1 Financial Technologies

Distinction of Pioneering and Path-Breaking Contribution to Indian Financial Market

FTIL pioneered multi-asset-class trading technologies that enabled markets in India spread their reach and access across the country. The exchanges and ecosystem that the Group created in the last one decade stand out for their superior standards in the design and development of financial markets infrastructure that are not seen even in some of the developed markets.

The engagement of FTIL in global and domestic exchange industries and ecosystem development prior to the crisis is very extensive and comprehensive.

FINANCIAL TECHNOLOGIES GROUP: The Ecosystem of Markets and Economic Empowerment

MARKET PARTICIPANTS

- Farmers
- Corporates
- Member brokers
- Exporters
- Importers
- Trading Houses
- Fund Managers
- High net worth investors
- Institutional investors
- Hedgers
- Traders
- Retail investors
- Manufacturers and Producers intermediaries

STAKEHOLDERS

- Farmers
- Producers, Consumers, intermediaries and investors
- Shareholders
- Financial Institutions
- Employees
- Market Regulators
- Revenue Authorities
- State and Central Government
- Catalyst for Innovation and entrepreneurship at local level
- Community employment programme
- Skilled development and self employment for local youth
- Agri sector and SME development
- Agri extensions and Marketing Board
- Media and communication Professionals
- Vendors
- Contractors

MARKET INFRASTRUCTURE

- Multi-assets Exchanges and support institutions
- Development of local markets APMCs and Marketing Boards
- Clearing corporation
- Depository institutions
- Regulatory infrastructure and support institutions
- Banks and lending Institutions
- Software and Systems Architecture
- Trading and Technology solutions
- Warehousing Infrastructure
- Quality and Accrediting institutions and delivery stations
- Research and advisory firms
- Information dissemination infrastructure and network
- Transportation other physical infrastructure

CAPACITY BUILDING

- Enhancing financial literacy and financial inclusion
- Financial Advisors
- Research Analysts
- Trainers and Educators
- Market education at Under graduate and graduate level
- Market professionals for support services
- Market communication
- Knowledge development and documentation
- Media services
- Software Developers
- Hardware Manufacturers

For India, the decade of the 1990s was a turning point. A new wave of economic liberalization that has dawned in the country after five decades of controlled policy environment unleashed an upsurge of enterprise and entrepreneurship for which India was known for centuries. It is around the same time that new-generation information technology companies, which made India as brand equity for global outsourcing, began to take shape. and form. It was also the time when stock markets in India, which functioned under the closed confines of broker-dominated exchanges, began to emerge as corporate entities with greater focus on moving towards electronic trading and trade transparency.

India is a large country with vast geographic proportions and has the potential to create markets of big size and significance. However, for long, the country faced the limitations of logistics to spread the market activity across the nation. The technologies prevailing at that time, mostly from the global multinational corporations were prohibitively expensive, which made thousands of brokerage firms in India, many of them smaller in size, not being able to afford expensive technologies

THE PIONEER

It is at that time the pioneering role of FTIL came into finest display, which amazed even the developed markets. A small team led by Mr. Jignesh Shah, B.E. (Electronics), Mr. Dewang Neralla, B.E. (Computer Science) and Mr. Ghanshyam Rohira, B.E. (Computer Science), harnessing the skills they earned as engineers and a strong urge to place India on the map of the global capital markets, came out with trading technology through which brokers could trade multiple products in different exchanges using just one desktop. It was like a sort of revolution in trading technology in India where virtually every exchange, broker, sub-broker, and market intermediary have courted this product and vouched for its best performance. In securities industry, "ODIN" trading solution is like an i-Phone which everyone wanted. The only difference is that FTIL made it affordable to thousands of broking firms, small and big, individual and corporate, across the length and breadth of the country.

The trading technology that FTIL has developed had to meet the toughest standards. It has to match with the best that the competition was offering in terms of quality and robustness. It should be useful to thousands of broking firms. It has to clear the regulatory standards. It should be found acceptance by the exchanges. If it were to be extensively used, it needed to carry out enormous capacity building.

FTIL, with great focus and thrust on quality, robustness and cost effectiveness, has met all these challenges with great commitment. Very soon it emerged as the market leader (Number 1 in India and number 2 in the world) in trading technology, which even competitors used to hold in high regard. It has held leadership position for the past 15 years.

