सिद्धिमूलं प्रबन्धनम्
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IIM INDORE

Indore Management Journal

Volume 9 Issue 2017

Indore Management Journal

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How Vested Interests Eroded The Best 'Make In India' Story[1]

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Abstract

In this case study, I explore how regulatory ambiguities can lead to a business crisis and curb the process of growth of Indian industry. In the context of regulatory ambiguities, it is necessary for regulators to punish deviations from due process. At the same time, regulators also have a responsibility to partner with organizations facing crisis and assist them in streamlining processes that can lead to better compliance. I argue that it is vital for the regulator and the State to build capacities to anticipate and resolve crises. The regulator needs to emerge as a neutral umpire and must strive to ensure that any perception of miscarriage of justice is duly addressed.

Keywords: Crisis, Industry, Make in India, Regulator, Vested Interests

Introduction

The Indian economy is passing through turbulent times and in the current scenario, unless corrective measures are taken to protect the spirit of enterprise and innovation, the downturn in the economy may continue. Declining GDP, depreciating rupee, rising unemployment and inflation, sluggish demand, piling up of non-performing assets and inflation are proving difficult to reign in, and have taken their toll on the overall outlook of the economy.

Needless to say, these factors have severely impacted the country's entrepreneurial zeal and innovative spirit. As a result, there is a dip in capacity-building and the overall growth.

The resurgence in economy needs star entrepreneurs for the overall growth of the country. When markets and administrative structures nourish their emergence, hope is catapult to several others to adopt the same zeal. Yet in India, it is this hope that seems to be disappearing. Ruchir Sharma, the Head of Emerging Markets and Chief Global Strategist at Morgan Stanley, notes that the culture of turbulence has been embodied by the fact that 23,000 millionaires have left the country in the past few years. This, certainly, reflects a lack of conducive environment for the entrepreneurs and innovators[1].

An economy at such a crossroads needs much bolder initiatives to encourage the entrepreneurial zeal and open doors to a conducive business environment in order to propel demand so that there is economic buoyancy, increase in capacity building, employment generation and more disposable incomes in the hands of the people.

Against the backdrop of this bleak outlook of the economy and a lack of faith in millionaire entrepreneurs in the domestic system, it is imperative to recognise the story of a revolutionary innovator, Jignesh Shah. Mr Shah, the tech-savvy entrepreneur who had successfully built the phenomenal organisation Financial Technologies India Ltd (FTIL), realised that it was necessary to build financial markets where capital resources could be raised and channelised into enterprises in credible ways.

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[1]This is a case study that has been prepared for purposes of classroom discussion and does not indicate any best practices or administrative insights that can be emulated. The case study is being published with the consent of 63 Moons Technologies Limited.

As Mr Shah began to succeed in unshackling the spirit of enterprise in the Indian markets, he ran into several challenges created by a nexus of vested interests, which included politicians, bureaucrats, crony capitalists and rival empires. This proved very catastrophic for India since Mr Shah's aspirations were not confined to merely setting up companies; rather his vision was to make India the Manhattan of the East, connecting Asia, Africa and the Middle East, stretching from East of Suez to Singapore, through his IP-centric innovative exchanges for creating immense value in the Indian economy. Nobody had envisioned this prior to him, although one could draw parallels in modern-day writings on heroic entrepreneurs, including the likes of John Galt.

1. India finds its John Galt in Jignesh Shah

When in 1957, America-born Russian writer, Ayn Rand, characterised John Galt in her magnum opus Atlas Shrugged, little did she know about the magnitude of impact that her character would bear on the next generation entrepreneurs. Galt became a cultural icon who epitomised freedom of innovation among aspiring entrepreneurs across the world.

Many innovators, who were struggling against the might of the corrupt establishments were drawn towards Galt's fight against the system that wanted to punish him for using his mind. Despite being fictional, the philosophy of Galt has resonated with many entrepreneurs over the years.

A seasoned broker at the Bombay Stock Exchange (BSE), who saw Mr Shah from close, called him a 'maverick entrepreneur'. And the others, who witnessed the might with which he pushed his companies across India and the world, likened him to Galt.

Mr Shah worked in a manner that resembled Rand's philosophy of objectivism, rational self-interest and laissez-faire capitalism. Like Galt, he epitomised the glories of capitalism in its purest form–innovation, self-reliance and freedom from the monopolistic regime. Galt was a philosopher, who defined a rational view of existence, a legendary statesman, a leader who had the capacity and the capability to transform the world's convoluted social systems. Mr Shah, in ways more than one, reflects quite a few of the aforesaid characteristics. Mr Shah is a unique genius in his own way, someone with an ability to inspire other men to achieve greatness in their own lives. Galt, characterised by his 'ruthlessly perspective eyes', somewhere struck a chord with Mr Shah who also had no qualms about calling a spade a spade.

Galt held fast to his sense of values, even if his world crumbled around him. Mr Shah, a great experimenter himself, did the same. When he left BSE, he had already made up his mind to set up exchange companies that could give the BSE a stiff competition.

Both Galt and Mr Shah swore by the power of innovation and celebrated the changes it inspired in their respective world-views. Both created significant innovation models, yet they remained rooted to the social and economic ethos as part of a society that had some of the most complex issues fostered by repressive bureaucracy, a culture that promoted and embraced mediocrity instead of high quality outcome .

The veterans at BSE believe it would not be an exaggeration to say that Mr Shah paid the price, much like Galt, for the values he cherished and for the freedom of innovation he believed in. Mr Shah was eventually dethroned by the nexus of vested interests involving politicians, bureaucrats and powerful business houses, who ranged from Mumbai's famed corporate club to thetop-level bureaucrats and ministers in Delhi.

A well-known financial markets veteran who has seen Mr Shah' sjourney from close quarters remarked, "The nexus of corrupt politicians, bureaucrats and crony capitalists killed Mr Shah's enterprises, which undoubtedly was the best 'Make in India' story".

2. An inspiring 'Make in India' story

Mr Shah, an engineering graduate from Mumbai University, joined the BSE, where he worked on designing and implementing the exchange's online trading system—BOLT. The system was being developed to revolutionise the way stock trading is conducted nationally. However, the project was transferred midway to CMC, which is an end-to-end information technology solutions and services provider. What pained Mr Shah the most was that the Indian stock markets were not keen on modernising or trade on sleek, imported terminals.

