Before the
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 February 6, 2024

In the matter of the Trading Member: M/s. IIFL Securities Limited

CORAM

Mr. S Ravindran	-	Chairperson
Prof. S Sudarshan	-	Committee Member
Mr. Ashishkumar Chauhan	-	Committee Member

ALSO PRESENT

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

BACKGROUND

1. **M/s. IIFL Securities 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 May 2000, Futures and Options ("**F&O**") segment since June 2000, Currency Derivatives ("**CD**") segment since August 2008, and Commodity ("**COM**") segment since October 2018.

2. The Exchange conducted a limited-purpose inspection of the Noticee's books of accounts and records, covering the period between April 1, 2022, and December 31, 2022, in March 2023. Post-inspection, the Exchange issued a show-cause notice dated August 10, 2023 ("**SCN**") seeking explanation for the non-compliances with the regulatory provisions observed during the inspection. The

Noticee vide its emails dated September 4, 2023, and February 8, 2024, replied to the said SCN.

INSPECTION OBSERVATIONS/ALLEGED VIOLATIONS

3. The observations/violations alleged in the SCN, are summarized hereunder: -

3.1. Engagement as a principal in business other than securities involving personal financial liability by investing in and extending loans to 5 related parties that are not involved in the securities or commodity derivatives business, involving an outstanding balance of Rs.72.16 crores, as of December 31, 2022.

3.2. Incorrect data submitted to the Exchange in the weekly client-level cash and cash equivalents submissions on 5 dates between July 29, 2022, and November 30, 2022, involving differences ranging from Rs.580.05 crores to Rs.669.10 crores.

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. **Engagement as a principal in business other than securities involving personal financial liability**

a. Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957

8. The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:

(3) No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if –

(f) he engages either as a principal or employee in any business other than that of securities or commodity

derivatives except as a broker or agent not involving any personal financial liability.

b. Exchange Circular No. NSE/COMP/50957 dated January 7, 2022

In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below: -

9. Entering into any arrangement for extending loans or giving deposits / advances to any entity, including group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business.

10. Investments made in group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business. (Ex: Investment in companies engaged in other businesses such as NBFC, Real Estate etc.)

4.2. **Incorrect data submitted to the Exchange in the weekly client-level cash and cash equivalents submissions**

a. Exchange Circular No. NSE/INSP/43926 dated March 23, 2020

1. Day-wise upload of Client Level Cash & Cash Equivalent Balances on a weekly basis for all calendar days of that week except Sunday (i.e. Monday to Saturday);

2. …….

The aforesaid data / details shall be required to be submitted on or before the next four trading days of the subsequent week.

b. Exchange Circular No. NSE/INSP/46960 dated January 8, 2021

Exchange has provided certain additional clarifications in the revised format of cash & cash equivalent balances and holding statement enclosed as Annexure-A and Annexure-B of this circular.

Members will have to submit the data for all calendar days of the week except Sunday on or before the next four trading days of subsequent week.

PRESENT PROCEEDINGS BEFORE THE MCSGFC

5. The Exchange vide its email dated January 30, 2024, granted the Noticee with an opportunity of personal hearing before the Committee in its present meeting. On behalf of the Noticee, Mr. Narendra Jain (Designated Director), Mr. Prasad Umarale (Compliance Officer) and Mr. Ronak Gandhi (Chief Financial Officer) appeared before the Committee and reiterated the submissions made in its written response. The Committee directed the Noticee to submit additional written submissions, if any, to the Exchange. The Exchange vide its email dated February 8, 2024, communicated the direction of the Committee to the Noticee and directed it to submit its additional submissions, if any, latest by February 12, 2024. The Noticee vide its email dated February 8, 2024, submitted additional reply to the SCN.