The optimally prized and process-efficient trading technology that FTIL has so passionately developed has enabled Indian stock markets to make a big leap in terms of expanding operations through the country and gaining access to millions of investors and institutions. The very fact that Indian stock markets have about half a million trading terminals, most of which are run on the technology provided by FTIL, spread across nearly 3000 towns and cities is a testimony to the immense contribution the company has made in India in making Indian stock markets truly national.

THE PATH-BREAKING CONTRIBUTION

A pioneer in technology solutions soon became a path breaker in the exchange industry. Even till early 2000s markets in India meant just stock markets. One or two products were traded on the exchanges that hardly reported volume of any size or significance. India was nowhere in the vicinity of globally recognized exchanges. It was an opportunity for FTIL to repeat the distinction that it achieved in creating world class products in exchange technology. Exchanges are the natural progression for the company as it has excelled in providing technology solutions that enabled transaction intensity and the presence spread across the geography. It then explored to enter into the exchange industry to set up state-of-the-art exchanges that India can take pride in.

It is this aspiration that led the Group to set up a wide range of exchanges in India. Not only setting up the exchanges, the Group is credited with the distinction of developing exchange - traded derivatives markets in virtually every sphere that India has witnessed in the post-reform period, which helped millions of businesses and enterprises to protect their business and growth from price risk.

Multi Commodity Exchange of India (MCX) was the first exchange from the Financial Technologies Group. MCX was given licence to trade in commodity futures, which it obtained based on the excellent track record of the promoters and the professional expertise to run modern financial market infrastructure institutions. FTIL got the licence for MCX purely on merit of their track record against intense competition from other players. Very soon MCX has brought back the glory that India once enjoyed in the leadership of commodity trading. India being the 'Sone ki Chidiya' was the attraction that pulled Columbus to Vasco da Gama to the East India Company to India. Mr. Jignesh Shah dreamt of making India, once again, "the commodity trading hub between Tokyo and London". The success of MCX has become a standard for exchange industry development in many emerging markets. Governments from various countries have approached the Financial Technologies Group to set up such successful financial markets infrastructure in their respective countries. At its peak, MCX had more than 2000 members with about 4.5 lakh trading terminals spread across 1500 cities and towns with an average daily trading to the tune of Rs 500 billion.

THE SPIN-OFF EFFECTS OF THE FINANCIAL TECHNOLOGIES GROUP

ECONOMIC BENEFITS	TECHNOLOGY BENEFITS	SOCIAL BENEFITS
• Efficient price discovery process • Diverse hedging products • Extensive market infrastructure • Market penetration across towns and cities • Collateral and risk management products	• Indigenously developed cost-effective technologies • Low-cost real-time information dissemination • Innovative payment solutions	A nationwide study (A Million Jobs & A Million Opportunities) conducted by MCX and Tata Institute of Social Sciences, TISS, brought out numerous social benefits contributed by the Group that include: • Employment opportunities across the country • Increased scope for self-employment opportunities • Financial access to local communities • Increased participation of the local talent and expertise • Growth of local entrepreneurship

AN EXCHANGE INDUSTRY MNC FROM INDIA

From the success of MCX came out the international forays of the Group in setting up exchanges in leading international financial centres covering important geographies of Africa, South East Asia and the Middle East. Dubai Gold and Commodities Exchange was set up in a joint venture with the Government of United Arab Emirates. It is for the first time that the Government of United Arab Emirates has entered into a joint venture with a private sector institution outside the country. DGCX, as it is known, very soon emerged as a major multi-commodity exchange in the Gulf region, a position it enjoys even now. Then followed a series of multi-asset-class exchanges in leading international financial centres. Singapore Mercantile Exchange within the regulatory jurisdiction of Monetary Authority of Singapore has emerged as a well-known exchange in South East Asia. Global Board of Trade, which was under the regulatory supervision of Financial Services Commission, Mauritius, was meant to be the gateway for growth opportunities in the fast-growing Africa region. On the eve of the launch of the Global Board of Trade in Mauritius, Navinchandra Ramgoolam GCSK, FRCP, Prime Minister of Mauritius was very gracious in thanking the Financial Technologies Group for "showing confidence in Mauritius and adding an entirely new dimension to our financial system by bringing knowledge, technologies, businesses and know-how that are generally found in the big financial centres of the world. To operate in Mauritius might be a relatively small step for GBOT, but this was a big stride in our economy." Global Board of Trade is now merged with Bourse Africa that the Group has set up in Botswana as a business strategy to focus on the entire Africa region, with its headquarters now located in Mauritius. Bahrain Financial Exchange under the regulatory jurisdiction of the Central Bank of Bahrain was envisaged for developing trading in various sukuk-based and Islamic capital market products that are assuming importance and prominence in a number of countries. Within a very short time the imprints of the Financial Technologies Group spread far and across multiple geographies and multi-asset-classes.

