Meeting of Member Committee

("MC"/"Committee")

of

National Stock Exchange of India Limited

Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051

held on August 28, 2024

In the matter of the Trading Member: IIFL Securities Limited

CORAM:

Mr. S Ravindran	-	Chairman
Justice (Retd) Smt. Abhilasha Kumari	-	Committee Member
Prof (Dr.) Mamata Biswal	-	Committee Member
Mr. Essaji Vahavanti	-	Committee Member
Mr. Ashishkumar Chauhan	-	Committee Member

ALSO PRESENT:

Mr. Piyush Chourasia	-	Chief Regulatory Officer
Mr. Ankit Sharma	-	Chief Regulatory Officer
Ms. Sonali Karnik	-	Vice President – Enforcement
Mr. Janardan Gujaran	-	Vice President – Enforcement

BACKGROUND

1. IIFL Securities Limited **(**hereinafter referred to as **"IIFL Securities/Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited (hereinafter referred to as 'NSEIL/Exchange') in the Capital Market ("**CM**") segment since May 2000, Futures & Options ("**F&O**") segment since June 2000, and Currency Derivatives **("CD")** segment since August 2008 and Commodity Derivatives **("COM")** segment since October 2018.

2. As a part of the offsite supervision mechanism, the Exchange reviewed the ledgers of the top debtor and creditor clients of IIFL Securities. During the review of client ledgers, the Exchange observed the receipt and payment entries indicating that the Noticee has facilitated financing arrangements to its clients through its Non-Banking Financial Company viz. IIFL Finance Limited (hereinafter referred to as "**NBFC"**). Therefore, the Exchange conducted a

limited purpose verification of IIFL Securities' books and records from August 2022 to January 2023 covering the period February 1, 2022, to July 31, 2022. Post verification, the Exchange issued a Show Cause Notice (hereinafter referred to as **"SCN"**) dated February 10, 2023. IIFL Securities responded to the SCN on March 03, 2023.

3. Further, in consultation with SEBI, a forensic audit/review of emails of Key Managerial Personnels (hereinafter referred to as **"KMPs"**) of IIFL Securities was conducted in October 2022 covering the period from April 1, 2021, to October 19, 2022. Accordingly, the Exchange issued a Letter of Observation (hereinafter referred to as **"LO"**) dated April 16, 2024. IIFL Securities responded to the LO on May 06, 2024.

INSPECTION OBSERVATIONS/ VIOLATIONS

4. The observations/violations alleged in the SCN and LO are summarized hereunder:

SCN

a. Facilitating the financing of client transactions through a financier i.e. IIFL Finance Limited involving an amount of Rs. 29,162.52 crores to 5,424 clients of IIFL securities during the period from February 01, 2022, to July 31, 2022.

LO

a. Facilitating the financing of client transactions through a financier i.e. IIFL Finance Limited.
b. Excess pay-out of funds to the clients at the time of settlement.
c. Failure to ensure that Authorised Persons (AP) are engaged only in permitted activities and are not undertaking any business which is disallowed.
d. Non-adherence to Exchange guidelines related to Regulatory Framework for Market Access through AP.
e. Non-maintenance of client registration documents containing all the prescribed mandatory documents and all fields properly filled up.

REGULATORY PROVISIONS

5. At the outset, it may be appropriate to refer to the relevant regulatory provisions, extracts whereof are reproduced below:

Financing of securities transactions and transfer of securities & funds.

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 an 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.*

PRESENT PROCEEDINGS BEFORE THE COMMITTEE

6. Vide email dated August 21, 2024, the Exchange granted IIFL Securities an opportunity of personal hearing before the Committee. On behalf of IIFL, Mr. Narendra Jain-Designated Director, Mr. Prasad Umarale-Compliance Officer, Ms. Mamta Singh-Head Legal and Mr. Kunal Kataria-Advocate, appeared and orally reiterated the submissions before the Committee.

CONSIDERATION AND FINDINGS

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

Facilitating the financing of client transactions through a financier i.e. IIFL Finance Limited

SCN

7.1 The Exchange, upon review of the receipt and payment entries in 60 bank books of IIFL Finance for the period February 1, 2022, to July 31, 2022, observed that IIFL Finance Limited made payments amounting to Rs. 29,162.52 crores to 5,424 clients of IIFL Securities.

7.2 Upon review of the fund ledgers of 50 clients provided by IIFL Securities, for the period February 1, 2022, to July 31, 2022, the Exchange observed that the receipt entries in client ledgers amounting to Rs. 17,076 crores matched the payments made by IIFL Finance Limited to the clients of IIFL Securities.