CONSIDERATION AND FINDINGS

6. The observations/violations in the SCN, reply of the Noticee and the findings of the Committee are as under: -

6.1. **Engagement as a principal in business other than securities involving personal financial liability**

6.1.1. Upon verification of the Noticee's loans, advances and investments details submitted in the monthly regulatory report for the period April 2022 to December 2022, the Exchange observed that the Noticee engaged in business other than securities by extending loans to and investing in 5 related parties that are not

involved in the securities or commodity derivatives business, involving a total value of Rs.101.23 crores between the period April 2022 to December 2022, and an outstanding balance of Rs.72.16 crores, as of December 31, 2022. The details of the outstanding balance as of December 31, 2022, are as under: -

Entity's Name	Relation with the Noticee	Nature of business	Amount Outstanding as of 31-Dec-22 (Rs. In crores)
Investment in Related Entities			
Livlong Protection and Wellness Solutions Limited	Subsidiary	Healthcare and Wellness services	4.19
IIFL Facilities Services Limited	Subsidiary	Office premises services	32.14
IIFL Management Services Limited	Subsidiary	Office management services	1.00
IIFL Home Finance Limited	Group Company	Non-banking financial company	8.83
IIFL Finance Limited	Group Company	Non-banking financial company	-
Loans given to Related Entities			
IIFL Management Services Limited	Subsidiary	Office management services	25.00
Livlong Protection and Wellness Solutions Limited	Subsidiary	Healthcare and Wellness services	1.00
IIFL Facilities Services Limited	Subsidiary	Office premises services	-

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

a. Exchange Circular No. NSE/COMP/50957 dated January 7, 2022, was issued to ensure that Trading Members do not invite any personal liability affecting its business or clients' assets. Further, SEBI under the Enhanced Risk-based Supervision mandated daily monitoring of clients' assets and weekly reporting of the same to the stock exchanges, from

July 2017. The Enhanced Risk-based Supervision ensures that the clients' funds/assets are either held in the client's bank account and/or with Clearing Corporation/Clearing Member. Several circulars were issued by SEBI/ stock exchanges to strengthen the existing Enhanced Risk-based Supervision to segregate and supervise the clients' funds/securities and monitor the financial health of the Trading Member. Thus, the investment of the Noticee's own funds in its subsidiaries engaged in businesses or activities other than that of dealing in securities shall be permitted, as such investments do not invite any personal liability affecting the business of the Noticee or its clients' assets.

b. Investments in securities of group companies was permitted for over two decades without any restriction except that the said amount shall be deducted while calculating the Trading Member's net worth as per the L. C. Gupta method for computation of net worth. The L C Gupta method is used to compute the minimum liquid/own net-worth required to be maintained by a Trading Member to continue its membership with the stock exchanges and *inter alia*, excludes the following particulars: -

   i. amount given in the nature of loans, advances, etc. to the associates including subsidiaries/group companies of the member, irrespective of the time period.

   ii. investments in unlisted securities of associate/ subsidiary/ group companies.

c. Thus, extending loans or giving deposits/advances out of a Trading Member's own funds must also be permitted as the same shall neither invite any personal liability affecting the Trading Member's business or its clients' assets nor be included in its net-worth calculated as per the L. C. Gupta method. Further, investments/loans/advances in subsidiaries are permissible under the Companies Act, 2013 and the laws of SEBI do not restrict investment of own money if the same does not invite any personal liability on the Trading Member or its clients' assets.

d. Trading Members, like other entities, must be allowed to exercise discretion to park surplus funds in avenues that maximize returns on investment all investments made by a Trading Member shall not be treated as "business".

e. Hon'ble SAT in M/s. Magnum Equity Broking Limited v. NSEIL, held that investment of own funds generated as a consequence of securities business with a non-banking financial company registered with the Reserve Bank of India cannot lead to the inference that M/s. Magnum Equity Broking Limited is engaged as principal in business other than that of securities involving personal financial liability.

