



**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 Nirmal Bang Securities Private 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 Gujran	- Vice President – Enforcement

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**BACKGROUND**

1. **Nirmal Bang Securities Private Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("NSEIL"/"Exchange") and enabled for trading in the Capital Market ("CM") segment since May 1997, Futures and Options ("F&O") segment since June 2000, Currency Derivatives ("CD") segment since September 2008 and Commodities Derivatives ("COM") segment since October 2018.
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 Nirmal Bang Financial Services Private Limited ("**NBFSPL**"), a Non-Banking Financial Company ("**NBFC**"), controlled by the same holding company Mindset Securities

Private Limited. During review, the Exchange observed receipt and payment entries indicating a financing arrangement between NBFSP and clients of the Noticee. Therefore, the Exchange conducted a limited purpose inspection of the books and records of the Noticee from December 2022 to January 2023 covering the period June 1, 2022, to November 30, 2022. Post-inspection, the Exchange issued a show-cause notice ("**SCN**") dated March 3, 2023, to the Noticee for the observed non-compliance with the regulatory provisions. The Noticee, vide email dated March 15, 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. NBFSP

### **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 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 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 & FINDINGS**

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

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

5.1.1 The Exchange reviewed the following documents: -

- a. Bank books of a related entity of the Noticee, i.e. Nirmal Bang Financial Services Private Limited ("**NBFSPL**"), provided by the Noticee for the period June 1, 2022, to November 30, 2022.
- b. Fund ledgers of 20 clients provided by the Noticee for the period June 1, 2022, to November 30, 2022.

Upon review of the receipt and payment entries in the bank books of NBFSP for the period June 1, 2022, to November 30, 2022, the Exchange observed the following:

- a. Payments amounting to Rs.936.04 crores to 265 clients of the Noticee appeared in the bank books of NBFSP.
- b. Unique Client Codes of 255 out of the abovementioned 265 clients of the Noticee appeared in the bank books of NBFSP under the 'Client Code' column thereby indicating that the Noticee shared the Unique Client Codes of its clients with NBFSP.

Upon review of the fund ledgers of 20 clients provided by the Noticee for period June 1, 2022, to November 30, 2022, the Exchange observed the following:

- a. The receipt entries in client ledgers valuing approximately Rs.867.36 crores matched with the payments made by NBFSP to the clients of the Noticee, thereby indicating financing arrangements between NBFSP and the clients of the Noticee.
- b. Upon seeking clarification, the Noticee confirmed that NBFSP holds power of attorney of the bank accounts of 16 out of these 20 clients of the Noticee.

Upon seeking clarification, the Noticee confirmed that the outstanding exposure of NBFSP to 109 clients of the Noticee is Rs.169 crores as of December 30, 2022.

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

- a. Vague and generic allegations

The SCN is devoid of details pertaining to the exact nature of the violation of any of the provisions/guidelines prescribed in the Exchange Circulars. The Exchange proceeded against the Noticee on the mere fact that its clients obtained external financing for their trading activities and have chosen to do so from another group entity, which is an independent entity registered with Reserve Bank of India (RBI) and carrying out permissible lending activity as per the RBI.

b. NBFSPL is distinct and independent from the Noticee

The Noticee is a stock broker registered with SEBI engaged in the business of stock broking offering services in areas such as retail broking, distribution and institutional broking. NBFSPL is a non-deposit taking systematically important NBFC registered with RBI. While admittedly they are group entities, NBFSPL has a mere 1.01% shareholding in the Noticee Company and the Noticee has no shareholding in NBFSPL. Both the entities are run independent of influence from each other under distinct management with no commonality of directors.

c. No facilitation of financing by the Noticee through NBFSPL

- i. The Noticee plays no role in its clients obtaining/wanting to obtain financing from any NBFC, including NBFSPL, for their trading activities. There are no tripartite agreements executed and the Noticee is not a party to any arrangement or agreement that a client may seek from NBFSPL or any NBFC to obtain funds. The Noticee acts as per the instructions of its clients. It cannot be said that acting on client instructions is implicitly acting in furtherance of any arrangement.
- ii. The Noticee does not share client obligation details with NBFSPL or any other NBFC from which clients may have obtained funding. Mere knowledge of UCC of a client does

not lend credence to the allegation that any details have been shared with NBFSP.

- iii. The singular basis for allegation of facilitation in the SCN is that review of ledgers of 20 clients revealed payments for which funds originated from NBFSP and that overall 265 clients of the Noticee appeared in the bank books of NBFSP, and that presently NBFSP has an exposure of Rs.169 crores to the clients of the Noticee. These facts are not disputed by the Noticee; however, the same is myopically being relied upon to suggest that the Noticee is actively participating and facilitating the client financing through its group company. The Noticee has a client base of approximately 1.25 lakhs retail clients and the clients having financing from NBFSP represent 0.22% of its total client base.

