Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra East, Mumbai – 400051
held on March 19, 2024

In the matter of the Trading Member Master Capital Services Limited

CORAM:

Mr. S. Ravindran	-	Chairman
Mr. S. Sudarshan	-	Committee Member
Mr. Essaji Vahanvati	-	Committee Member
Mr. Ashishkumar Chauhan	-	Committee Member

ALSO PRESENT:

Mr. Piyush Chourasia	-	Chief Regulatory Officer
Mr. Ankit Sharma	-	Chief Regulatory Officer
Ms. Renu Bhandari	-	Vice President – Inspection
Ms. Sonali Karnik	-	Vice President – Enforcement
Mr. Janardhan Gujaran	-	Vice President – Enforcement

BACKGROUND

1. **Master Capital Services Limited** ("**Noticee**"), is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") segment since November 1994, Futures & Options ("**F&O**") segment since June 2001, Currency Derivatives ("**CD**") segment since October 2008 and Commodity Derivatives ("**COM**") since February 2019.

2. As a part of the offsite supervision mechanism, the Exchange reviewed the ledgers of the top debtor and creditor clients of the Noticee and bank books of Master Trust Limited **("MTL"),** a Non-Banking Financial Company **("NBFC")** and the holding company of the Noticee. During review, the Exchange observed receipt and payment entries indicating a financing arrangement between MTL and clients

of the Noticee. Therefore, the Exchange conducted a limited purpose verification of the Noticee's books and records in June 2023 covering the period from August 1, 2022, to January 31, 2023. Post-inspection, the Exchange issued a show-cause notice ("**SCN**") dated July 6, 2023, to the Noticee for the observed non-compliances with the regulatory provisions. The Noticee, vide email dated July 27, 2023, replied to the SCN.

INSPECTION OBSERVATION

3. The inspection observation mentioned in the SCN is summarized hereunder:

   3.1 Facilitating financing of the client transactions through NBFC

REGULATORY PROVISIONS

4. At the outset, it is appropriate to refer to the relevant regulatory provisions violated by the Noticee; extracts whereof are reproduced below:

   4.1. **Facilitating financing of the client transactions through NBFC**

      a. Exchange Circular No. NSE/INSP/6938 dated December 9, 2005

         4.1 Trading Members shall not be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary / holding company or group company, to fund the transactions executed by the trading members on behalf of their clients, or recognise or act in accordance with any such agreement or arrangement entered into by the clients with any person.

         4.2 Trading Members shall not entertain, any instructions to trade in securities or transfer funds or securities, from any entity other than the clients, by prior arrangement or otherwise to facilitate financing clients' transactions.

4.3 *Trading Members shall not obtain any authorisation or power of attorney, for operating the depository and / or bank accounts of clients who avail financing facility for securities trading, conferring rights for operation of such accounts exclusively by the trading member.*

4.4 *Trading Members shall not also otherwise finance or act as a conduit or front for financing any secondary market transactions entered into by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing.*

b. Exchange Circular No. NSE/INSP/47278 dated February 9, 2021

Recently it has come to the notice of the Exchange that in order to fund the peak margin requirement of the clients, members have entered into arrangement with NBFCs for facilitating loan/credit facilities to the clients by NBFCs. Such financing arrangements are in violation of the SCRA/SEBI guidelines. In view of the same, members are again advised to ensure the following:

- *Trading Members shall not be a party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary / holding company or group or associate company, to fund any secondary market transactions or margin requirements in respect of transactions executed by the trading members on behalf of their clients, or recognize or act in accordance with any such agreement or arrangement entered into by the trading members' clients with any person*

- *Trading Members shall not entertain any instructions to trade in securities or transfer funds or securities, from any entity other than the clients, by prior arrangement or otherwise to facilitate financing of clients' transactions or margin requirements in respect of the transactions. Any financing arrangement with a general authorization by the clients are not permitted.*

- *Trading Members shall not otherwise finance or act as a conduit or front for financing any secondary market transactions or margin requirements in respect of the transactions entered into by their clients, directly or indirectly except in accordance with the regulatory provisions of Margin Trading Facility and Securities Lending and Borrowing.*

c. Exchange Circular No. NSE/INSP/52888 dated July 5, 2022

- *Trading Members shall not share transaction/obligation details of the clients with NBFC or any other lending institutions.*

- *Trading Members shall not engage in cross-selling of lending products or open joint (2 in 1 type of) accounts in collaboration with NBFC or any other lending institutions.*

