

**Before the
Member And Core Settlement Guarantee Fund Committee (MCSGFC)
Of
NSE Clearing Ltd. (NCL)
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051
Held on February 12, 2020**

In the matter of clearing member

M/s Globe Capital Market Ltd.

CORAM:

Mr. Harun R Khan	- Chairman
Mrs. Bhagyam Ramani (through video conference)	- Member
Mr. N.K. Maini	- Member
Mr. Vikram Kothari (MD, NCL)	- Member

Also Present:

Mr. Dhawal Shah - Head - Compliance
Ms Jinal Shah - Sr. Manager
Ms. Divya Potdar - Manager

BACKGROUND

1. **M/s Globe Capital Market Ltd.** (hereinafter referred to as “Noticee”) is a registered Clearing Member of NSE Clearing Ltd. (NCL).
2. NCL conducted Limited Purpose Inspection (LPI) of the Noticee in October 2018 in Futures & Options and Currency Derivative segment.
3. Show cause notice (SCN) dated January 17, 2020 was issued to the Noticee for violations observed during the inspection.
4. The Noticee was granted an opportunity of personal hearing before Committee in its meeting held on January 29, 2020 and was represented by Mr. Yash Pal Mendiratta – Managing Director and Mr. Kapil Marwah – Compliance Officer. At the Noticee’s request, the Noticee was also given an opportunity to file written submissions. The Noticee has filed additional written submissions dated January 30, 2020.

5. Details of violations, Noticee's submissions and Committee's observations:

The Committee considered the oral and written submissions made by the Noticee. The Committee's observations on the same, along with details of violations are analyzed below:-

5.1 Shortfall of MTM/Settlement

5.1.1 Violation Details

On verification of the books of accounts of the Noticee for the period April 01, 2018 to September 21, 2018, it is observed that the Noticee has not collected MTM Settlement obligation amounting to Rs.10.83 Crs in F&O segment, in the form of cash, from its Trading Member Narayan Securities Limited (Narayan), on 32 dates out of the total 53 days in which the member Narayan had MTM Settlement obligations. The Noticee, during the personal hearing, requested for additional submissions. The Committee permitted the Noticee to make additional submissions. Considering the written submissions made by the Noticee, wherein the Noticee stated that the excess balance of Currency Derivatives segment of Narayan with the Noticee were required to be factored, which is the normal practice, the MTM Settlement shortfall was recomputed and it was observed that the shortfall amount was still Rs 3.04 crores.

5.1.2 Noticee's oral and written submission to Show Cause Notice of NCL

The Noticee has claimed that the instances observed by NCL is incorrect. The Noticee has submitted the revised working for the instances observed. The Noticee has claimed that the collection of MTM in cash only is not mandatory. The Noticee has stated that MTM can be collected in cash as well as other collaterals from the trading member as specified by NSE vide its circular dated June 18, 2018 "Guidelines/clarifications of Margin collection & reporting".

5.1.3 MCSGFC's observations and findings with respect to the Noticee's Response on violations

The Committee noted the written submissions made by the Noticee. The Committee observed that the balances provided by the Noticee vide written submissions made vide letter dated January 30, 2020 were different from those observed during the LPI.

The Committee noted that the NSE circular dated June 18, 2018 regarding collection of MTM in cash as well as other collaterals was addressed to Trading Members vis a vis their end clients and not to Clearing Members vis a vis their trading members, thus the Noticee as the Clearing Member had to collect the MTM in cash.

The Committee noted the contents of NSCCL circular dated August 27, 2004 on "Collection of mark to market settlement" which inter alia states that "Clearing

Members shall not fund the mark to market settlement amounts of the trading members and/or the clients”. Therefore they have to collect MTM in cash from the Trading Members.

5.2 Non Collection of margin from the trading member

5.2.1 Violation Details

The Noticee has not collected margin from the trading member Narayan Securities Ltd. (Narayan) amounting to Rs. 76.69 Crs in 10 instances out of sample 24 instances verified. (September 01, 2018 to October 09, 2018).

5.2.2 Noticee’s oral and written submission to Show cause Notice of NCL

The Noticee has stated that as a Clearing Member, they have duly reported margin shortfall to the Clearing Corporation and complied with all the Rules, Regulations. The Noticee further states that Chapter IX of NCL Bye-laws and Regulation 4.5.1 of NCL Regulations only deals with respect to demanding and collections of margin by the Clearing Member from its constituents. The Constituents are required to provide the margin as demanded by its Clearing Member or furnish additional margin as may be specified by the F&O segment of Clearing Corporation. The Noticee has further claimed that they have reported to the Exchange whatever margin is collected from the Trading Member. The Noticee has further claimed that they had collected excess margin from the Trading Member. However, due to sudden fall in the price of scrip DHFL on September 21, 2018, the trading member Narayan incurred huge losses which resulted in shortfall in margin.

5.2.3 MCSGFC’s observations and findings with respect to the Noticee’s Response on violations

The Committee noted the oral and written submissions made by the Noticee. The Committee noted that the Noticee is required to collect margin from the trading member in accordance with Regulation 4.5.1 of NCL F&O Regulations. The Committee was apprised of SEBI circular dated May 02, 2018 (SEBI/HO/MRD/DRMNP/CIR/P/2018/75) on Additional Risk Management measures for derivative segment wherein Para 3 of the said circular specifies “With reference to SEBI circular CIR/DNPD/7/2011 dated August 10, 2011 captioned “Short-collection/Non-collection of client margins (Derivatives segments)”, it is clarified that the ‘margins’, for both Equity Derivatives Segment and Currency Derivatives Segment, shall include margins as specified in Para 2 of this circular, mark to market settlements or any other margin as prescribed by the Exchange/Clearing Corporation to be collected by the Clearing Members from their clients (i.e. Custodial Participants and Trading Members - for their proprietary positions) and by the Trading Members from their clients.”

