the Respondent played a pivotal role in opening fictitious bank accounts with Vijaya Bank, Ambawadi, Ahmedabad branch and thereafter various demat accounts with DP Karvy Stock Broking Ltd using the said bank accounts. Further, as stated above, bank account of the Respondent (having address A/3, Embassy Apartments, Dr. V.S. Road, and Ahmedabad 380015) were used for the purpose of opening different demat accounts which served as conduits for SEIPL (address of SEIPL and the Respondent are different) suggesting that bank accounts of the Respondent has been used instead of bank account of SEIPL. This clearly brings out that there is collusion between the activities of the Respondent as key operator and SEIPL as key operator.

5.4 Stage: 2 Controlling such afferent de-mat accounts

Upon examination of the details of 10181 dematerialized accounts (afferent accounts) that served as conduits for SEIPL in the IDFC IPO, following observations emerged :-

- a. 10181 dematerialized account holders, as many as 9956 have their address as C/o. SEIPL, 802 to 806 Abhijit-1, Mithakhali Circle, Ellisbridge, Ahmedabad -

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380006 which is the same as that of SEIPL. In respect of the 9956 dematerialized account holders having their address as that of SEIPL.

- b. All the above 10,181 dematerialized account holders (affluent accounts) have their bank accounts with Vijaya Bank, Ambawadi branch, Ahmedabad 380015 and the bank account numbers run in continuous serial numbers of different batches e.g. 207 1151 to 2071250 (100 Nos.) 2072151 to 2072250 (100 Nos.) 2073151 to 2073250 (100 Nos.), 2074151 to 2074250 (100 Nos.) and so on.
- c. It appears from a perusal of transaction statement of Bank account of SEIPL (2036) that refund credits were received by SEIPL from various bank accounts held jointly by the Respondent and Kamal Jhaveri in a consolidated manner suggesting that all the applications were under control of SEIPL and the Respondent.
- d. From a perusal of a sample of IPO applications made for IDFC IPO, it can be seen that the IPO applications carry addresses as c/o SEIPL, 802 to 806, Abhijit-I, Mithakhilai Circle, Ellisbridge, Ahmedabad – 380006 which is the same as that of SEIPL.
- e. From a perusal of a sample of IPO applications made for IDFC IPO, it can be seen that the IPO applications carry addresses as c/o SEIPL, 802 to 806, Abhijit-I, Mithakhilai Circle, Ellisbridge, Ahmedabad – 380006 which is the same as that of SEIPL.
- f. It is further observed that the Respondent made cash and cheque payments in respect of AMC charges pertaining to opening of demat accounts which had borne the address of SEIPL. For example cash payment of Rs 5,42,547/- (Rupees Five lakhs forty two thousands five hundred and forty seven only) and cheques payment of Rs. 15,61,842.47 (Fifteen lakhs sixty one thousands eight hundred and forty two Rupees and forty seven Paisa only) was paid by the Respondent from his bank accounts towards payment of AMC charges. It suggests that the Respondent and SEIPL together had control over such affluent accounts.

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- g. In view of thousands of fictitious demat accounts and IPO applications sharing addresses of SEIPL, it is evident that these have been opened fraudulently as part of game plan to corner shares which is clear from demat accounts sharing common addresses which have been part of different accounts and the control was exercised by SEIPL over such accounts.

5.5 Acting in concert with the financiers

SEIPL vide letter dated February 6, 2007, submitted complete details of the finances received by SEIPL from various financiers and corresponding refund money back to financiers. Corresponding bank account transactions statements i.e. bank account numbers in the name of SEIPL held with Vijaya Bank (bank account number 2026-2035, 2036, 2037 to 2046, 2051 to 2060 and 2071 to 2080), Ambawadi, Ahmedabad, HDFC Bank account number 0062000026487 were submitted in support of its submissions

