



PRESS RELEASE

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ICRA to monitor impact of SEBI 'not fit and proper' order on several commodities brokers

The Securities and Exchange Board of India (SEBI), in its order from February 22, 2019 to February 28, 2019 has declared five commodities brokers as 'not fit and proper' to conduct the commodities broking and trading business on account of their role in the National Spot Exchange Limited (NSEL) settlement crisis in 2013, which brought nearly 300 brokers under the SEBI scanner. As of now, the SEBI has identified five brokers out of which ICRA has ratings outstanding on group entities of Motilal Oswal Commodities Broker Pvt Ltd (MOCBL), India Infoline Commodities Ltd. (IIFLCL) and Phillip Commodities India Pvt. Ltd (PCIPL). With respect to these entities, the SEBI has pronounced that all these firms shall cease to be commodity derivatives brokers, directly or indirectly, with immediate effect. Further, they were given 45 days from the date of the order, to allow their clients to withdraw or transfer the securities or funds with the company without any cost to the clients. If the same was not carried out within 45 days, these companies were liable to transfer their balance clients with their corresponding securities and funds to another entity, holding a valid registration certificate to carry on such activity, within a further period of 30 days.

IIFLCL and MOCBL are both exploring legal options against this SEBI order. IIFLCL had no proprietary position on the NSEL while MOCBL had a proprietary position of Rs 58.7 crore. As per ICRA's discussion with these companies, they intend to continue the commodity trading business through their equity broking companies, which now are armed with a unified broking licence since September 2015 (allowing them to conduct equities, currency as well as commodities broking businesses in the same entity) as opposed to the earlier regime, whereby the commodities broking business had to necessarily be conducted through a separate entity.

In ICRA's view, two key risks could arise out of this situation. First, the SEBI order clearly states that these entities cannot conduct the commodities broking and commodity derivatives trading businesses, either directly or indirectly. Hence, the regulator's view on conducting the same business in a separate legal group entity needs to be further examined. Second, the critical aspect to monitor shall be, if the scope of investigation is expanded to include any of the other group entities as an extension of the 'fit and proper person' ruling, as the other group entities have similar promoters and can have common directors and management, to the entities in contention.

Also, a key monitorable shall be any potential negative impact on other core businesses of these groups (including broking, lending, wealth management and distribution businesses) because of the reputational and franchisee risks emerging from this event. ICRA will continue to monitor the outcome of any incremental developments from this event.



For further information, please contact:

Media Contacts:

Naznin Prodhani
Manager PR
ICRA Ltd
Tel: + (91 124) 4545300, Dir - 4545860
Email: communications@icraindia.com

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