THE EXTENSIVE UNIVERSE OF EXCHANGES AND ECOSYSTEM INSTITUTION CREATED BYFINANCIAL TECHNOLOGIES

Exchanges promoted by FTIL are located in leading international financial centres, such as Singapore, Mauritius, Dubai, Botswana and Bahrain, in addition to Mumbai and Delhi, making it the first ever multinational company from emerging markets to hold exchanges across major geographic regions.

Back home, further innovations continued. One of the major problems affecting the Indian industry was electricity. Indian Energy Exchange was set up to create market-based solutions for price discovery and trading of electricity. MCX-SX, India's new stock exchange was established to offer a basket of stock market products so as to increase retail participation in the stock markets, which has been abysmally low. Further, NSEL was set up to create and develop a common market for agricultural produce by providing a nationwide electronic trading platform. Thus FTIL has created a unique basket of exchanges for all major asset classes, which is unique in global finance.

DISTINCTIONS

- MCX was ranked by the Futures Industry Association as the 3rd biggest commodity exchange in terms of number of contracts traded. MCX is the first listed exchange in India, which received phenomenal success by mobilizing US$ 7 billion for an issue size of US$132 million. It won the NASSCOM Social Innovation Honors 2010 for its flagship CSR Project Gramin Suvidha Kendra, the rural facilitation centre set up in a joint venture with India Post.

- Growth and Inclusion was the theme on which exchanges of the Financial Technologies Group were conducting business.

- MCX-SX was ranked at the 1st biggest exchange in terms of number of currency futures contracts traded by the World Federation of Exchanges.

- Indian Energy Exchange is the biggest energy exchange in India in terms of electricity traded. The exchange was reported as leading to a second industrial revolution by a lead story in Economic Times (July 9, 2011).

- NBHC was the largest collateral and warehouse management company in the private sector in India. It rose to become the largest facilitator of bank credit against agricultural commodities through warehouse receipt based finance.

- Dubai Gold and Commodities Exchange even now enjoys the distinction of a premier exchange in the entire GCC region.

- Atom had the distinction of being India's leading digital transaction platform, which received the India SME Innovation Award for 'An Innovative Payment Solution for SMEs'.

- All exchanges of the Financial Technologies Group were widely held, consisting of pedigree investors from domestic and international markets. The Group exchanges had predominant shareholding of the public sector financial institutions. For instance, banks and financial institutions held 88.8 percent of the shareholding of MCX Stock Exchange promoted by the Group. The group had the benefits of several visionaries, senior bureaucrats, independent professionals, academicians serving in the Board, with every institution run by a team of independent professionals.

MCX: A MISSION FOR THE NATION

of INDIA	*by* INDIA	*in* INDIA	*to* INDIA	*for* INDIA
The underlying of commodity futures traded on the exchanges are all important aspects of the Indian economy. Be it agricultural commodities, bullion, metals, or energy, all are essential for the growth of the nation. Commodity exchanges help in efficient price	The development of the entire commodity futures market is solely shouldered and driven by Indian enterprises and professionals, and these markets are run and managed by Indian talent. Traders, investors, technology professionals, brokers, bankers,	All the progress and development of commodity exchanges take place and stay in India. Pricing, trading, hedging, research, employment, income generation, and job creation take place in India, benefitting millions who are gainfully employed either in business or jobs or numerous enterprises. A major	Commodity exchanges are playing a pivotal role in the Indian economy. They offer a variety of benefits to a large number of stakeholders through efficient price discovery, price risk management through hedging, and effective planning of production and consumption. They directly benefit millions of producers and consumers,	Unlike capital markets, commodity markets in India are not driven by either foreign institutional investors or companies. The entire ecosystem of constituents of commodity markets, including farmers, corporations, traders, producers,

discovery as well as offer risk management alternatives to producers and consumers of these commodities.	intermediaries, and so on reflect Indian talent and skills and represent the most successful story of market development in post-independent India.	contributor to the revenue of the state and Central governments as stamp duty, service tax, professional tax, and income tax, these exchanges support the rural development programmes of the government and strengthen its financial inclusion strategies.	which include farmers, entrepreneurs, traders, individuals, SMEs, corporations, and investors. They also indirectly benefit millions of ecosystem partners like warehouse operators, collateral management services, logistic support providers, information vending services, and other service providers.	consumers, and other stakeholders, are based and residing in India.