Mr Shah had a revolutionary vision: He wanted the BSE to undergo a radical change and bring about inclusive and equitable growth through technology. Before him, no one had thought about it at the BSE; and that made Mr Shah a trail blazer, a thinker, an innovator anda shaper of ideas.

However, the system was resistant to change and hence, Mr Shah quit BSE and set up his own company FTIL, which was later rechristened as 63 moons technologies limited, to provide technology solutions and domain expertise to financial markets across all asset classes. Much like Galt and his innovative ideas, FTIL's inception led to a brilliant technological innovation in IP (Intellectual Property) and helped propel trade in the next-generation financial markets, including equities, commodities, electricity, currencies and bonds, among others.

Mr Shah went on to set up 10 world-class exchange companies under his flagship company FTIL, in various asset classes, in just 10 years across India and abroad. The Group established electronic silk and spice routes right from Africa, to the Middle-East and South-East Asia.

However, like Galt, Mr Shah had to fight against the system to make it understand the benefits of modernisation. Galt's story is a moving saga of gullible tycoons and jealous competitors who failed to understand his creative ideas. Mr Shah, too, was at odds with the inadequacies of a system that did not allow freedom for innovation and instead, placed hurdles in the way of the enterprising few.

A senior management team member in FTIL noted:

> 'Mr Shah's is an inspiring 'Make in India' story. When he began his office in a 250sqft room in Mumbai's Fort area with about a dozen employees, he had no support from any of the big players in the market. He only had a dream and the energy to transform it into a reality. Did the Government or the banks support him? No.
>
> Our analysis of business set-ups shows that only those companies which focus on how technology can lead to a different way of thinking and functioning succeed in their quest for innovation. On the other hand, those businesses which question the risk in technology are unlikely to succeed. Mr Shah had no idea about how he would go about selling the technology platform that he had developed. But he did not worry about the risks. He put his home at stake while going about developing the venture.
>
> Many businesses globally, including the powerful ones, flourish due to crony capitalism and the blessings of politicians. Since Mr Shah did not excel in any of these, the system finally tried to break him down but even today, he is committed to innovation and willing to fight it out to support the much-needed innovations in different market segments of India.'

Mr Shah and his team of employees worked non-stop for three years to come up with ODIN, a pioneering online trading platform. They were competing against major companies such as TIBCO, IBM and TCS. Mr Shah decided that he would play the price advantage to succeed in the market.

Initially, he priced ODIN double than the Indian competitors and first sold to the premium markets. Subsequently, he positioned ODIN for the mass markets in order to expand the market base. Soon, FTIL had mopped up nearly 90% of the market share and despite offering a lower price, began to show profit margins of about 60%. FTIL, however, was not interested in being complacent and decided to pursue another innovation to create value.

ODIN, which recently completed 20 years, went on to capture the second largest market share in the Trading Terminal segment, globally. ODIN has now become the lifeline of financial markets, empowering India with 25 lakhs jobs and impacting 1 crore livelihoods.

A journalist from a leading business magazine, *Business Today*, remarked in 2006[6]:

> 'Shah realised that growth would be limited if the company solely depended on product licence fee. That is when Shah came up with an audacious proposal: 63 moons (FTIL) would set up an online commodity exchange. There were more than a few who laughed at Shah's gumption, since BSE and NCDEX (promoted by ICICI Bank, NSE and CRISIL) were also vying for the licence from the Forward Markets Commission. Once again, Shah proved his sceptics wrong. Not only did he win the licence for the online commodity futures exchange, but he got it up and running in a record nine month. Mukesh Ambani, a man Shah admires, himself came to inaugurate Multi Commodity Exchange (MCX), and now would probably be pleased at the way the exchange has performed since. It turned profitable in the first year, and today, trades in 58 commodities (more than NCDEX), covers 500 cities and boasts of 1,050 broker-members.'

That this move by Mr Shah was just the beginning became evident when MCX became India's premier national commodity derivatives exchange and Mr Shah fostered it to grow to become the second largest commodities exchange in the world in a short span of 10 years. MCX captured over 80% of the commodity futures market in India, with a daily volume of trade exceeding US$3 billion. It also became the country's first listed exchange.

A comprehensive nationwide survey by the Tata Institute of Social Sciences (TISS) revealed that MCX had created 10 lakh jobs in India across two notable sectors—commodity and agriculture—besides the enumerable self-employment opportunities and sustainable incomes.

The ecosystem made significant contribution in empowering local communities through better opportunities. The bourse had about 3.5 lakh trading terminals spread across 1,500 cities and towns with more than 2,170 plus brokers, several thousand sub-brokers, franchisees, hundreds and thousands of participants. Besides, Gramin Suvidha Kendr as were set up in 38 centres spanning six states with links to 2,800 villages. These kendr as were an initiative that leveraged the Indian postal network to distribute agricultural inputs, expert advice, warehousing as well as spot and future pricing advice to farmers across rural India. In no time, 20,000 farmers across 575 branch post offices registered themselves for the service. Needless to say, the kendr as generated a huge ecosystem that benefitted millions of farmers with sustained incomes, jobs and business opportunities .

Mr Shah's Indian Energy Exchange (IEX) became India's number one electricity exchange and a leader among world energy exchanges . It worked in tandem with states and union territories, trading 14.41 billion units of electricity with a compound annual growth rate of 43% in average yearly traded volume. The Economic Times dubbed it as "the Second Industrial Revolution" in India[9].

Mr Shah created similar wonders when his FTIL's National Bulk Handling Corporation (NBHC) became India's number one private sector warehouse management company and an Asian leader. Singapore Mercantile Exchange (SMX) and Dubai Gold & Commodities Exchange (DGCX), the international exchange ventures set up by FTIL in Singapore and Dubai respectively, thanks to Mr Shah and his prowess in growth, have become leading exchanges in Asia and the Middle East (Refer to **Exhibit 1**).

While several start-ups in the Indian ecosystem have questionable business propositions and fail to achieve breakeven even after drawing significant investments , FTIL managed to achieve success in almost every innovation it launched. IBM and Oxford University reported in a study that 77% of venture capitalists surveyed by them felt that Indian start-ups offered neither new technology nor unique business models . With 10 multi-asset class exchanges established in 10 years across Asia, Africa and the Middle East, Mr Shah became popular across the world as the Czar of Exchanges. He pioneered 18 technological innovations and institutions of national pride in 18 years beginning 1995. In short, he had already laid the foundation of a global empire, which, if notdestroyed, would have become the biggest "Made in India" MNC[12].

