

LOOKING BACK

How the problem could have been better resolved.

- First of all, what happened at NSEL is not a crisis. If it were a crisis, it would have affected the financial markets in general and commodity markets in particular. That it caused no systemic risk was highlighted by various committees of the Government | Reserve Bank of India that studied the subject in detail.
- It was the sudden and abrupt actions of the FMC | DCA that made the NSEL accident into a major problem. What could have been an easily manageable issue if FMC | DCA were to have taken the exchange and members into confidence and worked out a plan for implementation in a concerted manner, instead turned into rash actions taken without proper study or assessment on the impact and implications and based on some quick and random reports of audit. The outcome has been most damaging and destructive. While the Financial Technologies Group has been subjected to utmost pressure and pain, no proper strategy or plan is put in place by the FMC | DCA for an early resolution of the crisis thereby prolonging the problem.
- The problem is quite manageable as is also evident from the fact that about seven defaulters account for 85 percent of the claims. If FMC | DCA would have acted quickly to recover major part of the claim from a very small number of defaulters soon after the problem came into light, much of the problem could have been resolved within a short time. Instead, FMC has completely left out taking any action against either the brokers or the defaulters and instead taken a wide range of punitive actions against the NSEL | Financial Technologies Group including its promoters and management which ultimately proved unproductive.
- The players on the NSEL platform are all highly educated, well informed, with wide experience of trading on exchange platforms, rich and of high network. The Exchange never misled them. The traders and clients knew each other, were backed by strong legal and compliance departments to check on credentials, undertook warehouse inspections several times and did not raise any concerns any time on any aspect of operations either to the NSEL, or its Board, or to Financial Technologies. It is not true to say that the traders and clients were misled by the exchange, for NSEL did nothing of that sort.
- It is not true to say that NSEL was created by FTIL with an objective to make undue gains. NSEL is an outcome of the aspirations of the Government to create a national market for agricultural commodities in which market mechanisms and efficient price discovery process were key elements. It was MCX that first applied for a license to operate a spot market. Only after certain regulatory concerns that MCX being a futures markets cannot set up a spot market, Financial Technologies came into the picture to develop spot markets as a part of the national initiative. NSEL came into being after several initiatives of the Government to develop spot markets.
- It is also disproved that NSEL was not regulated. In 2011 FMC wrote to DCA to request RBI to consider exempting NSEL regulated by the FMC from the purview of PSS act 2007, for its clearing and settlement function. Also DCA entrusted FMC with the responsibilities of oversight, protection of investor interests, collection of periodic information all of which form the core of regulatory functions. Thus it is not correct to say that NSEL was not regulated.

- Financial Technologies which promoted NSEL was deprived of fairness while imposing several regulatory sanctions including declaring the promoter and some of the top management as not fit and proper. While investigations are still going on in regard to various aspects of the problem and several issues are under judicial process, FTIL is subjected to harsh measures including forced exit from the exchanges that it has created in India and abroad.
- Most of the claims in the form of collaterals frozen of the Defaulters are now available with the authorities. The task ahead is for all the agencies to work together on realizing the recovery to resolve the crisis soon. Sooner this task is put in place, that much quicker the resolution of the problem.