7.3 Upon seeking clarification, IIFL Finance Limited confirmed that it holds the power of attorney of the bank accounts of 19 clients of IIFL Securities. It also confirmed that the outstanding exposure of IIFL Finance Limited to 167 clients of IIFL Securities is Rs. 232.25 crores as of December 30, 2022.

LO

7.4 Facilitating the financing of client transactions through a financier i.e. IIFL Finance Limited.

In its reply to SCN and LO, the Noticee submitted the following:

7.5 IIFL Securities and IIFL Finance Ltd are independent entities and are being regulated by different regulators. They carry on their operations on an arm's length basis.

7.6 IIFL Securities clients may have availed services of IIFL Finance Limited and in such cases the clients would overlap between two companies. It may be noted that IIFL Finance Ltd has made payments to more than 5000 clients of IIFL Securities.

7.7 IIFL Finance Ltd has made payments amounting to Rs. 29,162.52 Crore to 5,424 clients, which is not even 0.5% of the total client base.

7.8 The purpose of financing is not specified in the SCN, and it is possible that the finance may be for purposes other than securities trading as well. It is possible that the clients would have availed the services from IIFL Finance Ltd for transacting in securities and in such cases the payments to their clients would appear in the books of IIFL Finance Ltd. It is the discretion of the clients to select their financer and as a trading member of the Exchange, Noticee have absolutely no role to play in that. The client may avail themselves of the facility from any source, and they do not solicit or pursue clients to avail finance from IIFL Finance Ltd.

7.9 The Committee finds as under:

7.9.1 Upon verification of the records of the Ministry of Corporate Affairs as on August 01, 2024, it was observed that Mr. R Venkataraman is the Co-Promoter of IIFL Group, Chairperson of IIFL Securities and Joint MD of IIFL Finance. Thus, both the arms of the IIFL group were managed by common KMPs. Details of which are tabulated below:

Table 1: IIFL group managed by common KMP (Mr. R Venkataraman)

Entity name	**Original date of appointment Mr. R Venkataraman**	**Date of appointment of current designation Mr. R Venkataraman**
IIFL Securities Ltd	May 13, 2013	May 17, 2019
IIFL Finance Ltd (NBFC)	July 05, 1999	May 07, 2011

7.9.2 Thus, it was observed that the existence of a common holding entity, coupled with Joint Managing Director of IIFL Securities and IIFL Finance Ltd significantly influences the independent decision-making process of both the entities. The existence of common KMPs clearly indicate IIFL Securities having a possible indirect role in facilitating the financing of the secondary market transactions of its clients despite its claim that IIFL Securities and IIFL Finance are independent entities and are being regulated by different regulators and it operates on an arm's length basis. As the independence of decision-making of both the entities is significantly influenced by

the existence of common KMPs, the possibility of IIFL Securities having an indirect arrangement with IIFL Finance Ltd to facilitate loans to IIFL Securities clients could be ruled out. It was also observed that IIFL Finance Ltd has confirmed that it holds the power of attorney of the bank accounts of 19 clients of IIFL Securities.

7.9.3 In order to conclude the above observation, the Committee noted that the Exchange in consultation with SEBI conducted a forensic audit/review of emails for disk imaging/email imaging of KMPs of IIFL Securities in October 2022 covering the period from April 1, 2021, to October 19, 2022. Upon verification of the emails of IIFL Securities, it was observed that the emails dated July 07, 2022 between Mr. Sandeep Bharadwaj, CEO of IIFL Securities and Mr. Venkataraman, Co-Promoter of IIFL Group, Chairman of IIFL Securities and Joint MD of IIFL Finance, indicate that the management acknowledged the fact that funding from IIFL Finance Ltd/NBFC was not in terms of the above specified NSE Circular(s) and IIFL Securities was planning to do away with the said arrangements. Further, IIFL Securities requested a client, Mr. Nitin Shakdher to discontinue the IIFL Finance Ltd/NBFC funding. Responding to the said email, the client has stated that the NBFC margin facility is against the SEBI rules and IIFL Securities has not given a reasonable time for him to repay the funds to IIFL Finance Limited and as a result he has incurred losses. The extract of the emails which were shared with IIFL Securities vide Exchange email dated May 03, 2024, is summarized as below:

a) *Email dated July 07, 2022, by Sandeep Bharadwaj, CEO of IIFL Securities at the prevailing time stated:*

"This time things are pretty serious and clear. Exchanges clearly know how brokers were having arrangements for funding margins. I don't think this circular has left any point and sense for doing this business.