Today, there is hardly an exchange in the present scenario in the country that introduces any innovation either in processes or products or has any exciting plans that could benefit the economy or showcase the power and potential of the Indian financial sector.

The growth story of FTIL has been about empowering people. Its Exchanges and ecosystem ventures were job-oriented and employment. Markets during Mr Shah's helm were always forward-looking. In his absence, they are nothing but laid-back and lacklustre. They have experienced shrinking volumes in the past couple of years, leave alone creating additional jobs (Refer to **Exhibit 2**).

3. The behemoth persecuted

However, in achieving the above, these FTIL ventures had taken on certain monopolistic market entities in their attempt to democratise market benefits for the masses, harming their vested interests. As FTIL began to succeed, Mr Shah started wondering how government agencies and other regulators were unfairly targeting him. Like most indigenous growth stories, FTIL's meteoric rise soon became a cause of worry for the rival players, who had monopolised the Indian financial markets with the blessings of the powerful politicians.

A senior financial analyst observed:

> 'Threatened by FTIL's innovative offerings, an unholy nexus of corporate captains, big brokers and powerful bureaucrats, backed by powerful politicians, conspired to destroy the FTIL empire, killing one of the finest examples of entrepreneurial zeal and innovative spirit. The Group witnessed a long history of persecution by these powerful rivals, who had huge vested interests in the markets.'

FTIL faced hostility from institutions as it began to rise. These hostilities were evident in actions such as tax raids on MCX in 2007[13]. In India, tax raids are often used to stigmatise entities and create pressure on them to either back down from competing with other businesses or align themselves with the wishes of the powerful politicians. However, the tax raids in 2007 did not find any wrongdoing against FTIL and no action was initiated against the Group[14]. Venkat R. Chary, IAS (Retd.) and the former chairman of MCX said[15]:

> 'The then director general of (the) income tax (department) told me that they had not found anything adverse against MCX or FTIL. He, however, told me he could not give anything in writing to me. That incident was another proof that our competitors may have misguided the income tax department by feeding it with false information. After my meeting with the Director General, I wrote to the Consumer Affairs (the administrative Ministry) Secretary to inform him of what transpired in my meeting and to place the facts on record.'

The raid was used as an advantage by the vested interests to malign the image of FTIL and create roadblocks for the equity market licence application of the Group's stock exchange, MCX-SX.

A regulatory official said that initially Securities and Exchange Board of India (SEBI) was in favour of granting MCX the approval to begin equity trading[16]:

> 'SEBI was in those days of the opinion that there was a need to impart competition in securities trading because one exchange (the National Stock Exchange) had a virtual monopoly and the other exchanges were not able to compete. Hence, SEBI gave permission to MCX and FTIL to set up the stock exchange in 2008.'

The pressures created by the tax raids meant that SEBI began to impose unreasonable conditions on FTIL, which hindered the full-fledged functioning of MCX-SX as a stock exchange. It was only after several years of litigation, reaching right up to the Supreme Court, that MCX-SX finally obtained all necessary approvals to begin equitytrading[17] on February 9, 2013.

However, the delay meant that MCX-SX lost a lot of business advantage while its competitors consolidated their positions in the market. Regulatory barriers began to affect the functioning of other innovations launched by FTIL as initiatives such as the exchange set up in Bahrain began to lose volume[18].

The vendetta against the FTIL Group by vested interestsis chronicled below:

2004 Decision on bringing commodities markets under SEBI

Just when FTIL's MCX started pipping NSE's National Commodity & Derivatives Exchange Limited (NCDEX) in terms of growing business volumes, feeling threatened by the development, it was decided to bring the commodity derivatives under the ambit of the equity market regulator, SEBI, in order to scuttle the growth of FTIL's maiden exchange venture MCX. In this context, the Government of India's move to bring the commodity futures trading under SEBI appears to be a questionable, as the need to develop expertise in the commodity futures market in an independent body such as the FMC was impeded. Bringing commodity derivatives trading under SEBI would give the Ministry of Finance a direct control of the commodity derivatives market, thus far regulated by the FMC which functioned under the Ministry of Consumer Affairs. It needs to be mentioned here that commodities and equities are two different domain market segments and therefore, have different regulatory requirements. For instance, the Insurance Regulatory and Development Authority of India (IRDA) is an autonomous, statutory body tasked with regulating and promoting the insurance and re-insurance industries in India. On the other hand, all Asset Management Companies (AMCs), a different asset class, are regulated by SEBI. It is difficult to imagine SEBI regulating insurance and IRDA devising policy changes in the asset management sector.

There is also a global parallel to support the separate existence of these two markets. In mature financial markets such as the USA, equity markets and commodity futures markets are regulated by two separate bodies, Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC). In the aftermath of the financial crisis, there were debates about the regulatory roles of SEC and CFTC . Eventually, it was decided to retain commodity futures trading under the regulatory ambit of CFTC as it had built expertise about the functioning of commodity markets.

2007 IT raided MCX to create roadblocks for MCX-SX

The Income Tax department raided MCX and the move was leveraged by vested interests to malign the image of FTIL and create roadblocks for the equity market license application of the Group's stock exchange, MCX-SX . However, no wrongdoings were unearthed in the raids and no penalty was imposed on MCX or FTIL. These raid helped in protecting the vested interests of business rivals.

Ministry of Financeinsisted two PSUs sell their stake in NCDEX to NSE

As if the raids were not enough, the then Joint Secretary, Department of Economic Affairs in the Ministry of Finance, issued a note explicitly expressing concern about the increasing market share of MCX vis-à-vis NSE. The joint secretary noted that it was necessary to improve the market share of NSE which it was losing to MCX. The government's interest in the market shares of two private entities and the intent to increase the market share of one entity over the other raises serious questions of conflict of interest. The government instructed two leading public financial institutions, namely the Life Insurance Corporation of India (LIC) and National Bank for Agriculture and Rural Development (NABARD), to sell their equity stake in NCDEX to NSE so that the latter could 'provide credible competition' to FTIL's MCX.The interest of a government official to alter the shareholding pattern of a private commercial entity such as the NCDEX opens serious questions of political interference in the functioning of commodity and futures markets. Both NSE and NCDEX are private companies. It also undermines the autonomy of public entities such as the LIC and NABARD to take autonomous decisions based on their evaluation of stakeholder interest.

