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 Nuvama Wealth and Investment 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. **Nuvama Wealth and Investment 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 and Futures & Options ("**F&O**") segment since March 5, 2009, and Currency Derivatives ("**CD**") segment since March 17, 2010.

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 Nuvama Wealth Finance Limited ("**NWFL**"), a Non-Banking Financial Company ("**NBFC**"). During review, the Exchange observed receipt and payment entries indicating a financing arrangement between NWFL and clients of the Noticee. Therefore, the Exchange conducted a limited purpose inspection of the books

and records of the Noticee covering the period from June 2022 to November 2022 during December 2022 to April 2023. Post-inspection, the Exchange issued a show-cause notice ("**SCN**") dated June 9, 2023, to the Noticee for the observed non-compliances with the regulatory provisions. The Noticee, vide email dated June 30, 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. NWFL

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 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 client 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 & 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 fellow subsidiary company of the Noticee, i.e. NWFL, provided by SEBI for the period June 1, 2022, to November 30, 2022.

b. Fund ledgers of 58 clients provided by the Noticee for the period June 1, 2022, to November 30, 2022.

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

a. Payments amounting to Rs. 3,897.33 crores made to 2,117 clients of the Noticee appeared in the bank books of NWFL.

b. Permanent Account Number (PAN) of all 2,117 clients of the Noticee matched with the PAN appearing in the bank books of NWFL.

Upon review of the fund ledgers of 58 clients on sample basis out of 2,117 clients, the Exchange observed the following:

a. The receipt entries in the client ledgers valuing Rs. 744.24 crores matched with the payments made by NWFL to the clients of the Noticee, thereby indicating financing arrangements between NWFL and the clients of the Noticee.

b. Upon seeking clarification, NWFL confirmed that it holds power of attorney of the bank accounts of 37 out of 58 clients of the Noticee.

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

a. <u>Noticee and NWFL are separate legal entities</u>

The Noticee and NWFL are separate legal entities under different managements. The business decisions of two separate legal entities under different managements cannot be attributed to each other even if they form part of the same group. The Noticee cannot be held accountable for the financial arrangements/agreements entered by NWFL especially in the absence of any evidence alleging otherwise.

b. <u>Failure to delineate the specific charges</u>

There is no material on record to establish that the Noticee has facilitated the alleged financing transactions between NWFL and the clients of the Noticee.

c. <u>Response to specific allegations</u>

i. The Noticee was not a party to any agreement or arrangement, directly or indirectly, entered between its clients and NBFC to fund the client transactions.

ii. The Noticee did not entertain instructions from an entity other than its clients with regard to transfer of funds or trading in securities for facilitating financing of client transactions.

iii. The Noticee has not obtained any authorisation or power of attorney from its clients to operate their depository and/or bank accounts.

iv. The Noticee has neither facilitated nor acted as a conduit for financing secondary market transactions entered by its clients nor violated the provisions of the relevant circulars of the Exchange

d. <u>No correlation between the amounts reflected in the client ledgers and the bank books of NWFL</u>

The Exchange has not shown any correlation between the amounts reflected in the client ledgers and the bank books of NWFL. Merely because the amounts disbursed by NWFL to its clients are reflected in their fund ledgers maintained with the Noticee, the Exchange has wrongly concluded and presumed that this indicates financing arrangements between NWFL and clients of the Noticee.

5.1.3 The Committee finds as under:

a. The Noticee claimed that both the entities, i.e. the Noticee and NWFL, are separate legal entities under different managements and therefore the business decisions cannot be attributed to each other even if they form part of the same group.

The Noticee's contention that both are separate legal entities is correct to extent that NWFL and Noticee are individually registered with Ministry of Corporate Affair (MCA), and thus, are distinct legal entities in the eyes of law. However, upon verification of the MCA master data of NWFL vis-à-vis the records of the Exchange pertaining to the Noticee, it is observed that Mr. Birendra Kumar, Mr. Ashish Kehair and Mr. Kamlesh Vikamsey serves as common directors for both the Noticee and NWFL. By lifting the corporate veil, it become evident that, the Noticee and NWFL can significantly influence each other's decision-making processes due to the shared directorship. Furthermore, it is worth noting that the Noticee and NWFL are under the control of the common holding entity, viz. Nuvama Wealth Management Limited.

Thus, the Noticee's contention that the Noticee and NWFL are separate legal entities under different managements and therefore the business decisions cannot be attributed to each other even if they form part of the same group is questionable.

b. The Noticee claimed that the SCN failed to delineate the specific charges, is not acceptable as paragraph No.3.1 of SCN clearly specifies the observed violation and paragraph No.4.1, stipulates the provisions of circulars violated by the Noticee.

c. The Noticee claimed that it was neither directly nor indirectly a party to any arrangement/agreement, did not entertain instructions from an entity other than its clients with regard to transfer of funds, and neither facilitated nor acted as a conduit for financing secondary market transactions. The Noticee further contended that, there is no correlation between the amounts reflected in client ledgers and bank books of NWFL, and that there is no violation of the Exchange circulars.

   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. Upon verification of the receipt and payment entries of the bank books of NWFL for the period June 2022, to November 2022, it is observed that (i) payments amounting to Rs. 3,897.33 crores were made to 2,117 clients of the Noticee as appeared in the bank books of NWFL and (ii) PAN of all 2,117 clients of the Noticee matched with the PAN appearing in the bank books of NWFL.

iv. Upon further verification of client trading ledgers of 58 sample clients out of 2,117 clients vis-à-vis bank books of NWFL provided by the Noticee, it is observed that the credit entries in the trading ledgers of the said 58 clients valuing to Rs. 744.24 crores matched with the payments made by NWFL to the clients of the Noticee. Further, NWFL holds power of attorney over bank accounts of 37 out of 58 clients of the Noticee.

v. The Noticee contended that the Noticee did not entertain instructions from an entity other than its clients with regard to transfer of funds. However, the Noticee failed to produce any evidence such as funds payout request received from its clients in support of its contention. Thus, the Noticee's

contention is not tenable.

vi. Upon scrutinising receipt entries of funds in the account of a client Mr. Rishabh Bhatiya (PAN - AGXPB0135E), on sample basis, a question arises as to how NWFL transferred specific amounts such as Rs. 20,418,259, Rs. 74,354,272, Rs. 76,677,333 and, Rs. 76,877,602 etc., This would only be possible if the Noticee shares the client transaction/margin obligation details with NWFL on a regular basis. Therefore, it appears that there is an indirect arrangement/agreement and the Noticee is acted as a conduit between the Noticee and NWFL.

d. The existence of a common holding entity, coupled with three shared directors between the Noticee and NWFL, significantly influences the independent decision-making process of both the entities. 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 was not a party to any agreement/arrangement entered into between its clients and NWFL.

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 NWFL, 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 NWFL to the clients of the Noticee is Rs. 560.31 crores as of July 31, 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 levies the following penalty as indicated against the violation:

Sr.	Committee's Finding	Prescribed penalty as per Exchange Circular No. NSE/INSP/53530 dated September 2, 2022	Penalty Levied
a.	The Noticee facilitated the financing of client transactions through a NBFC	Rs. 5,00,000/-	Warning (For reasons enumerated above)

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: November 26, 2024

Non-Confidential