We need to forgo this business and build other business lines.

Let's do away with this.

Only point we should discuss, how much book do we have for secured and unsecured and how to liquidate it? How much time

can be given to customers? Pls arrange a call with all business leaders. I will address…"

b) Response *to* the above email by Mr. Venkataraman, Co-Promoter of IIFL Group, Chairman of IIFL Securities and Jt. MD of IIFL Finance:

"In my opinion today is expiry and we should close spam funding product today end of day.
Unsecured LAS has to be moved into margin funding product…"

c) IIFL Securities' email to clients to discontinue NBFC funding:

IIFL Securities had sent an email to Client Nitin Shakdher which indicated that IIFL Securities was requesting the client to discontinue NBFC funding. An extract of the email dated July 07, 2022, sent by Biranjan Kumar, employee (RM Wealth) is hereunder:

"*Dear sir,*
Please find the attachment of NSE circular for closing NBFC funding and also clear the loan today itself of below id:
ONKRSHAK
PRMALLPN…"

d) Client's reply to the email sent by IIFL Securities dated July 07, 2022

The client Nitin Shakdher vide an email dated July 07, 2022; inter-alia stated that:

"…The nbfc margin facility which was against the sebi rules has been initiated by IIFL has left the client with losses and no prior intimation or enough notice provided which is a contravention of the signed nbfc margin trading annual facility…."

e) The same client in separate email of same date, further inter-alia stated as under:

"…My legal team will serve a notice tomorrow to IIFL Securities on the basis that the margin nbfc facility offered to iifl clients was in contravention of the sebi policies and by law was not a legal

product to be offered to clients. Hence, iifl securities was not following the law as prescribed by Sebi. As we were given 1 hr notice to close all our nbfc positions, this created a loss of approx 25 Lakhs in both our accounts. The copy of the trade and loss will be shown in the notice…."

7.9.4 The above email conversations clearly establish that IIFL Securities was not only aware of the financing done by IIFL Finance to its clients, but it also acknowledged the fact that the financing done by IIFL Finance Ltd/NBFC was not in terms of the above specified NSE Circular(s) and was planning to discontinue the same. Moreover, the email sent to the client Mr. Nitin Shadher also clearly shows that IIFL Securities after acknowledging the fact that funding from IIFL Finance Ltd/NBFC was not in terms of the above specified NSE Circular(s) had shown some urgency in closing the account which has adversely affected the interest of the client.

7.9.5 The forensic examination of emails of the KMPs of IIFL Securities and its clients clearly establishes that it is a planned mutual arrangement/agreement entered into between the clients of IIFL Securities and IIFL Finance Limited. The entire trail of emails completely invalidates the contention of IIFL Securities that both the entities are independent and carry their operations on an arm's length basis.

7.9.6 The outstanding exposure by IIFL Finance Ltd/NBFC to IIFL Securities' clients from December 30, 2022, to February 22, 2024, has been tabulated below:

Date	Amount (Rs. in crores)
December 30, 2022	232.25
July 13, 2023	328.84
October 31, 2023	307.53
February 22, 2024	441.18

The table indicates that even after the Exchange Circular No. NSE/INSP/6938 dated December 9, 2005, NSE/INSP/47278 dated February 9, 2021, and NSE/INSP/52888 dated July 5, 2022, the outstanding exposure by IIFL Finance Ltd/NBFC to IIFL Securities' clients has cumulatively increased.

7.9.7 As mentioned above, the forensic examination of emails exchanged on July 07, 2022, makes it evident that IIFL Securities was not only aware of the financing done by IIFL Finance to its clients, but it also acknowledged the fact that the financing done by IIFL Finance Ltd/NBFC was not as per the terms of the above specified NSE Circular(s). Despite this, the outstanding exposure to IIFL Securities clients has cumulatively increased from December 30, 2022, to February 22, 2024. As on February 22, 2024, the outstanding exposure to IIFL Securities' clients is Rs.441.18 crores. This reflects that IIFL Securities has knowingly violated the provisions of the above specified NSE circular(s). As mentioned in para 7.9.4, though IIFL Securities showed some urgency in reducing the financing arrangements in July 2022, immediately post the release of NSE Circular(s), the total financing exposure was almost doubled in February 2024 as compared to December 2022. Thus, there was a continuous violation of the above specified NSE Circular(s) by IIFL Securities.