The letter written by Joint Secretary, Department of Economic Affairs, in the Ministry of Finance is reproduced below which indicates the undue interest of the government in the business of private entities.

Ministry of Finance
Department of Economic Affairs

1. "NCDEX was sponsored by by four initial institutional promoters to set up a commodity derivative exchange. The institutions were broad based to bring in other shareholders including PNB, Canara Bank, CRISIL, IFFCO etc. Recently, ICICI sold down its shareholding which enabled some foreign shareholders to come into NCDEX. These include Intercontinental Exchange (ICE) and Goldman Sachs.

2. NCDEX started with contracts in both agro commodities and metals, but gained a commanding lead in agro commodities over other exchanges. In the last fifteen months. However, NCDRX performance has suffered significantly. The decline has been quite sharp in the last few months and all indications suggest that the situation is set to worsen. To illustrate, the overal market share for all NCDEX contracts has dropped form over 50% (two years ago) to 13% in the latest month. The view of many key shareholders and directors is that the only way to revive NCDEX is to ensure that NSE takes an active role in the management of NCDEX and bring about a synergy between the business marketing and other areas of two exchanges. A key prerequisite for this is for NSE to become the single largest shareholder NCDEX. Currently, NSE's shareholding is NCDEX stands at 15% the same as LIC and NABARD. This can happen smoothly if LIC and NABARD 5%-6% of their equity stake in NCDEX to NSE.

3. While the immediate for this arises from the desire to revive NCDEX which must be done as early as possible so as to provide credible competition to MCX, a medium term goal of bringing convergence between the financial securities and commodities derivative markets will also get a significant push with this initiative. If market institutions coverage, regulatory convergence will become far easier.

4. I have discussed this ("X" above) with Secretary (FS) who is comfortable with the proposal. After Secretary (FS) FS/FM have seen and approved, Secretary (FS) will speak to LIC and NABARD regarding "X" above and request them to carry this out at the earliest. NCDEX/NSE will take necessary approvals of their regulators as required.

Dr. K. P. Krishnan
Joint Secretary (CM)
19.12.2007

2008 Ministry of Finance suddenly proposes CTT

In 2008, the Ministry of Finance came out with a proposal to impose Commodities Transaction Tax (CTT) on commodity derivatives exchanges. The move was ostensibly aimed at MCX as it was witnessing heavy volumes in commodity derivatives trading. However, the then Finance

Minister had to drop the proposal owing to strong resistance from market participants.

NSE put FTIL's software ODIN on 'watch list'

The problems for FTIL continued in other ways. After FTIL entered into the stock exchange space with MCX-SX, NSE suddenly put FTIL's flagship product ODIN, which had captured over 80% market share, on the watch list. In fact, NSE itself had been using ODIN for over a decade and the move was a counter attack to force stop its rising popularity among the brokers. It was only when FTIL approached the Hon. Bombay High Court that ODIN was reinstated. From here onwards, the FTIL Group reigned in every victory in the exchange space but not without a fiercely fought legal battle.

NSE introduced zero transaction cost in CD segment to pull down MCX-SX

In a move aimed at hurting MCX, NSE introduced zero transaction cost in the Currency Derivative (CD) segment for trading on its platform. This made the new exchange by FTIL, MCX-SX, bleed in terms of revenues from day one as CD was the sole operating segment on the platform. Later, the Competition Commission of India (CCI) found NSE guilty of abusing its dominant position and deploying predatory pricing against the new entrants in the CD space. CCI also slapped a heavy penalty on NSE for this move.

2009 Moves to derail IPO of MCX

Difficulties were created for the Initial Public Offering (IPO) of MCX. A series of complaints were made against the Draft Red Herring Prospectus (DRHP) of MCX submitted to SEBI by some of the officials of the Finance Ministry.

NSE's actions to protect its dominance

In its efforts to secure its dominance, NSE refused to share its CD segment Application Programme Interface Code (APIC) with FTIL, which disabled all ODIN users from connecting to the NSE CD segment trading platform on a single terminal. NSE instead thrustits own new product, NOW, upon the brokers in place of ODIN. Thus, NSE used its dominance in the non-CD segment to protect its position in the CD segment and denied market access to FTIL.

2010 Rivals prevented entry of MCX into World Federation of Exchanges

FTIL's MCX, despite being one of the biggest exchanges in the world, was denied membership to the World Federation of Exchanges due to pressure tactics by its rivals.

Bimal Jalan Committee attempted to restrict growth of MCX-SX

Before MCX-SX launched its equity segment, SEBI constituted the Bimal Jalan Committee to review the ownership and governance of market infrastructure institutions. The committee claimed that entry of a large number of stock exchanges will fragment liquidity to such an extent that this might stifle growth and innovation in the process. This was aimed at restricting the growth of MCX-SX.

The committee overlooked the fact that more competition will only lead to innovation and growth. On the contrary, imposing restriction on ownership and reducing competition will stifle the market growth.

SEBI revised MIMPS apparently to protect monopoly of NSE

SEBI revised the MIMPS (Manner of Increasing and Maintaining Public Shareholding in recognised stock exchanges) norms as a result of which FTIL and MCX, the promoters of MCX-SX, together could not own more than 5% stake in the new exchange. For a new exchange, yet to start business, getting investors for 95% of the equity is practically impossible.

2011 SMX prevented from conducting trades in USD-INR contracts

When FTIL's highly prestigious exchange venture in Singapore, the Singapore Mercantile Exchange (SMX), planned to introduce trading in USD-INR contracts on its platform, it was not allowed to do so. This could have provided an unmatched opportunity to Indian firms to hedge their risks and provide trading opportunities on regulated exchanges in international centres. Curiously, NSE's equity derivative index, NIFTY, was traded first on Singapore Exchange even before the markets opened in India.

2012 NCDEX allowed lower transaction cost to hit business of MCX

NSE's NCDEX, a rival exchange of MCX, was allowed to introduce lower transaction cost during trading hours in which MCX had significantly higher trading volumes. This was primarily meant to affect the bourse's business.

