

IL&FS Sec Faces ₹380cr Hit on Allied Dodgy Deal

Co had given collateral to IL&FS Securities Services in the form of MF units, later found to be stolen

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Mumbai: Fraudulent trades by Allied Financial Services could set back IL&FS Securities Services by ₹380 crore and hurt plans to sell the local custodian, as the broker had stolen the mutual fund units it used as collateral largely from the cement-to-sugar conglomerate Dalmia Bharat Group, two people privy to the development told ET.

Late 2018, Allied took a significant position in the options market and had put ₹380 crore of collateral security in the form of mutual funds with the custodian that cleared these trades. Allied had stolen the units it offered as margin collateral from its clients Novjoy Emporium, OCL India, and Dalmia Cement. Hence, regulatory agencies have frozen the units.

These contracts are due to expire on June 27. After that, IL&FS will be forced to execute these option contracts and pay the margins since their onus falls on clearing members if

the broker concerned defaults. Allied Financial, which allegedly misappropriated client funds and mutual fund units, is not in a position to pay the margins as it has negative net-worth, say lawyers. This development has hit the plans of the IL&FS board to find a suitable buyer for the custodian. IL&FS Securities has been saying that it was a victim of fraud perpetrated by Allied Financial, and that settle-

HARD TURN

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ment of trades based on illegal collateral was not in the best interests of the securities market.

Last month, IL&FS had approached Securities Appellate Tribunal (SAT) seeking annulment of all the trades that are under question. Annulment of trades refers to reversal of trades, which can be done by clearing corporations under extraordinary circumstances.

SAT had ordered National Stock Clearing Corporation (NSCCL) to give a hearing to IL&FS on the matter. "Trade annulment was the last hope for IL&FS Securities, however it is unlikely to happen," said a person cited above. "NSCCL held a hearing earlier this week on the matter. Although no final order in the matter has been passed yet, we got a sense that NSCCL is unlikely to annul the trades considering the potential impact it could have on the markets."

Polices for trade annulment are very rigid. Only in cases like fat finger or other extraordinary scenario, where investors have incurred losses solely due to systemic breakdowns, annulment is considered an option.

Previously, clearing corporations had declined to reverse some of the orders placed by brokers during technical glitches. The problem with trade annulment is that it impacts both the buyer and seller and the side that has made money will not agree to a reversal. In this case, there are 64 counterparties for the options contracts of Allied, including brokers, foreign institutions and retail investors.

IL&FS and National Stock Clearing Corporation (NSCCL) declined to comment on the matter. It is also learnt that during its hearing with NSCCL, IL&FS had also proposed freezing of the option contracts in question. In such a scenario, the contracts would not be settled until the regulatory action is completed.



June 27 2019:
Contracts
expiration
date

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