Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051
held on March 19, 2024

In the matter of Trading Member Anand Rathi Share and Stock Brokers 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. **Anand Rathi Share and Stock Brokers Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("**NSEIL**"/"**Exchange**") and enabled for trading in the following segments:

Sr. No.	Segment	Date of Enablement
1.	Capital Market	December 1994
2.	Futures and Options	September 2000
3.	Currency Derivatives	September 2008
4.	Commodity Derivatives	October 2018

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2. As a part of the offsite supervision mechanism, the Exchange reviewed the ledgers of the debtor and creditor clients of the Noticee and bank books of Anand Rathi Global Finance Limited ("**ARGFL**"), a Non-Banking Financial Company ("**NBFC**"). During review, the Exchange observed receipt and payment entries indicating a financing arrangement between ARGFL and clients of the Noticee. Therefore, the Exchange conducted a limited purpose inspection of the books and records of the Noticee in April 2023, covering the period June 2022 to November 2022. Post-inspection, the Exchange issued a show-cause notice ("**SCN**") dated June 9, 2023, to the Noticee for the observed non-compliance with the regulatory provisions. The Noticee, vide email dated June 19, 2023, replied to the SCN.

INSPECTION OBSERVATION

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

3.1. Facilitating financing of client transactions through NBFC, i.e. ARGFL

REGULATORY PROVISIONS

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

4.1. **Facilitating financing of 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 recognize 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

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the clients, by prior arrangement or otherwise to facilitate financing clients' transactions.

4.3 Trading Members shall not obtain any authorization 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 arrangements 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*

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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 is 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 & FINDINGS

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

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

5.1.1 The Exchange reviewed the following documents:

a. Bank books of a fellow subsidiary company of the Noticee, i.e. ARGFL, for the period June 1, 2022, to November 30, 2022.

b. Fund ledgers of 14 clients provided by the Noticee for the period June 1, 2022, to November 30, 2022.

Upon review of the receipt and payment entries of the bank books of ARGFL, the Exchange observed the following:

a. Payments amounting to Rs. 735.65 crores made to 543 clients of the Noticee appeared in the bank books of ARGFL.

b. Permanent Account Number (PAN) of all 543 clients of the Noticee are matching with the PAN appearing in the bank books of ARGFL.

Upon review of the fund ledgers of 14 out of the 543 clients on sample basis, the Exchange observed the following:

a. The receipt entries in the client ledgers valuing Rs. 279.90 crores matched with the payments made by ARGFL to the clients of the Noticee, thereby indicating financing arrangements between ARGFL and the clients of the Noticee.

b. Upon seeking clarification, the Noticee confirmed that ARGFL holds power of attorney of the bank accounts of 13 out of 14 clients of the Noticee.

The receipt entries in the client ledgers matched the payments made by ARGFL in the case of 3 sample clients, i.e. Mr. Anant Jain, Mr. Inderpal Singh Uberoi and Ms. Surijit Kaur Uberoi.

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

a. ARGFL is a registered NBFC engaged in business as per the rules/regulations/guidelines issued by the RBI.

b. The Noticee and ARGFL are distinct legal entities who operate independently.

c. The Noticee executes trades based on the instructions of the clients without exerting any control over the clients' holdings or funds.

d. ARGFL operates the client bank accounts in view of the power of attorney executed by the clients in favour of ARGFL. ARGFL is not involved in the execution of trades on behalf of the clients of the Noticee.

e. The Noticee is not a party to any agreement or arrangement, directly/indirectly entered between ARGFL and the clients of the Noticee.

f. The Noticee did not share any transaction/obligation details of its clients with ARGFL or any other lending institutions.

g. The Noticee did not collaborate with any NBFC or any other lending institutions for cross-selling of lending products or opening of joint accounts.

5.1.3 The Committee finds as under: -

a. The Exchange reviewed the receipt and payment entries of the bank books of ARGFL for the period June 2022 to November 2022 and observed that (i) payments amounting to Rs. 735.65 crores were made to 543 clients of the Noticee as appeared in the bank books of ARGFL and (ii) PAN of all 543 clients of the Noticee matched with the PAN appearing in the bank books of ARGFL.

Out of 543 clients, upon verification of client trading ledgers of 14 clients on a sample basis and bank books of ARGFL provided by the Noticee, it is observed that the credit entries in the trading ledgers of the said 14 clients valuing to Rs. 279.90 crores matched with the debit entries in the bank books of ARGFL as transferred to the said 14 clients of the Noticee.

Further, out of 14 sample clients ARGFL holds power of attorney over bank accounts of 13 clients of the Noticee.

Therefore, it appears that the Noticee has facilitated the financing of the trading transactions of the clients through its subsidiary, i.e. ARGFL.

b. The Noticee claimed that ARGFL and the Noticee are distinct legal entities.

   i. Upon verification of the MCA Master Data of ARGFL and the Noticee, it is observed that Mr. Pradeep Navratan Gupta and Ms. Priti Pradeep Gupta, the Managing Director and Director, respectively, of the Noticee are also holding the position as Directors of ARGFL.

   ii. The Noticee and ARGFL are thus in a position to wield substantial influence on each other's decision-making processes. This influence stems from the fact that the Managing Director and Director of the Noticee concurrently serve as Directors on the board of ARGFL. Furthermore, it is worth noting that the Noticee and ARGFL are under the control of the same holding entity, i.e. Anand Rathi Financial Services Limited.

c. The Noticee claimed that it is not a party to any agreement or arrangement, directly/indirectly entered between ARGFL 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 common holding entity, coupled with Managing Director and Director of the Noticee serving as Directors of ARGFL, 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 ARGFL.

iv. Payments amounting to Rs. 735.65 crores made to 543 clients of the Noticee appeared in the bank books of ARGFL over a substantial period, i.e. between June 2022 and November 2022.

d. In view of the fact that in the case of 14 sample clients out of 543 clients, the credit entries in trading ledgers of the said 14 clients valuing Rs. 279.90 crores matched with the debit entries in the bank books of ARGFL, which is possible only when the Noticee shares the client transaction/margin obligation details with ARGFL on a regular basis. Thus, it appears that there is an indirect arrangement/agreement between the Noticee and ARGFL.

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 ARGFL 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 ARGFL to the clients of the Noticee is Rs. 625.48 crores as of July 13, 2023.

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 levied the following penalty as indicated against the violation:

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

7. The Noticee shall note the non-monetary penalty mentioned above and ensure non-recurrence of the observed violation.

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

Date: November 26, 2024

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