f. The Board of Directors of the Noticee at its meeting held on January 31, 2018 approved the draft Composite Scheme of Arrangement ("Scheme") amongst the Noticee (Resulting Company 1), IIFL Holdings Limited (Holding Company, Demerged Company and Transferee Company 1), India Infoline Media and Research Services Limited (Transferor Company 1), Wealth Management Limited (Resulting Company 2 and Transferor Company 3), India Infoline Finance Limited (Transferor Company 2), Distribution Services Limited (Transferee Company 2) , and their respective shareholders, under Sections 230 - 232 and other applicable provisions of the Companies Act, 2013, Companies Act, 1956, subject to requisite statutory and regulatory approvals.

g. The Scheme provides for demerger, transfer and vesting of the securities business undertaking from the Demerged Company to the Resulting Company-1 on a going-concern basis, and the consequent issue of shares by the Resulting Companies to the shareholders of IIFL Holdings Limited in the manner set out in the Scheme and other applicable provisions. The restructuring pursuant to the Scheme will result in three independent listed entities i.e., "Wealth", "Finance" (upon scheme becoming effective, the proposed new name for Demerged Company) and "Securities". All the shareholders of Holdings (present listed entity) will have proportionate shareholding in "Wealth", "Finance" and "Securities".

h. Accordingly, the investments of IIFL Holdings Limited will become the investments of the "Securities" Limited as it will become a subsidiary of the "Securities" Limited. The scheme of demerger involving changes in the corporate structure of Securities Ltd. (formerly India Infoline Ltd) was approved by the Exchange vide its letter dated October 26, 2018.

i. Thus, the instance-wise explanation for the reported instances of investments made and loans given to related parties is as under: -

Entity's Name	Explanation
Investment	
Livlong Protection and Wellness Solutions Limited	Subsidiary companies of the Noticee. The investments became investments of IIFL Securities Limited, pursuant to the demerger scheme. No new investments after effecting the scheme of demerger.
IIFL Facilities Services Limited	
IIFL Management Services Limited	a. It is the investment manager of the Noticee's SEBI registered AIF, and is engaged in activities related to securities business as per Rules 8 (1) (f) and 8 (3) (f) of SCRR, 1957 b. Subsidiary company of the Noticee. The investment became investment of IIFL Securities Limited, pursuant to the demerger scheme. No new investments after effecting the scheme of demerger.
IIFL Home Finance Limited	Investments were made in the debentures of these companies to earn interests more than the prevailing FD interest.
IIFL Finance Limited	
Loans given to Related Entities	
IIFL Management Services Limited	Temporary advances were extended to subsidiaries at arms' length and with interest, in accordance with a related party transaction policy approved by the Noticee's Board of Directors.
Livlong Protection and Wellness Solutions Limited	
IIFL Facilities Services Limited	

j. The Noticee vide its letter dated March 11, 2022, requested the Exchange and the Bombay Stock Exchange to review the illustrative list mentioned under Exchange Circular No.

NSE/COMP/50957 dated January 7, 2022, and provide exceptions.

6.1.3. The Committee finds as under: -

In view of the latest developments and the stand taken by Union of India in the Writ Petition (WP (St.) No. 32739 of 2023) filed by Kotak Securities Limited before the Hon'ble High Court of Bombay, the Committee decided to keep the enforcement action against the Noticee under Rule 8(3)(f) of SCRR in abeyance pending adjudication.

6.2. **Incorrect data submitted to the Exchange in the weekly client-level cash and cash equivalents submissions**

6.2.1. Upon verification of the data submitted by the Noticee in the weekly client-level cash and cash equivalents balances vis-à-vis the margin trading reporting files as of July 29, 2022, August 30, 2022, September 30, 2022, October 31, 2022, and November 30, 2022, the Exchange observed that the Noticee submitted incorrect client ledger balances of MTF ledger under "Financial Ledger Balance (Clear) – B" in the cash and cash equivalents submissions to the Exchange on 5 dates between July 29, 2022, and November 30, 2022, involving differences ranging from Rs.580.05 crores to Rs.669.10 crores.