Equity license to MCX-SX: SEBI denied, SC approved

MCX-SX was not given permission to commence trading in equity and debt market segments even after it successfully established a record in the currency derivative segment. Instead, regulatory changes were made pressurising FTIL and MCX to dilute their stakes to 5% even before the stock exchange began to function completely. Predatory pricing practices of the competing exchange were allowed, and MCX had to approach CCI to get these practices reversed. SEBI had continued to deny MCX-SX the permission to launch its equity platform for three years without offering a valid reason. Finally, only after the intervention of the Hon. Bombay High Court and then the Supreme Court, SEBI reluctantly granted permission to MCX-SX to launch its equity platform. It is here that SEBI's lack of autonomy with respect to the Ministry of Finance became a crucial indicator of possible political interference.

2013 CTT aimed to crush MCX and protect NCDEX

The Ministry of Finance finally imposed CTT on non-agricultural commodity derivatives such as precious metals, and energy products like crude oil, natural gas, etc, which were clocking the highest business volumes on MCX. The markets saw the move of introducing CTT on non-agricultural products and sparing agricultural products as a body blow to crush MCX and protect NCDEX, especially since commodities in which NSE's NCDEX mainly traded (23 pure agriculture commodities) were exempted.

Despite several challenges created for it, the upward journey of FTIL continued unabated as it broke the shackles of monopoly only to emerge as a true **'Make in India'** story by establishing 10 world-class institutions and spreading its wings from Singapore to the Middle-East and Africa.

The following table illustrates how all the ventures created by FTIL became a formidable threat to NSE and its promoted ventures

FTIL PROMOTED VENTURES			NSE PROMOTED VENTURES	
Market Share	**Company**		**Company**	**Market Share**
80%	**MCX**	**Vs**	**NCDEX**	**15%**
95%	**IEX**		**PXIL**	**5%**
55%	**MCX-SX***		**NSE***	**45%**
80%	**FT**		**NSE-IT**	**5%**

**Currency Derivatives*

(Source: C-Company by PGurus)

The FTIL Group had become an important challenge for monopolistic forces with the vested interests backing them. Based on the performance of the FTIL Group's exchange ventures, it was largely perceived that a new entrant like MCX-SX would be eating away NSE's business.

An FTIL official observed:

> 'Infuriated by FTIL's entry into the stock exchange space, this nexus hatched a sinister plot to throw out the Group from Exchange business by killing competition. To achieve this motive, a subsidiary of FTIL, the National Spot Exchange Limited (NSEL) which was set up as per the vision of the then Prime Minister, was made a scapegoat to hatch a conspiracy against the FTIL Group.'

In a surprising move, FMC, the then commodities markets regulator, suddenly reported to the Ministry of Consumer Affairs (MoCA) on April 10, 2012, that NSEL was violating certain terms and conditions pertaining to exemption granted to it under Section 27(a) of Forward Contracts Regulation Act (FCRA). Though the exemption was general in nature, FMC advised MoCA, following which it issued a show cause notice to NSEL on April 27, 2012.

Despite pending legal opinion, as per the recommendation of the FMC, MoCA issued a letter on July 12, 2013, directing NSEL to stop issuing fresh contracts. This led to a crisis of confidence and subsequently abrupt closure of the market, which created a payment default crisis.

The FMC took no action against the defaulters or to resolve the crisis despite having all the powers. On the contrary, FMC took a series of measures only against NSEL, FTIL and its founder, Mr. Shah. Thus, the regulator acted in adverse ways and failed in ring-fencing the problem and solve it in order to nurture innovation and the spirit of enterprise.

The majority of actions by the regulators and other government agencies were concentrated only against NSEL, FTIL and Mr Shah. There were hardly any actions against the defaulters, enabling them to take away the goods from the warehouses, and in some cases, report partial stocks in connivance with Anjani Sinha, the then MD & CEO of NSEL. Sinha was later arrested by Economic Offences Wing (EOW), Mumbai police[21].

Although the defaulters had received full money as admitted by them before the FMC, they did not honour the commitment of settling the contracts.

Like SEBI did in the National Securities Depository Limited (NSDL) scam, the FMC could have called upon the EOW to investigate the crisis but it did not do that. This further complicated the matter.

The crisis was easily solvable but was kept alive leading to the FTIL Group being targeted. Although all investigative agencies including the EOW have established the entire money trail to the 24 defaulters, it is the FTIL Group that has been targeted, leading to sensational media trial pending all legal adjudication[22].

Following is a detailed account of the victimisation of FTIL:

2012 FMC sought clarification from NSEL on exemptions under FCRA

The FMC which was appointed as the 'designated agency' for regulating commodity markets on August 5, 2011, sought clarification from NSEL for allegedly violating exemptions granted to it for trading in forward contracts of one-day duration under Section 27(a) of FCRA.

FMC advised MoCA to issue show cause notice to NSEL

Despite detailed clarifications given by NSEL, FMC advised MoCA on April 10, 2012, stating that NSEL had breached conditions 2(I) and 2(ii) of the exemptions and recommended action against NSEL, following which the MoCA issued NSEL a show cause notice on April 27.

NSEL clarified to MoCA on the exemptions granted

NSEL wrote two letters to MoCA giving detailed explanations on how the exemptions granted to it and the other two spot exchanges were a 'general exemption' from all provisions of FCRA and not from any 'specific provisions'. Hence, the conditions stipulated were duly complied with. For a year and half, there was no response from MoCA, which led NSEL to believe that its explanation had been accepted.

2013 MoCA ordered NSEL to stop issuing fresh contracts

On the recommendations of the FMC, on July 12, MoCA ordered NSEL to settle all existing contracts by July 31 and stop issuing fresh contracts. This sudden and abrupt closure of the NSEL market resulted in a payment default crisis of Rs 5,600 crore as several defaulters failed to settle the contracts by July 31. While NSEL was abruptly closed, the two other spot exchanges were allowed to continue their operations as usual, a clear indication of differential treatment that had been historically meted out to the FTIL Group.

FMC took a U-turn on the nature of exemptions granted to NSEL

Surprisingly, the FMC did a volte-face on July 19 and wrote to MoCA stating it was not sure if the exemptions were "general or specific in nature."

