

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. Stock Holding Corporation of India 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 Stock Holding Corporation of India Ltd.** (hereinafter referred to as “Noticee”) is a registered Clearing Member of NSE Clearing Ltd. (NCL).
2. NCL conducted regular inspection of the Noticee for the period from April 01, 2017 to June 30, 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 the Committee in its meeting held on January 29, 2020 and was represented by Mr. Prabhat Dubey – Divisional Manager, Mrs. Meena Pednekar – Compliance Officer, Mr. Shashikant Nayak – VP & Company Secretary, Mr. Shashikant Nayak – VP & Company Secretary, Mr. Ravi Chandranath -Div. Mgr, Mr. Sandeep Parekh- Authorized Representative Finsec Law Advisors. At the Noticee’s request, the Noticee was also given an opportunity to file written submissions. The Noticee has filed written submissions dated January 31, 2020.

5. Details of violations, Noticee's submissions and Committee 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 analysed below: -

5.1 Failure to collect margin from the member in 8 instances in F&O Segment

5.1.1 Violation Details

Noticee has failed to collect the requisite margin from the Trading Member, Reflection Investments (07790) amounting to Rs. 48,95,35,338.50 in 8 instances in F&O segment during the period from April 01, 2017 to June 30, 2018.

5.1.2 Noticee's oral and written submissions dated January 31, 2020 to Show cause Notice of NCL

1. The Noticee has submitted that as per Regulation 4.5.1 of NCL F&O segment, the Clearing Members are mandated to demand margin monies from their constituents. The Noticee has submitted that they have duly complied with this requirement. The Noticee had issued billing statements to Reflection Investments (Reflection), the trading member, on a daily basis. Even on the dates mentioned in the Observation Letter, the Noticee had sent billing statements to Reflection, and this clearly indicated the margin shortfall. The Noticee had requested Reflection to clear its dues and the representatives of the Noticee even visited the offices of Reflection. Reflection had, intermittently, provided additional collateral; however, the same was not sufficient to completely clear the margin shortfall. The Noticee has submitted that it had never defaulted in its margin obligations to the NCL.
2. The Noticee has further submitted that it was constrained to close out the positions of Reflection, and liquidate the collaterals deposited with it. In order to recover the remaining dues, the Noticee initiated arbitration proceedings against Reflection in April 2019. The Hon'ble Arbitral Tribunal had passed an award on October 10, 2019 in favour of the Noticee, directing Reflection to pay Rs. 8,59,03,830.90 together with interest.

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

1. The Committee observed that the Noticee has followed up regularly with the Trading Member, Reflection Investments to get adequate margins.
2. The Committee observed that the Noticee has also squared off positions of the Trading Member and also filed an arbitration case against the Trading

Member wherein the Arbitration Tribunal Award was passed in favor of the Noticee.

3. The Committee was apprised of the SEBI circular SEBI/HO/MRD/DRMNP/CIR/P/2018/75 dated May 02, 2018 on Additional Risk Management measures for derivatives segment wherein margin enforcement with respect to Clearing Members is for Trading Members proprietary positions only and do not pertain to client positions as the findings are with respect to client positions of Reflection Investments and does not pertain to proprietary positions of Reflection Investments.

5.2 Inter Corporate Deposits (ICDs) were given to group/ associated companies

5.2.1 Violation Details

ICDs were given to group/ associated companies amounting to Rs 5 Cr on 16th April 2013 and another tranche of Rs 10 Cr was given on 16th April 2014.

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

1. The Noticee submitted that Rule 8 of SCRR provides for the qualifications for membership of a recognized stock exchange. This rule is applicable to members of a recognised stock exchange, and not to members of a recognized Clearing Corporation.
2. The Noticee submitted that the ICDs were given out of the surplus funds, which exceeds the applicable minimum net worth requirement and were given to SHCIL Document Management Services Limited (SDMS).
3. The Noticee submitted that the clause (iii) of Rule 8(3)(f) states that the said rule shall not be applicable on members which are body corporates mentioned in Clause (a) to (n) of Rule 8(8) of SCRR. The Noticee has submitted that they are a subsidiary of Industrial Finance Corporation of India, and thereby fall under the exception.
The extract of sub rule (8) of Rule 8 of Securities Contract (Regulation) Rules, 1957 is as below:

(8) Where the Securities and Exchange Board of India makes a recommendation, the governing body of a stock exchange shall, admit as member the following corporations, bodies corporate, companies or institutions, namely :-

- (a) the Industrial Finance Corporation, established under the Industrial Finance Corporation Act, 1948 (15 of 1948);
- (b)
- (c)

(d)

(e)

(f) the subsidiaries of any of the corporations or companies specified in clauses (a) to (e) and any subsidiary of the State Bank of India or any nationalized bank set up for providing merchant banking services, buying and selling securities and other similar activities;

(g)

(h)

4. At all points of time, the Noticee was wholly owned by the Government of India through many public sector entities.

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

The Committee noted that there was no merit in the contention of the Noticee with regard to the non-applicability of the provisions of Rule 8(3)(f) by virtue of it being subsidiary of Industrial Finance Corporation of India as SEBI has not recommended admission of the member as stipulated in Sub Rule 8 of Rule 8 of Securities Contract (Regulation) Rules, 1957.

The Committee observes that while placing ICDs is not a desirable practice, considering that such placement has happened in only two instances and out of the surplus funds. Further it has not impacted the net worth requirement. This act of the Noticee is not viewed seriously.

The Noticee is however advised to refrain from placing of ICDs in future.

Decision

In light of the observations made in para 5 above, no penal action is proposed to be taken against the Noticee.

Sd/-

Sd/-

Sd/-

Sd/-

Harun R Khan
(Chairman)

Bhagyam Ramani
(Committee Member)

N K Maini
(Committee Member)

Vikram Kothari
(Committee Member)

Date: February 13, 2020