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

a. In the daily MTR reporting, record type "10" signifies the total value of funded scrips reported and the record type "20" signifies the client-wise scrip-wise bifurcation of the said amount. Thus, the comparison of "Financial Ledger balance (Clear)-B" which is the ledger balance adjusted against the unsettled bills, margin, un-cleared cheques etc., with "MTF Exposure" in the MTR file, is incorrect. The "Financial Ledger balance (Clear)-B" can only be compared with "Financial

Ledger Balance –A" which is the end of the day balance in the MTF ledger.

b. Upon reconciliation of "Financial Ledger Balance –A" with the value reported in MTR in record type "10", it can be observed that the cash and cash equivalent balances were reported correctly to the Exchange as per the MTF ledger barring minor differences ranging from 0.001% to 0.038% of the aggregate MTF funded value of the day.

c. Minor differences were observed with respect to certain clients in exceptional circumstances due to logical issues in identification of funded stocks like bonds, corporate action in funded stocks etc., while submitting the margin trading report on "T+1" day. The Noticee strengthened its processes to ensure correct MTR reporting and logical issues identified have been rectified in the back-office system.

6.2.3. The Committee finds as under: -

a. The Noticee claimed that the comparison of "Financial Ledger balance (Clear)-B" with MTF exposure in the MTR file, is incorrect as it can only be compared to "Financial Ledger Balance –A".

The violation pertains to incorrect reporting of cash and cash equivalents balances and not comparison between the "Financial Ledger Balance (Clear)-B" and "Financial Ledger Balance – A". Thus, the Noticee's claim is not tenable, and the violation persists.

b. The Noticee attributed the other minor differences to logical issues in identification of funded stocks like bonds, corporate action in funded stocks etc., while submitting the margin trading report on "T+1" day. Thus, the violation persists.

c. As per Exchange Circular No. NSE/INSP/43926 dated March 23, 2020, and NSE/INSP/46960 dated January 8, 2021, Trading Members must upload day-wise client-level cash and

cash equivalent balances on a weekly basis for all calendar days of that week except Sunday (i.e. Monday to Saturday). The Trading Members must verify the data before submission to the Exchange. Thus, the Noticee violated the regulatory provisions mentioned above by submitting incorrect data in the weekly client-level cash and cash equivalent balances.

6.2.4. Considering that the violation is not repeated in the financial year, the Committee decided to advise the Noticee to ensure non-recurrence of the observed violation.

DECISION

7. In view of the above, the Committee levies the following penalties as indicated against each of the violations mentioned below: -

Sr. No.	Committee's Findings based on the Noticee's submission	Prescribed penalty as per Exchange Circular Nos. NSE/INSP/48655 dated June 18, 2021, and NSE/INSP/53530 dated September 2, 2022	Penalty Levied post-considering the Noticee's submission and the Committee's findings
1.	Engagement as a principal in business other than securities involving personal financial liability involving an outstanding balance of Rs.72.16 crores, as of December 31, 2022.	Amount involved > Rs. 5 crores: Rs.5,00,000/- + No new clients if funds given as loans /advances are not recovered within the time allotted	Kept in abeyance. The observation shall be dealt with subsequently by a separate order.
2.	Incorrect data submitted to the Exchange in the weekly client-level cash and	Rs.1,00,000/-	Advise (Considering that the violation is not repeated in the financial year)

Sr. No.	Committee's Findings based on the Noticee's submission	Prescribed penalty as per Exchange Circular Nos. NSE/INSP/48655 dated June 18, 2021, and NSE/INSP/53530 dated September 2, 2022	Penalty Levied post-considering the Noticee's submission and the Committee's findings
	cash equivalents submissions on 5 dates between July 29, 2022, and November 30, 2022, involving differences ranging from Rs.580.05 crores to Rs.669.10 crores.		
		TOTAL	**Advise**

8. The Noticee is advised to ensure non-recurrence of the observed violation.

Sd/-	Sd/-	Sd/-
S Ravindran	Prof. S Sudarshan	Ashishkumar Chauhan
(Chairperson)	(Committee Member)	(Committee Member)

Date: April 18, 2024