The table below summarizes the dealing in IPO of Yes Bank Ltd:-

Name of IPO	No of afferent accounts	No of shares received from the afferent accounts	Name of the Financiers	Funds provided to SEIPL	No of shares given to Financier	Value of shares (no of shares* RS. 45)	Refund given to Financiers
Yes Bank Ltd (June 16, 2005- June 21, 2005)	1,315	1,97,250	Sujal Leasing	4,93,76,250	1,56,750	70,53,750	4,23,22,500
			Ritaben Thakkar	63,78,750	20,250	9,11,250	54,67,500
			Veenaben Thakkar	63,78,750	20,250	9,11,250	54,67,500
			TOTAL		1,97,250		

The table below summarizes the dealing in IPO of IDFC:

Name of IPO	No of afferent accounts	No of shares received from the afferent accounts	Name of the Financiers	Funds provided to SEIPL	No of shares given to Financier	Value of shares (no of shares* RS. 45)	Refund given to Financiers
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IDFC (July15 , 2005- July 22,200 5)	10,215	27,17,190	Sujal Leasing & Finance	8806000 0	492100	16731400	71328600
			Taurus Infosys Ltd	4522000 0	252700	8591800	36628200
			Excell Multech	8330000 0	46550	1582700	6747300
			Seer Finance	3570000 0	199500	6783000	28917000
			Zenet Software Ltd.	1309000 0	73150	2487100	10602900
			Zealous Trading	7140000 0	398734	13556956	57843044
			Pulome D. Dalal	4760000 0	198968	6764912	40835088
			Amadhi Investmen t	4760000 0	265734	9034956	38565044
			Rajesh H. Jhaveri	1338750 0	299250	10174500	3213000
			Jitendra Lalwani	9044000 0	266000	9044000	0
			Monal Y. Thakkar	1428000 0	79800	2713200	11566800
			Rita R. Thakkar	1428000 0	79800	2713200	11566800
			Vinod Modha	0	66234	2251956	0
				TOTAL	27,17,190		

The Committee noted that the Report so submitted by SEBI has given concrete finding as regard the role of the Respondent in the whole game plan of IPO scam

5.6 The Committee, also perused the Consent order dated 10.02.2009 passed by the SEBI in response to the consent application of the Respondent. The said consent order inter-alia states that the High Powered Advisory Committee, constituted by SEBI, considered the consent terms proposed by the Respondent and after considering the period of prohibition on buying, selling or dealing in securities already undergone by the Respondent since April 27, 2006 and the facts and circumstances, recommended the case for settlement.

5.7 As per the terms of settlement, the Respondent shall



- a. disgorge the unlawful gain of Rs.24,00,000/- (Rupees Twenty four lakhs only) made by him and
- b. pay a sum of Rs.1,80,00,000/-(Rupees one crore eighty lakhs only) towards settlement charges and
- c. undergo voluntary debarment for a period of 3 years from the date of consent order.

5.8 The Committee also noted that the consent order was a consolidated and a composite order passed against the four applicants, namely, the Respondent, Sh Kamal Javeri, SEIPL and Ambuja Estates and Holding Pvt Ltd. Although, the proceedings so initiated against the Respondent had never attained any finality in view of the fact that the consent order was being issued ,however, the Committee while conducting the inquiry and preparing the findings thereafter has remained quite mindful of the fact that the Respondent has accepted to pay the disgorgement amount and stay off market for a period of 3 years from the date of order in lieu of the proceedings initiated for having violated the provisions of the SEBI Act , Rules and Regulations made thereunder.

5.9 The Committee noted and perused the Consent Order and also the afore stated papers and investigation on record. The Committee noted that though the Respondent has brought on record the copy of the Consent order whereby SEBI has absolved them of the proceedings initiated for having violated the provisions of the SEBI Act, Rules and Regulations made there under, however the SEBI is a regulator for the securities market in India and the settlement entered by it with the Respondent is to avoid furtherance of the proceedings which were initiated against the Respondent. However, the same does not discharge the Respondent of the inquiry being initiated before the Council as the scope of the said inquiry is distinct and limited to the conduct and involvement of the Respondent in the whole process of IPO scam as a Chartered Accountant. The Committee also noted that the Respondent has not submitted any evidence/submission for his defense on merits. He has not denied his role which he was alleged to have played, whereby, he had violated the SEBI and RBI guidelines in totality.