Defaulters assured FMC Chairman to pay back the money

On August 4, FMC held a meeting of all the stakeholders of the NSEL crisis, including the defaulters and brokers. The defaulters admitted to FMC Chairman to holding the entire default amount and even agreed to pay back in a phased manner. But Abhishek did nothing to execute a payment schedule, as a result of which, the money is still with the defaulters. Various media reports have revealed that the defaulters have siphoned off the money to buy personal properties and invest in new businesses.

A member of the senior management team of NSEL said:

> 'The Department of Consumer Affairs (DCA) directive was completely a violation of principles of natural justice. A delay of nearly one year after we had submitted our reply with no interim directions is an unreasonable delay. Further, even after DCA's instructions to halt trading, FMC, which was the regulator itself, did not know whether NSEL had received a general exemption or not. In case of ambiguities, the regulator should have worked as a partner to support an innovative and pioneering entity such as NSEL.
>
> Investigations have revealed that it was the members who defaulted to the traders. The FMC Chairman held a meeting with all the stakeholders on August 4, 2013, and said that the defaulters must pay back the money. The Hon. Bombay High Court also validated EOW investigations showing that the entire money trail of Rs 5,600 crore has been traced to 24 defaulters and not a single paisa was traced to NSEL, FTIL and its promoters. Even if there were regulatory issues, DCA could have corrected them in a phased manner. If at all there were violations, as a first step, a fine could have been imposed instead of bringing the exchange to a halt.'

FMC targeted NSEL/FTIL instead of defaulters

The FMC continued its dilly-dallying tactics vis-a-vis the defaulters and brokers despite the fact that on August 6, MoCA gave it wide-ranging omnibus powers to take such measures as deemed fit against "any person, intermediary or warehouse connected with NSEL." But FMC trained its guns only against NSEL/FTIL and their promoters, allowing the defaulters to run their businesses as usual.

High-powered Committee constituted by Ministry of Finance

On August 26, 2013, the Finance Ministry constituted a high-powered Committee comprising top bureaucrats from various departments and investigative agencies to recommend measures to 'ensure that there is no systemic impact of the NSEL developments.' Shockingly enough, the Committee was given merely two weeks to submit its report on such an important issue. The Committee worked in haste without giving sufficient time to all stakeholders to provide their considered inputs. It ended up recommending multi-pronged actions only against NSEL, its directors and promoters, while completely ignoring the defaulters and brokers who had precipitated the crisis.

a) The Reserve Bank of India (RBI), a part of this committee, submitted that the NSEL crisis would not lead to any systemic impact on the markets. Despite this, the Committee asked all investigative agencies, including EOW, Enforcement Directorate (ED) and the Central Bureau of Investigation (CBI) to take action against NSEL.

b) The RBI also told the Committee that NSEL operations did not constitute a 'deposit scheme as per section 45-I (bb) of the RBI Act,' and as such 'NSEL was under no obligation to repay the buyers'. But the Committee recommended that NSEL be booked under the Maharashtra Protection of Interest of Depositors Act (MPID) by EOW.

c) As a matter of fact, NSEL had not taken any money as 'deposit' but the traders had paid it to buy commodities and even paid tax on that. The Committee also ignored the findings of the IT department that had conducted raids at warehouses of all the defaulters on August 22. The Committee did not even mention the stock verification done by the IT department.

FMC declared FTIL 'not fit & proper' to run exchanges pending legal opinion

FMC relied on the Grant Thornton (GT) forensic audit reports and on December 19, 2013, declared FTIL and Mr Shah 'not fit and proper' to run any exchanges even though all cases regarding NSEL/FTIL were sub-judice. This was despite the fact that GT had clarified in its disclaimer that their report is based on information made available to it and that they have not independently verified or validated it, adding that it does not constitute an audit under any accounting standards and hence, cannot be relied upon to provide the same level of assurance as a statutory audit. It also made it clear that the report is not intended to be interpreted as a legal advice or opinion.

A senior management team member of FTIL said:

> 'FTIL had a strong vision of being a cutting-edge player in structuring markets that could not only provide solutions in India's unique economic context, but would also catapult India to a leading position among all the exchanges of the world. Not only was a politician-bureaucrat nexus active, there was also a business lobby that was jealous of Mr Shah.
>
> Mr Shah, a first-generation entrepreneur/ innovator had built all the exchange companies from scratch and had established his businesses within a short period of time. He had changed the rules of the game by focusing on technology, innovation and globalisation. Nobody can fault the businesses he created. After the crisis at NSEL, when FTIL was forced to sell its stake in MCX, major players like Kotak Mahindra Bank and Rakesh Jhunjhunwala vied with each other to acquire a larger stake in MCX. With respect to the crisis, why should only NSEL be blamed? What was the role of the brokers who made huge profits and misled many of their clients? If Mr Shah was declared 'not fit and proper' to be in exchange space, these brokers should also have been declared 'not fit and proper' to participate in financial markets.'
>
> Nonetheless, the credentials of FTIL's world-class exchanges were established when the world's most fit and proper institutions acquired its exchanges(**Exhibit 3**).

2014 MCA issued merger order of NSEL with FTIL

On August 18, FMC Chairman, recommended to the Finance Ministry that NSEL should be merged with FTIL, alleging that NSEL did not have enough human and financial resources to ensure recovery of the default money. On October 21, Joint Secretary, Ministry of Finance forwarded the merger proposal to the Ministry of Corporate Affairs (MCA), which also promptly issued the draft merger order without any independent investigation of its own. Despite

MCA receiving 50,389 representations from the shareholders of FTIL objecting to merger of NSEL with FTIL, both physical papers as well as emails, MCA passed the final merger order on February 12, 2016. FTIL challenged the merger order under Section 396 of the Companies Act in the Hon. Bombay High Court.

Prashant Desai, the then Managing Director of FTIL, led the public defence and stated:
'Pursuant to the Hon. Bombay High Court's order, FTIL had represented its case in the hearing given by MCA in October 2015, putting forth all its objections to the draft merger order. The way the hearing went, and the way thousands of shareholders, employees and creditors had objected to the proposed merger order, we were hopeful that MCA will take an objective view of the matter and withdraw the draft merger order. Hence, the passing of the merger order today–while matters are sub-judice–is highly disappointing. Thus, this order on a sub-judice matter not only breaches the concept of limited liability but also the constitutional rights of the 63,000 shareholders of FTIL.'

