

IL&FS Securities issue could precipitate today as brokers seek return of collateral

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There could be more pain for IL&FS Securities Services Ltd (ISSL) and its trading members on Monday. Some of the members, who are seeking a return of their collateral from ISSL following the Allied Financial payment fiasco, let their derivative positions expire on July 25. They will now want the delivery of shares against payment due to them.

ISSL won't be able to return these shares as it is not in a position to pay for delivery, which may precipitate the crisis, sources told *BusinessLine*.

Per broker estimates, 50-150 trading members of ISSL have around ₹300 crore stuck with the beleaguered clearing member, which is their collateral for derivative positions. ISSL had an obligation of nearly ₹400 crore to NSE Clearing Corporation, for which it allegedly used its members' collateral apart from its own ₹100 crore.

A clearing member guarantees payments on behalf of brokers to clearing corporations, which in turn stand guarantee to counterparty risk. Brokers put up collateral with clearing members to avail trading positions.

Allied Financial fiasco

The ₹400-crore obligation was on behalf of Allied Financial, the recovery of which is now in the courts. It had allegedly used up client collateral for its own trades but this landed ISSL in a soup as it acted as the clearing member for Allied.

NSE Clearing Corporation blocked ISSL on Thursday and Friday for its inability to meet its margin shortfall. Due to this, the trading terminals of ISSL brokers went into square-off mode on the day of derivative expiry. The brokers let their positions expire. Over half the scrips in equity derivatives are delivery settled and will involve give and take of shares if the positions expire and are not squared.

"ISSL will most likely not be able to handle delivery of shares on Monday. Last week the trading terminals were shut due to a margin shortfall but the pain on Monday could be severe as the shortfall now will be of the entire amount if the delivery is marked on shares. NCC will offload the shares in the market if it does not get the full payment. The situation will be known by 11.30 am," said a broker.

ISSL is in a spot as brokers are seeking the return of deposits and NSE Clearing Corporation is pressing for margin on positions. It is not clear how much of the derivative positions held via ISSL were squared off on Thursday. But if all were not squared off, there is no escaping the give and take of delivery of shares, brokers said. Payment is due from ISSL for those squared off. India follows the T+2 settlement cycle and Monday is the pay-in/pay-out day for last Thursday.

ISSL also offers custodian services. It has come to light that some high-net-worth individuals are also struggling to get back assets from ISSL custody. ISSL did not reply to queries on the issue.

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