

IL&FS arm restrained from acquiring new clients, fined

OUR BUREAU

Mumbai, July 4

SEBI has restrained IL&FS Securities Services Limited from acquiring any new clients for a period of two in a case related to unauthorised transfer of mutual fund units. The market regulator has also imposed a penalty of ₹26 crore on the company.

SEBI's action is based on a complaint by Dalmia Cement East Limited alleging fraudulent transfer of mutual fund units worth ₹344.07 crore by Allied Financial Services Pvt. Ltd (AFSPL). Dalmia Group, vide letter dated February 27, 2019, alleged that IL&FS Securities Services Limited, a member of NSE Clearing Limited, was also involved in the fraudulent transfer of the units.

SEBI conducted an investigation into the matter for the period from February 20, 2017, till February 08, 2019. A special review was carried out by Grant Thornton to look into the dealings of IL&FS Securities with AFSPL.

SEBI said that, "IL&FS Securities has admitted to committing serious lapses in risk management by submitting that it followed a

practice under which collateral can be returned to all its empanelled trading members, upon receipt of a request from the client. This shocking and cavalier approach towards an important element of risk management deserves an appropriate amount of penalty. It has also been established that the conduct of the Noticee (IL&FS) is an unfair trade practice and that it has dealt with the MF units in a fraudulent manner. These are grave and serious findings and commensurate penalty is liable to be imposed on the Noticee.

It added that even though the entire IL&FS Group, including IL&FS Securities, is undergoing a resolution process, SEBI has the jurisdiction to determine the monetary and non-monetary liabilities of the company in the event it is found that it is in violation of regulatory provisions. "This order of SEBI has been upheld by the SAT and the appeal of the Noticee in the Supreme Court is pending. As directed by the apex court, this order shall be subject to any order passed by the Supreme Court," SEBI said.