- Mr Jignesh Shah, promoter of FTIL is the only Asian to be recognized as 'Dominant Financial & Futures Industry Leaders', by the Futures Industry Association (US), a glory that he shared with the likes of US Treasury Secretary, Tim Geithner, CME's Craig Donohue and Terry Duffy, ICE's Jeffrey Sprecher and BATS' Joe Ratterman.

- He brought the first FII investment in MCX, and then listed it with an outstanding success. Honoured as 'Young Global Leader' by the World Economic Forum, 'Entrepreneur of the Year' by E&Y and the 'Exchange Industry Person of the Decade' at the India International Gold Convention.

- His focus on development of 'Social Business enterprises' generated over a million jobs that blended social interest with inclusive growth, and yet ensuring highest returns to shareholders.

- He was keen on putting India on top of the map of the global exchange industry.

EXTENSIVE ECOSYSTEM

To be successful, exchanges require support in the form of capacity building, which FTIL has carried out in a unique manner. Exclusive arrangements for providing these support systems were made. National Bulk Handling Corporation was providing risk and collateral management facilities. TicketPlant was providing cost effective and customized real time data support and solutions to the exchange industry community. FTKMC was engaged in the development of extensive domain knowledge development and management across various stakeholders, including regulatory institutions, exchanges and intermediaries, corporates, banks and financial institutions, investors and the academia. Atom was providing innovative payment solutions. The ecosystem institutions so thoughtfully designed were contributing services to not only the exchanges of the Group but also other institutions from India and a number of emerging markets.

NSEL CRISIS

It might be ironical, but it was not FTIL that mooted the proposal of the spot exchange. FTIL was only keen on developing exchange industry solutions and setting up multi-asset-class exchanges. The idea of National Spot Exchange came in the context of the keen desire of the Government of India to create a nationwide common market for commodities (see Page no. 39). The Government invited various institutions for consultations on setting up of electronic spot exchange to which MCX responded by submitting a proposal.

The Government gave the responsibility of regulation in respect of oversight, protection of investor interests and provision of periodic information by commodities exchanges on all major operational aspects to the FMC. On several platforms, MCX has been advocating amendment to the FCRA Act to further widen the scope of the commodity derivatives markets as also sought a complete regulatory framework for the spot exchanges by the Forward Markets Commission.

These developments more than adequately dispel rumours spread by certain vested interests, that NSEL was created by FTIL with the sole purpose of defrauding the people. (Please refer to Chapter 5)

The accident at NSEL happened when trading clients sequenced certain commodity trading contracts to maximise return. When the Government instructed NSEL to stop all contracts, immediately, market intermediaries | trading clients were caught in a liquidity problem, disrupting the smooth settlement programme that had been going on since the inception of the exchange.

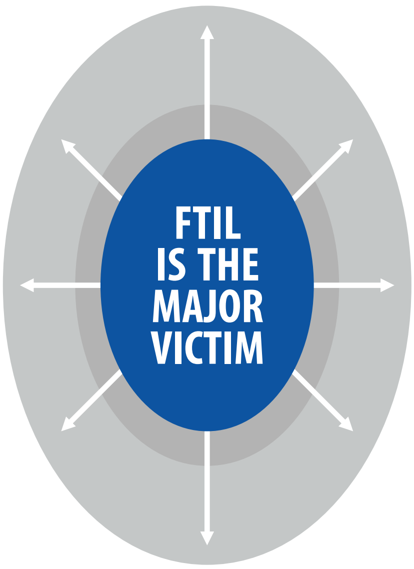
RISING TO THE CHALLENGE

FTIL extended all support to NSEL to resolve the crisis. As an interim measure, without prejudice loan of Rs 179 crore was given to NSEL to pay the smaller trading clients with exposure upto Rs 10 lakh. The NSEL Board was reconstituted and the management revamped. NSEL extended full cooperation to the investigating authorities, including EOW, CBI, ED as also the Committees that the Government has set up to study the NSEL crisis. FTIL has been supporting NSEL through financial and human resource support to explore various avenues of crisis resolution that are legally possible. NSEL, with support from FTIL, has been taking all measures required legally to proceed against defaulters to recover the money.