The Committee noted that the observations were not pertaining to Custodial Participants or the Trading Member for their Proprietary positions but were

pertaining to client positions. Hence the Noticee has not violated the margin collection from the trading member

5.3 Non segregation between client and own funds/securities

5.3.1 Violation Details

Noticee has not maintained segregation between clients and own securities/funds received from Narayan Securities Limited from time to time. Noticee is un-able to demonstrate the bifurcation of funds/securities lying with it between Narayan Securities Limited's own & clients' funds/securities. It is also unable to demonstrate that only Narayan Securities Limited's own funds/securities have been used to meet its PRO (proprietary) margin/MTM obligation and not its clients' funds/securities. Noticee has no system in place to obtain any declaration/or ensure bifurcation from the trading member for the funds/securities lying with it between Trading Member's own funds and its clients.

5.3.2 Noticee's oral and written submission to Show Cause notice of NCL

The Noticee has submitted that clearing member is a small replica of the Clearing Corporation. The Noticee, being a clearing member, obtains an undertaking from the trading members regarding ownership of the collateral deposited by its trading Members. The Noticee has started the aforesaid process of obtaining undertaking from its trading members when the Clearing Corporation required such undertakings.

5.3.3 MCSGFC's observations and findings with respect to the Noticee's Response on violations

The Committee observed the following: -

1. The Committee noted that the Noticee had failed to demonstrate segregation of client and PRO collaterals. Such segregation is warranted in terms of SEBI circular SMD/SED/CIR/93/23321 dated November 18, 1993.
2. The Committee also observed that roles and responsibilities of Clearing member and Clearing Corporation are different and cannot be compared with each other.

5.4 Inadequate Risk Management Policy

5.4.1 Violation Details

The Committee observed that out of Rs. 186.50 Crs securities deposited by Narayan Securities Limited with the Noticee as on September 19, 2018, Rs 148.57 Crs pertain to one security i.e DHFL, which amounts to 80 % of the total collaterals deposited by Narayan Securities Limited.

The Committee further observed that there was margin requirement of Rs. 117.24 Crs as on September 19, 2018 and Narayan Securities Limited had Rs. 195 Crs total margin in the form of funds/BG/Securities. Hence, the trading member, Narayan Securities Limited has fulfilled 40% margin from funds/securities other than DHFL and 60% margin from DHFL.

5.4.2 Noticee's oral and written submission to SCN Notice of NCL

The Noticee has reiterated that they have proper risk management and adequate due diligence is ensured by them at all times. On September 20, 2018, there was a margin requirement of Rs.117 crores. An additional margin in the form of DHFL scrip of Rs.80 crore was also collected from the Trading Member. The Noticee has stated that the margin collected from the trading member is much higher than the required margin.

Further, the Noticee has stated that DHFL was a derivative scrip and highly liquid and is a kind of share where Exchange accepts any quantity of share as collateral and no limit was prescribed by Exchange.

The Noticee further stated that the Clearing Corporation/Exchange has not issued any guidelines regarding maximum limit of acceptance of one scrip as collaterals by the Clearing Member. The Noticee has submitted that they have taken all the steps/processes as per their Risk Management.

5.4.3 MCSGFC's observations and findings with respect to the Noticee's Response on violations

While noting the submissions made by the Noticee, the Committee observed that the Noticee had indeed suffered a margin shortfall scenario due to fall in value of DHFL scrip. The Committee however observed that such risk management process followed by the Noticee was weak due to the risk existing out of not obtaining diversified pool of securities for margin and hence required strengthening of the same.

Decision

In view of the above and in the light of the observations made in para 5 above, the MCSGFC concludes its decisions as under:

1. The Committee noted that the Noticee has failed to collect MTM Settlement in cash which is in violation of NSCCL circular dated August 27, 2004. The penalty of Rs.3,04,706 being 1% of the short collection of MTM settlement amount of Rs.3,04,70,649 shall be levied in accordance with SEBI circular No. CIR/DNPD/7/2011 dated August 10, 2011.
2. The Committee observed that while margin collection is a pre-requisite, SEBI circular dated May 02, 2018 requires collection of margins by Clearing Member for proprietary positions of Trading Member and in the present case the observations are pertaining to client positions. Hence, the committee is of the view that the Noticee has not violated the stipulated guidelines.
3. The Committee observed that the Noticee has been unable to demonstrate segregation of client funds and this is not in accordance with SEBI circular dated April 17, 2008. Therefore, a penalty of Rs.75,000 shall be levied on the Noticee drawing analogy with the penalty structure contained in NSE circular dated November 06, 2017.
4. The Committee observed that the Noticee is a Clearing Member and plays an important role in the clearing and settlement eco system. The Noticee had followed an inadequate risk management policy leading to concentration risk by way of accepting securities of a single entity, i.e., DHFL. The Noticee is, therefore advised to devise and adopt a robust risk management policy in order to protect and strengthen the controls at the Noticee's end as well as the overall integrity of the securities market.

Accordingly, a monetary penalty of Rs. 3,79,706/- (Rupees Three lakh seventy nine thousand seven hundred and six) be levied on the Noticee for aforesaid non-compliances observed during inspection.

Sd/-	Sd/-	Sd/-	Sd/-
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Harun R Khan (Chairman)	Bhagyam Ramani (Committee Member)	N K Maini (Committee Member)	Vikram Kothari (Committee Member)

Date: February 13, 2020