7.9.8 Thus, the funding to 5424 clients of IIFL Securities is a planned arrangement to facilitate the financing of clients' transactions through IIFL Finance Ltd/NBFC and the contention of IIFL Securities that it was a case of overlap of clients cannot be accepted.

7.9.9 The fact that IIFL Securities has facilitated financing of client's transactions through IIFL Finance Limited/NBFC triggers the violation of the above specified NSE Circulars. The violation is irrespective of the percentage of client base/number of clients. Therefore, the contention of IIFL Securities that the client base was miniscule would not change the case.

7.9.10 Regarding the contention of IIFL Securities that it is the discretion of clients to select the financier and there is a possibility that clients would have availed services from IIFL Finance Ltd for transacting in securities and the payments would have been reflected in the books of IIFL Finance Limited, it was observed that it cannot be a coincidence that 5424 clients of IIFL Securities chose IIFL Finance Limited as their financier. Further, the emails exchanged between KMPs showing the conscious efforts of IIFL Securities and IIFL Finance to manage financing arrangements to clients of IIFL Securities clearly establish that it is a planned mutual

arrangement/agreement entered into between IIFL Securities and IIFL Finance Limited and negates the said contentions.

7.9.11 Further, IIFL Securities has also violated Exchange Circular No. NSE/INSP/52888 dated July 5, 2022, by sharing transaction/obligation details of the clients with NBFC or any other lending institutions.

7.9.12 The outstanding exposure by IIFL Finance Ltd to IIFL Securities' clients was Rs.441.18 crores as on February 22, 2024. The Committee notes that the outstanding exposure reduced to Rs. 233.35 Crs. as on July 31, 2024 and further reduced to Rs. 207.76 Crs. as on March 31, 2025.

7.10 Given the findings as above, the Committee decided to levy a monetary penalty of Rs. 5,00,000/- and directed IIFL Securities as under:

a. To submit an undertaking to desist from engaging in facilitation of financing through NBFC within 2 days and zero down the clientele exposure for financing through NBFC within 90 days from the date of this order failing which the violation will be treated as repeat violation and escalated disciplinary action of no new clients as per Exchange circular No. NSE/INSP/53530 dated September 02, 2022, will be applicable.

b. Direction to submit monthly CA certificate for the next 3 months in compliance with the above.

8. The violation as referred in LO dated April 16th, 2024 pertaining to (a) Excess pay-out of funds to the clients at the time of settlement, (b) Failure to ensure that Authorised Persons (AP) are engaged only in permitted activities and are not undertaking any business which is disallowed, (c) Non-adherence to Exchange guidelines related to Regulatory Framework for Market Access through AP, and (d) non-maintenance of client registration documents containing all the prescribed mandatory documents and all fields properly filled up, shall be dealt in a separate order.

DECISION

9. In view of the above, the Committee levied the following penalties as indicated against each of the violations:

Sr. No.	Committee's Findings based on IIFL Securities submission	Penalty prescribed as per the Exchange Circular No. NSE/INSP/53530 dated September 2, 2022	Penalty levied post-considering the IIFL Securities submissions and the Committee's findings
a	IIFL Securities facilitated the financing of client transactions through NBFC.	Rs.5,00,000/-	Rs.5,00,000/- + submit an undertaking to desist from engaging in facilitation of financing through NBFC within 2 days and zero down the clientele exposure for financing through NBFC within 90 days from the date of this order failing which the violation will be treated as repeat violation and escalated disciplinary action of no new clients as per Exchange circular No. NSE/INSP/53530 dated September 02, 2022, will be applicable + Direction to submit monthly CA certificate for the next 3 months.
Total			**Rs.5,00,000/- + Directions**

10. IIFL Securities is directed to pay a monetary penalty of Rs.5,00,000 /- (Rupees Five lakhs only) as indicated above.

11. IIFL Securities is directed to submit an undertaking to desist from engaging in facilitation of financing through NBFC within 2 days and zero down the clientele exposure for financing through NBFC within 90 days.

12. IIFL Securities is directed to submit a monthly CA certificate for 3 months in compliance with the above.

13. IIFL Securities is directed to note the non-monetary penalty as indicated above and ensure non-recurrence of the observed violations.

Sd/-
S. Ravindran
(Chairman)

Sd/-
Justice (Retd.) Smt. Abhilasha Kumari
(Committee Member)

Sd/-
Essaji Vahanvati
(Committee Member)

Sd/-
Prof (Dr.) Mamata Biswal
(Committee Member)

Sd/-
Mr. Ashishkumar Chauhan
(Committee Member)

Date: May 26, 2025.