CONSIDERATION AND FINDINGS

5. The observation/violation, reply of the Noticee and findings of the Committee are as under:

5.1 **Facilitating financing of the clients' transactions through a NBFC**

5.1.1 a. The Exchange reviewed the following documents:

i. Bank books of the holding company of the Noticee, i.e. Master Trust Limited **("MTL"/"NBFC")**, for the period August 1, 2022, to January 31, 2023.

ii. Fund ledgers of 50 clients provided by the Noticee for the period August 1, 2022, to January 31, 2023.

b. Upon review of the receipt and payment entries of the bank books of MTL for the period August 1, 2022, to January 31, 2023, the Exchange observed that MTL made payments amounting to Rs.7,383 crores to 75 clients of the Noticee.

c. Upon review of the fund ledgers of 50 clients provided by the Noticee for the period August 1, 2022, to January 31, 2023, the Exchange observed the receipt entries in clients' ledgers amounting to Rs.6,210.97 crores matched the payments made by MTL to the said clients of the Noticee, thereby indicating financing arrangements between MTL and the clients of the Noticee.

d. Upon seeking clarification from MTL regarding exposure towards the clients of the Noticee, MTL confirmed that the outstanding exposure of MTL to 38 clients of the Noticee is Rs.57.17 crores as of March 31, 2023. Furthermore, MTL confirmed that it holds power of attorney for the bank accounts of 38 out of the 75 clients of the Noticee dealing in securities transactions.

5.1.2 In reply to the SCN, the Noticee submitted as under:

a. The SCN does not substantiate the allegation of facilitation except stating that MTL has lent to the clients of the Noticee. The Exchange appears to have proceeded on a presumption that the Noticee must have a role in its clients availing funding.

b. Out of 3 lakhs client base of the Noticee, the SCN is based on only 38 clients, which is 0.07% of its client base. The SCN myopically relies upon the said clients to suggest that the Noticee is actively participating and facilitating client financing through MTL.

c. While the Noticee and MTL are group entities, both operate separately in their respective areas of business. It is trite law that in case of two entities being a holding and subsidiary, a subsidiary remains a separate legal entity, even in case of a wholly owned subsidiary.

d. '*Facilitation'* would amount to direct involvement in the decision-making process of MTL, which is not the case herein. The Noticee plays no role in its clients obtaining/wanting to obtain financing from any NBFC, including MTL, for their trading activities. The Noticee is not a party to any arrangement or agreement that a client may seek from MTL or any NBFC to obtain funds. The Noticee does not require, nor does it obtain any general authorization or PoA to operate client's bank account or demat account.

5.1.3 The Committee finds as under:

a. The Noticee claimed that the SCN does not substantiate the specific charges except stating that MTL has lent to the clients of the Noticee.

i. The Committee notes that Paragraph 3.1 of the SCN clearly specifies the observation mentioning the period, amount and instances of observations along with Exhibits 1A, 1B and 1C detailing the payments, receipts and outstanding exposure of MTL pertaining to financing of clients' transactions of the Noticee. Also, Paragraph 4.1 of the SCN stipulates the provisions of circulars violated by the Noticee. Hence, the Noticee's claim is not valid.

ii. The Exchange reviewed the receipt and payment entries of the bank books of MTL for the period August 2022 to January 2023 and observed that payments amounting to Rs.7,383 crores were made to 75 clients of the Noticee as appeared in the bank books of MTL. Out of 75 clients, upon verification of client trading ledgers of 50 clients on a sample basis and bank books of MTL, it is observed that the credit entries in each trading ledger of the said 50 clients valuing to Rs.6,210.97 crores matched with the debit entries in the bank books of MTL as transferred to the said 50 clients of the Noticee. Further, MTL confirmed that it holds power of

attorney for the bank accounts of 38 out of 75 clients of the Noticee dealing in securities transactions.

iii. Therefore, it appears that the Noticee has facilitated the financing of the trading transactions of the clients through its holding company, i.e. MTL.

b. The Noticee claimed that the SCN myopically relies upon 38 clients, which is 0.07% of its client base of 3 lakhs clients, to suggest that the Noticee is actively participating and facilitating client financing through its subsidiary.

i. The Committee notes that the Exchange conducted limited purpose inspection to verify whether the Noticee was involved in facilitating the financing of transactions of its clients through NBFC. Post-verification, the Exchange observed that MTL made payments amounting to Rs.7,383 crores to 75 clients of the Noticee. Out of 75 clients, the Exchange reviewed ledgers of 50 clients for a sample scrutiny. Upon review of 50 clients' ledgers, it is observed that the receipt entry in each ledger of the said 50 clients valuing to Rs.6,210.97 crores matched with the payment entries in the books of MTL to the clients of the Noticee, which is 100% of the of the sample size. Hence, the Noticee's contention is not acceptable.