Many legal luminaries have expressed their concerns over the merger matter as it goes against the very grain of limited liability and principles of natural justice . When it has been established beyond doubt by the investigative agencies like EOW that the entire money trail has been traced to the 24 defaulters and not a paisa has come to NSEL, FTIL and its promoters, then the merger is unlikely to solve any practical purpose. Even MCA in its final merger order stated that the total default amount is due and recoverable from 24 defaulters. This has been reiterated by the Hon. Bombay High Court as well.

It was not merely a question of whether MCA had acted in a fair and just manner in ordering the amalgamation of NSEL with FTIL. At a more fundamental level, it had to be decided whether the State should have the power to merge two private companies to safeguard the interests of a few high net worth individuals.

FTIL, aggrieved by the order of MCA, challenged it in Hon. Bombay High Court with the hope that the voice of an overwhelming majority of its shareholders would be heard and the company itself would be able to continue delivering the innovation that characterised its formative years of growth[25].

FTIL hoped that the Hon. Bombay High Court would do justice to the matter as it was deciding on a controversial provision of the Companies Act, 1956. FTIL was disappointed when the Hon. Bombay High Court upheld MCA's merger order. The company has challenged the High Court order in the Supreme Court[26].

FTIL believes that the so-called investor associations pressing for the merger of NSEL with FTIL are mostly the benami fronts of brokers and defaulters who want to divert the probe and pass the buck onto NSEL/FTIL. They have been falsely projecting themselves as investors even as the total tally of '13,000' is under dispute. Significantly, the former Union Minister of State (Finance), Shri Arjun Ram Meghwal, stated on the floor of the Parliament on December 16, 2016, that 'not a single investor has been given clean chit by the IT department'.

The trading clients traded on NSEL through their brokers under a client-broker agreement and have paid VAT and booked trading income. This can be verified through their tax returns. Trading clients cannot be called as investors as they were neither creditors of NSEL nor did they invest in FD/Debentures in NSEL and no interest was paid to them by NSEL. (Company Documents).

The authenticity or genuineness of these traders posing as investors is under scrutiny and is being probed by the Income Tax department and Serious Fraud Investigation Office (SFIO). At the same time, the veracity and genuineness of the actual number of the so-called investors is being separately scrutinised by a High Court Committee (HCC) set up by the Hon. Bombay High Court.

The market regulator SEBI has found several big brokerage firms to be guilty of mis-selling the products and engaging in forgery . Several big brokerage firms cheated their trading clients by misrepresenting facts, mis-selling NSEL contracts and also manipulated their KYCs to trade heavily on NSEL without their knowledge.

Many of these vested interests have been running a propaganda against NSEL and want to target FTIL. They are stalling the recovery efforts by creating roadblocks and misleading agencies, politicians and government officials.

4. The missing sheen from Indian financial markets

The FTIL Group has dominated the development space of Indian financial markets in the last one-and-a-half decade. Mr Shah is credited with revolutionising the markets by introducing cutting edge solutions and ingenious technologies way ahead of time. Of the many achievements Mr Shah scripted, the exchanges that he created hold special mention.

Before FTIL's entry, no exchange group in India had thought of setting up bourses abroad. FTIL laid greater focus on capacity-building, a crucial aspect of market development. FTIL wanted to create vibrant markets in bonds, energy, commodities, currency and equity that can make India a global market powerhouse.

However, one look at the facts then, and now, makes it quite evident that our markets have stopped evolving after the exit of FTIL from the exchange space. MCX became the second largest commodity exchange in the world and the No. 1 commodity derivatives exchange in India. MCX was once known for its innovative products, aggressive zeal and trading volumes. The IPO of MCX, the first exchange in India to be listed in 2012, was oversubscribed a record 54 times. Until now, even India's much bigger exchanges have not been able to list due to legacy issues.

After FTIL's exit, MCX lost nearly 10 places in global ranking, its volumes fell from Rs 1.25 lakh crore a day to a mere Rs 25,000 crore a day! Same happened with MCX-SX and IEX. MCX-SX was World No. 1 in trading of currency futures, in just over a year of its operation. Its trade volumes soared up to the height of US $1billion a day! After FTIL was forced to exit, trading dropped to 124 million contracts in 2014 and now the exchange is gasping for breath. IEX, too, captured 98% of market share and was ranked among top energy exchanges of the world. Now, a so-called competitor, the Power Exchange of India, has shut down while IEX continues to be significant even today. However, had FTIL been at the helm of IEX, it would have grown manifold.

Markets still have great growth potential, but it lacks visionaries like Mr Shah, who can seize opportunities and lead with entrepreneurial zeal.

5. India to foster conducive environment for innovation velocity

Mr Shah's FTIL is only a case in point because it is exceptional in the way it rose to dizzying heights, displaying its cutting-edge innovation and the way it was targeted because its highly competitive innovative spirit was perceived as a threat by established players aided by powerful godfathers in politics and bureaucracy.

Like Mr Shah, there are many entrepreneurs who have the potential to be torch-bearers of innovation and can build world-class 'Made in India' MNCs. With so many John Galts waiting to burst onto the entrepreneurship scene, it is only lack of conducive business environment and regulatory failures that prevent India from having its own Google or Microsoft.

The travails of Mr Shah's FTIL indicate that regulatory impediments can curb the prospects of innovation. Young entrepreneurs are consequently likely to be apprehensive of the ability of vested interests to adversely affect them. Unless there is a conducive environment that fosters innovation velocity and encourages entrepreneurship, brain drain of 23,000 millionaires from India, as mentioned in the beginning, will only continue to grow bigger.

If India wants to be a major player in the world economy, it must find a way to resolve this issue immediately. It is worth noting that Indians like Satya Nadella, Sundar Pichai, Rajeev Suri and Shantanu Narayen who run Microsoft, Google, Nokia and

Adobe Systems respectively choose to pick up top technology jobs not in India but in America, a nation that celebrates the spirit of liberal entrepreneurship and innovation.

Only if vested interests threatening the spirit of innovation and enterprise are kept in check can we hope to see more John Galts and Jignesh Shahs, Microsofts and Googles flourishing in India where the spirit of entrepreneurship is bursting at its seams to change the world for the better.