FTIL did all what was expected from a responsible corporate when one of its subsidiaries came into a problem.

SUBJECTED TO UNFAIR TREATMENT

- Investigation by multiple agencies in the same issues
- Though investigations are not complete and the promoters not held guilty, they are subjected to excessive harassment
- Rumours that have no basis and far from reality
- Relief and recovery measures of the FTIL are not recognized
- Continuous threats in terms of mergers and change of the Management of FTIL which are adversely affecting the recovery process and crisis resolution



- Loss of Exchanges and ecosystem ventures at distress that FTIL has pioneered and so passionately developed
- Closure/sale of companies
- Loss of business growth
- Job losses in group companies affecting hundreds of families
- Decline in the commodity exchange business after the exit of the promoters
- Loss to scores of small businesses that depended on the FTIL group for various support services

While action was taken against NSEL and FTIL for its sincere efforts to find a solution to the crisis, was most unjust and unfair, all other players responsible for the crisis such as the defaulters and brokers were left out. FMC has focused only on NSEL and FTIL, with actions that proved detrimental to FTIL, and was put at risk prospects and fortunes of thousands of investors, employees and other stakeholders. These actions, which were never heard or seen as any time in the past when a company was extending its fullest cooperation to resolve the crisis, included custodial interrogation of the promoter and key governing and managerial personnel of the exchanges, declaring the promoter as not fit and proper, threatening with the mergers and supersession of management, which are not consistent with the corporate conduct of civil societies in democracies.

The immature manner in which FMC handled the accident at NSEL only highlighted its own shortcomings and led to NSEL and FTIL becoming even more aggrieved party than these were before.

In the outrage that emerged after the crisis and the intense lobbying by certain sections of brokers and trading clients, a few major facts about NSEL are being completely side-stepped. The contracts in dispute formed just 17 percent of the total business of NSEL since inception. Except the contracts that faced problem, the settlement of e-series contracts was conducted smoothly and successfully. When the exchange was abruptly stopped by the DCA | FMC to issue further contracts and the operations were closed, the exchange had a total of 46,000 clients with outstanding dues. Claims of 33,000 clients of e-Series contracts were settled successfully. Clients with exposure below Rs 10 lakh whose number is 7,000 received 50 percent of their claims. The claims of 6,000 clients are under the process of settlement. Of the Rs 5,690 crore of settlement, seven defaulters own upto 85 percent and six percent of the clients, which is equivalent to 781 clients who traded through 71 brokers with whom the exchange has privity of contract, (the clients have their own client-broker agreements with brokers under the Rules, Regulations and Bye-Laws), account for 69 percent of the claim.

The accident at NSEL has affected FTIL in the worst possible manner. The Group lost exchanges, profitable businesses, and growth opportunities. Its ability to create world class institutions is severely eroded and dented.

Our parent company FTIL is fully seized of the problem at NSEL and is committed to extend fullest cooperation and support in an early resolution of the crisis.

We urge and request all those who believe in enterprise and the potential of India to lead the financial markets development to appreciate the relevant concerns and extend their support and cooperation in overcoming this crisis.

LOOKING AHEAD

WE EARNESTLY REQUEST THAT:

The actions of the Government be spread across all the entities that have contributed to the crisis, including the Forward Markets Commission, the then Additional Secretary, DEA, brokers, trading clients and defaulters. NSEL has been needlessly punished and so has the Financial Technologies Group.

Assets of the defaulters worth Rs 5,000 crore have been seized for attachment by the EOW, which is close to the Rs 5,690 crore settlement due. The Government should take all the measures possible to dispose of these assets in order to bring an early resolution to the crisis.

FTIL and the managerial professionals be absolved from the not 'Fit and Proper' declaration by the FMC, which was made without proper examination and investigation of all factors concerned and without considering the judicial process currently in progress.

The focus should be on the recovery of dues from the defaulters rather than taking vengeful measures against FTIL group that will destroy the ecosystem of exchanges and benefit competing exchange groups.

NSEL should be allowed to take every measure to resolve the crisis without undermining its power and potential by hasty measures of merger with FTIL or supersession of FTIL management, which can actually prove counter-productive in solving the problem.