c. The Noticee claimed that MTL and the Noticee are distinct legal entities.

i. The Committee notes that the Noticee's contention that MTL and the Noticee are separate legal entities is correct to extent that Noticee and MTL are individually registered with Ministry of Corporate Affairs (MCA), and thus, are distinct legal entities in the eyes of law. However, upon verification of the MCA master data of MTL vis-à-vis the records of the Exchange pertaining to the Noticee, it is observed that Mr. Rajinder Kumar Singhania, Mr. Gurmeet Singh Chawla,

Mr. Pavan Kumar Chhabra and Mr. Harjeet Singh Arora serve as common Directors for both, the Noticee and MTL.

ii. The Noticee and MTL are thus in a position to wield substantial influence on each other's decision-making processes. This influence stems from the fact that (i) MTL is the holding company of the Noticee and (ii) the Directors of MTL concurrently serve as Directors on the board of the Noticee.

d. The Noticee claimed that it is not a party to any agreement or arrangement, directly/indirectly entered between MTL and the clients of the Noticee. However, the Committee observes as under:

i. As per Exchange Circular No. NSE/INSP/47278 dated February 9, 2021, Trading Members cannot be party to any agreement or arrangement, directly or indirectly, entered into between their clients and any person including their subsidiary / holding company or group or associate company, to fund any secondary market transactions or margin requirements in respect of transactions executed by the Trading Members on behalf of their clients, or recognize or act in accordance with any such agreement or arrangement entered into by the Trading Members' clients with any person.

ii. The intent of the aforesaid circular of the Exchange is to ensure that a Trading Member, i.e. the Noticee in the instant case, does not have any direct/indirect role in facilitating the financing of the secondary market transactions of its clients.

iii. The existence of a holding-subsidiary relationship, coupled with Directors of the Noticee serving as Directors of MTL, significantly influences the independent decision-making process of both the entities. Though not directly, but these commonalities tantamount to the Noticee having possible

indirect role in facilitating the financing of the secondary market transactions of its clients despite the claim of the Noticee that it is not a party to any agreement/arrangement entered into between its clients and MTL.

iv. Out of 75 clients, upon verification of client trading ledgers of 50 clients on a sample basis and bank books of MTL, it is observed that the credit entries in each trading ledger of the said 50 clients aggregating to Rs.6,210.97 crores matched with the debit entries in the bank books of MTL, showing the transfer of funds to the said 50 clients of the Noticee by MTL. For instance, MTL transferred the specific amounts such as Rs.3940,50,00,000/-, Rs.661,42.00,000/-, Rs.303,15,00,000/, Rs.269,55,00,000/- and Rs.154,00,00,000/- etc. to the accounts of Client Codes KA07, SN327, J6SL09, TT09 and PCG011, respectively, which would be possible only if the Noticee shares client's transaction/margin obligation details with MTL on a regular basis. Therefore, it appears that there is an indirect arrangement between the Noticee and MTL.

e. In view thereof, the Committee has serious apprehension that the Noticee is indirectly facilitating the financing of secondary market transactions of its clients through MTL, which is in violation of Exchange Circular No. NSE/INSP/47278 dated February 9, 2021. However, in the absence of adequate evidence to establish the charge, the Committee decided to warn the Noticee. The Exchange shall bring this to the notice of SEBI for record.

f. The Committee notes that the outstanding exposure of MTL to the clients of the Noticee is Rs.76.31 crores as of February 02, 2024.

5.1.4 Given the findings mentioned above, the Committee warned the Noticee not to get involved either directly or indirectly in any

agreement or arrangement between its clients and any person including its fellow subsidiary to facilitate the financing of secondary market transactions of its clients.

DECISION

6. In view of the above, the Committee pass the following decisions as indicated against the violation mentioned below:

Sr.	Committee's Finding	Penalty prescribed as per Exchange Circular No. NSE/INSP/53530 dated September 2, 2022	Penalty Levied
a.	The Noticee facilitated the financing of client transactions through NBFC.	Rs.5,00,000/-	Warning + Direction not to get involved either directly or indirectly in any agreement or arrangement between its clients and any person including its fellow subsidiary to facilitate the financing of secondary market transactions of its clients.

7. The Noticee is directed to note the non-monetary penalty as indicated above and ensure non-recurrence of the observed violation.

Sd/-	Sd/-	Sd/-
S Ravindran	Essaji Vahanvati	Ashishkumar Chauhan
(Chairman)	(Committee Member)	(Committee Member)

Date: January 31, 2025