Exhibit 1

Historical evolution of innovations in FTIL

Year	Innovation	Milestone/Achievement
1998	ODIN	Pioneering trading software that went on to achieve 80% of the market share.
2003	MCX	The only exchange in India to be listed on a stock exchange. Among top three global commodities future exchanges and No. 1 in gold and silver contracts traded in the world.
2005	National Bulk Handling Corporation Ltd (NBHC)	India's largest warehouse and collateral management facility.
2005	Dubai Gold and Commodities Exchange (DGCX)	First-ever commodity derivatives exchange in Dubai. First-ever joint venture between a private sector company and the UAE Government.
2005	atom technologies	First real-time disseminator for secure mobile payments.
2005	TickerPlant	Real-time information system providing cost-effective data and analytics to businesses.
2007	Financial Technologies Knowledge Management Company (FTKMC)	A knowledge hub and training initiative toimpart quality education about financial markets and create specialists.
2008	MCX - SX	Exchange for trading futures and options, currency derivatives and debt market segments.
2008	Indian Energy Exchange (IEX)	Open access market mechanism for power trading for timely hedging and risk management to engage with cyclical demand supply trends.
2008	Singapore Mercantile Exchange (SMX)	Cutting-edge electronic system for synchronising derivatives and physical trading in commodities in Singapore with the Asian time zone.
2008	Bahrain Financial Exchange (BFX)	Multi-asset international financial exchange for trading cash instruments, derivatives, structured products and Shariah-compliant financial instruments.
2009	Bourse Africa	First international multi-asset class exchange from Mauritius to provide African and international market participants with an efficient market for risk management, trading, investing and raising capital.
2012	MCX Public Issue	First-ever IPO by an Indian exchange. MCX is India's only publicly-listed exchange. MCX IPO mobilised nearly US $7 billion of subscription with an issue size of US $132 million. Finance Asia, Hong Kong, recognised MCX IPO as the "Best Midcap Equity Deal in the Entire Asia Pacific for 2012".
2015	63 moons technologies limited	On May 27, 2016, Registrar of Companies allowed FTIL to change its name to 63 moons technologies limited. The company became technology innovation partner to enable 108 new digital disrupters across 12 target industry verticals.

Source: Reproduced from Company Documents

Exhibit 2

Markets after Jignesh Shah's exit

Before his entry	After his entry	Current position after his exit
Exchange Ecosystem		
• Prior to his entry in the Indian financial markets, there was hardly any support either for the exchanges or the stakeholders. • Real-time information was quite expensive. • Payment solutions were slow and inefficient. • Skill development and training was patchy. • No focus on research on the various aspects of the financial market development.	• Perhaps, for the first time in India, it is Mr Shah who thought about the importance of an ecosystem so vital for all the stakeholders to gain from the markets • A series of ecosystem ventures were started by him to support the exchange system that among others included risk and collateral management (National Bulk Handling Corporation), real-time information (TickerPlant), payment solutions (Atom), knowledge management (FTKMC)	• Each of the ecosystem ventures, which had the potential to develop into major institutions, that could have been so useful to India for supporting and strengthening it right from 'Make in India' to 'Digital India' and 'Skill India' abruptly came to a halt due to the vengeance and vindictive attitude shown to Mr Shah by the vested interests who were desperate to see his business cripple.
Growth Opportunities		
• At the time Mr Shah entered the financial markets, exchanges were nothing but shallow entities operating in a narrow range of products with a small investor base. • There was hardly any innovation, lack of market penetration and even a simple thing such as a sun outage used to stop the operation of markets for some time.	• Mr Shah strongly believed in empowering the nation with the presence of markets and simultaneously aimed at creating more skills and jobs. • He saw to it that outage is no more an issue for his exchanges as he was able to overcome the problem soon after he set up his first exchange. Each exchange that he created had a strong connect with the real economy • Following the global financial crisis, equity markets limped, losing crores of jobs, while commodities segment came as a rescue for the broking industry to survive. • MCX-SX came out with a theme 'Growth and Inclusion' aiming to provide support to rural entrepreneurship and strengthen the penetration in rural markets. International exchanges enabled exchange of skills and competencies between Indian staff and overseas professional.	• There is hardly any exchange now in India that introduces any innovations either in processes or products or has any exciting plans that could benefit the economy or showcase the power and potential of the Indian financial ecosystem. • There is no significant growth in investor base and volumes at the exchanges; they are quite volatile and vulnerable to foreign influences.
Capacity-Building		
• Exchanges were thriving on a narrow market segment without much focus on capacity building or creating competencies.	• Capacity-building is a crucial aspect in market development. Mr Shah took not just one initiative but made multi-pronged efforts and endeavours in this regard. • MCX Academy of Excellence created skills in commodity markets. • FTKMC was set up to develop and disseminate domain knowledge on multiple asset classes. • Takshashila Academy was meant primarily for pursuing policy research on markets.	• Though a national-level institution on securities markets was developed by the grants and concessions of the State, it was not adequate to meet the needs of a large market like India and it did not have the focus.

• Except some routine training programmes, there was no sustained effort to create a long-lasting framework for capacity-building.	• A one-year post-graduate certificate programme was launched jointly with Indira Gandhi National Open University to provide financial education in a cost-effective manner to young students. • Money Plant, a joint programme with Doordarshan, promoted awareness on financial products among people in semi-urban and rural areas. • Regulatory institutions and exchanges and other related institutions from Asia, Africa and numerous developing countries used to frequently visit FTIL to get knowledge on creating newer market segments.	• India needs huge infrastructure and presence in capacity building and the efforts by Mr Shah were cut short abruptly without any gain to either the industry or the country.

Source: Reproduced from Company Documents

Exhibit 3

The world's most fit & proper institutions have bought the FTIL Group ventures

MCX*	Bought over by Kotak Group. Now NYSE and CME are eyeing to buy Kotak Group stake in MCX
SMX	NYSE Group
IEX	Multiple Ventures Capital bought the stake
NBHC	IVF (India Value Fund) bought the stake
atom technologies	A Fortune 500 company, Japan's NTT Data bought a majority stake

* *The business of MCX has gone down by half and the valuation has doubled since the FTIL Group has been forced to sell its stake in the exchange.*

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ISSN 0975-1653