#### 5.1.3 The Committee finds as under: -

- a. The Noticee claimed that the SCN is vague and generic and does not substantiate that the Noticee acted as a conduit and/or facilitated and/or was a party to the financing agreement/arrangement between the clients of the Noticee and NBFSP.
  - i. The Exchange reviewed the receipt and payment entries of the bank books of NBFSP for the period June 2022 to November 2022 and observed that payments amounting to Rs.936.04 crores to 265 clients of the Noticee appeared in the bank books of NBFSP.
  - ii. Out of the abovementioned 265 clients, upon verification of client trading ledgers of 20 clients on a sample basis and the bank books of NBFSP, it is observed that the credit entries in the trading ledger of each of the said 20 clients aggregating to Rs.867.36 crores matched with the debit

entries in the bank books of NBFSP, showing the transfer of funds to the said 20 clients of the Noticee by NBFSP. For instance, NBFSP transferred the specific amounts such as Rs.55,28,10,963/-, Rs.45,60,76,901/-, Rs.39,18,92,196/-, Rs.36,97,64,070/-, Rs.35,03,76,118/- etc. to the account of Client Codes D0100095, RSRB001, VBH001, RSRA010, RSR001 respectively, which would be possible only if the client's transaction/margin obligation details are shared with NBFSP on a regular basis. Therefore, it appears that there is an indirect arrangement between the Noticee and NBFSP.

- iii. It is further observed that Unique Client Codes (UCC) of 255 out of 265 clients of the Noticee appeared in the bank books of NBFSP under the 'Client Code' column, thereby indicating that the Noticee shared the UCC of its clients with NBFSP.
- iv. 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.
- v. Further as per 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.
- vi. The intent of the aforesaid circulars of the Exchange is to ensure that a Trading Member, such as the Noticee in the instant case, does not have any direct/indirect role in

facilitating and/or cannot be a party to the financing of the secondary market transactions of its clients.

- vii. Therefore, the Noticee's claim that the SCN is vague, generic and does not substantiate the allegation that the Noticee acted as a conduit and/or facilitated and/or was a party to the financing agreement/arrangement between the client and NBFSP, is not acceptable.
- b. The Noticee claimed that NBFSP and the Noticee are distinct legal entities. However, the Committee observes as under: -
    - i. The Committee notes that the Noticee and NBFSP are the entities of Nirmal Bang group, providing a variety of services in the financial sector. The Noticee and NBFSP are related entities and are under the control of the same holding entity, i.e. Mindset Securities Private Limited.
    - ii. The existence of a common holding entity can significantly influence the independence of decision-making process of both the entities, possibly allowing the Noticee to play a role in facilitating the financing of the secondary market transactions of its clients despite the claim that the Noticee and NBFSP are distinct legal entities.
  - c. The Noticee claimed that the clients having financing from NBFSP represent 0.22% of its total client base, i.e. 1.25 lakhs retail clients.
    - 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 NBFSP made payments amounting to Rs.936.04 crores to 265 clients of the Noticee. Out of 265 clients, the Exchange reviewed ledgers of 20 clients of the Noticee for a sample scrutiny. Upon review of these 20

clients ledgers, it was observed that the receipt entry in each ledger of the said 20 clients valuing Rs.867.36 crores matched with the payment entries in the books of NBFSP to the clients of the Noticee, which is 100% of the of the sample size. Hence, the Noticee's contention is not acceptable.

- d. In view thereof, the Committee has serious apprehension that the Noticee is indirectly facilitating the financing of secondary market transactions of its clients through NBFSP which is in violation of Exchange Circular No. NSE/INSP/47278 dated February 9, 2021. However, the Committee notes the outstanding exposure of NBFSP to the clients of the Noticee is 'NIL' as of October 31, 2023, and hence the Committee decided to warn the Noticee. The Exchange shall bring this to the notice of SEBI for record.

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 decision as indicated against the violation mentioned below:

<b>Sr.</b>	<b>Committee's Finding</b>	<b>Penalty prescribed as per Exchange Circular No. NSE/INSP/53530 dated September 2, 2022</b>	<b>Penalty Levied</b>
a.	The Noticee facilitated the financing of client transactions through	Rs.5,00,000/-	Warning + Direction not to get involved either directly or indirectly in any

	NBFC.		agreement or arrangement between its clients and any person including its fellow subsidiary to facilitate the financing of secondary market transactions of its clients.
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7. The Noticee shall note the non-monetary penalty mentioned above and ensure non-recurrence of the observed violation.

Sd/-  
S Ravindran  
(Chairman)

Sd/-  
Essaji Vahanvati  
(Committee Member)

Sd/-  
Ashishkumar Chauhan  
(Committee Member)

Date: January 31, 2025