5.10 The Committee thus noted from the facts as mentioned above which have been compiled from various reports generated by SEBI after carrying out detailed

investigation that the Respondent being a Chartered Accountant has shown disregard to the RBI and SEBI guidelines whereby he has opened fictitious bank accounts by misusing the photographs uploaded on the matrimonial website, thereafter on its basis, fictitious de-mat accounts were opened and controlled by the Respondent along with the other Director as 9956 de-mat accounts been found out to have their address as c/o SEIPL which served as conduits for SEIPL in various IPOs. The investigation has also revealed that the Respondent has made cheque and cash payments from his bank account with respect of AMC charges pertaining to opening of demat accounts which bore the address of SEIPL and thus the Respondent was a part and parcel to the entire scam of IPOs while acting as one of the Directors of SEIPL which was one of the Key Operators. The Committee also noted that by acting fraudulently at various stages, the Respondent had successfully cornered large number of shares in various IPOs by acting in concert with financiers who provided finance to SEIPL. Therefore, the Respondent, through the medium of fictitious demat accounts which too were masterminded by him, applied in various IPOs and cornered share through fraudulent, deceptive and manipulative device. The said act of the Respondent has not only enabled him to earn huge undue benefit but also denied the genuine retail investors of their right for allotment in retail category to whom otherwise the shares meant for RII would have been made available. The committee further noted that the act of the Respondent whereby he has opened benami depository and bank accounts are in gross disregard to the KYC norms which is highly unexpected of a Chartered Accountant.

5.11 The Committee also noted that by the said acts, the Respondent has shown a complete disregard to various guidelines framed by SEBI and RBI which are generally framed for smooth working of any system. The Respondent has thus not only acted in a way detrimental to the individual investors at large but has also seriously threatened the integrity of the securities market by manipulating the IPO allotment process which even called for intervention of the regulators at relevant times to protect the interest of the Investors. Thus in light of the above, the Committee is of the view that the Respondent who has acted in a manner which is highly unbecoming of a Chartered Accountant in the instant case is guilty of "Other Misconduct" under section 22 read with section 21 of the Chartered Accountant Act 1949.

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6. The Council considered the Report of the Disciplinary Committee dated 10th January, 2015 along with written representations dated 15th March, 2016, 14th March, 2017 and 3rd June, 2017, received from the Respondent. The Council noted that the Respondent vide e-mail dated 18th September, 2020 has communicated that as per present situation prevailing due to COVID -19 as well as certain issues related to his health it was not possible for him to travel to Delhi for personal appearance or to attend hearing through Video Conferencing. The Council also noted that the Respondent had mentioned that he had already submitted his written submissions from time to time to Council and hence requested to take the same into consideration before proceeding further in the matter.

7. The Council upon consideration of the Report of the Disciplinary Committee dated 10th January, 2015 and also the written representations made by the Respondent before it, decided to accept the conclusion of the Disciplinary Committee holding the Respondent Guilty of "Other Misconduct" falling within the meaning of Section 22 read with Section 21 of the Chartered Accountants Act, 1949.

8. Further, the Council also decided to recommend to the Hon'ble High Court that the name of the Respondent CA. Parag Priyakantbhai Jhaveri(M. No.039190) be removed from the Register of Members for a period of one Month.

9. The Council further resolved that CA. Atul Kumar Gupta, Chairman of the meeting at the time of consideration of the report be authorised to sign the Finding of the Council in the case, on behalf of the Council.

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Sd/-
(CA. ATUL KUMAR GUPTA)
CHAIRMAN

Certified to be true copy
Mohite Khann (secretary)
The Council of the Institute of
Chartered Accountants of India
New Delhi