IJRAR.ORG E-ISSN: 2348-1269, P-ISSN: 2349-5138

INTERNATIONAL JOURNAL OF RESEARCH AND ANALYTICAL REVIEWS (IJRAR) | IJRAR.ORG

An International Open Access, Peer-reviewed, Refereed Journal

INDIA'S SCAMS IN STOCK MARKET & ITS IMPACT

Aradhana

Research Scholar

Department of Commerce

Swami Vivekanand University, Sagar (M.P.), INDIA

Abstract : In India, there are so many financial frauds almost every year since 1990s. In this paper we discuss about these Indian financial market frauds. There is well documented history of frauds in the financial markets starting from the (in)famous securities scam by Harshad Mehta (1992),MS Shoes (1995), CRBhansali(1996),Ketan Parikh Scam(2001),DSQ Software Scam (2001), IPO Demat Scam(2006),Vanishing Companies (2007),Satyam (2008), Home Trade (2010),Sahara India pariwar Investor fraud (2010), Home Trade(2010),ULIP Misselling(2011), Saradha Group Financial Scandal (2013), NSEL Scam (2013), PACL ponzi scheme scam(2014). The study attempts to know about Indian financial market frauds on a proactive basis, investigating abusive, manipulative or illegal trading practices in Indian Securities Markets.

Index Terms **- Scams, Investigate, India, Financial Market, Banking system.**

I. INTRODUCTION

The scam was the biggest ever money market scam in India, amounting to approximately Rs. 5000 crores. The main culprit of the scam was stock and money market broker Harshad Mehta. It was a systematic stock fraud using bank receipts and stamp paper that caused the Indian stock market to crash. The scam exposed the inherent flaws in the Indian financial systems and resulted in a completely revamped system of stock transactions, including the introduction of online security systems.

Types of Securities Market Fraud

Intermediaries Fraud	Trading Frauds
Research Report/ Investment Advise Fraud	Market Manipulation
Unauthorized Trading	Insider Trading, Circular Trading
Dabba Trading	Price Rigging, Synchronized Trade
Colocation Fraud	Synchronized Trade, LTCG Fraud
Front Running	Reversal trade in F&O Segment

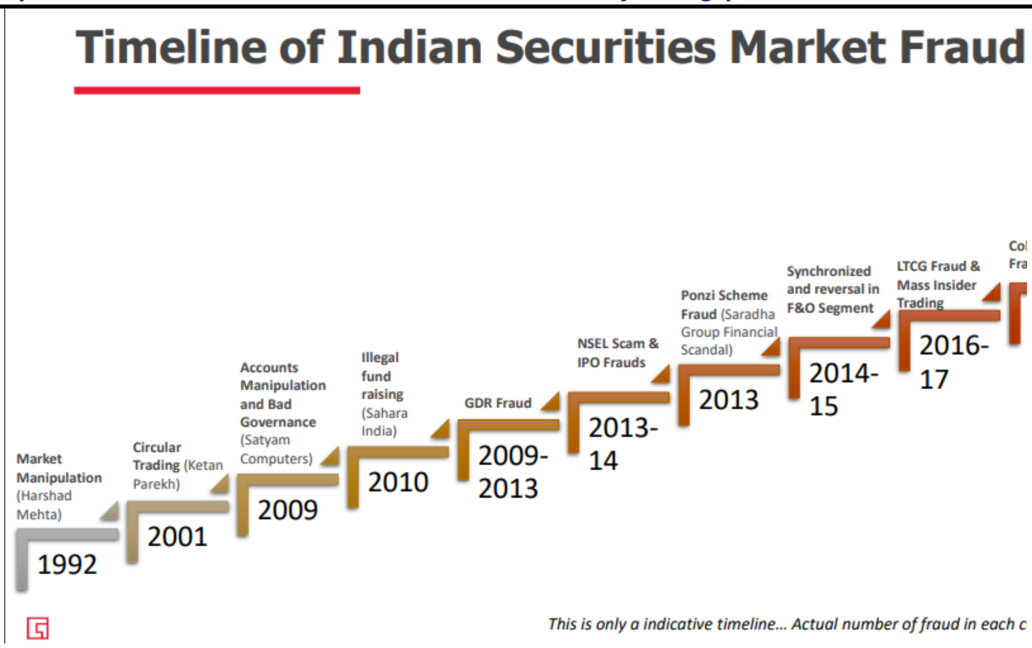
Security fraud refers to the idea of diversion of funds from the banking system to various shareholders or brokers. The 1992 scam was a systematic fraud by Mehta in the Indian stock market that led to a complete collapse of the security systems. He defrauded the banking system of over 1 billion to buy stock on the Bombay Stock Exchange. This affected the entire exchange system as the security system collapsed and investors lost hundreds of thousands of rupees in the exchange system. The scam was so vast that the net worth of the shares exceeded India's combined health and education budget. The scam was executed in such a way that Mehta secured securities from the State Bank of India against counterfeit checks signed by corrupt officials and failed to deliver the securities. Mehta pushed up the share prices through fraudulent practices and sold off the shares he owned in this company4. The effects of the scandal had many consequences, including the loss of millions of families and the immediate collapse of the stock market. The index fell from 4500 to 2500, representing a loss of 1000 billion rupees in market capitalization. The 1992 scam raised many questions about the bank officials responsible for colluding with Mehta. An interview with Montek Singh Ahluwalia (Secretary of Economic Affairs in the Ministry of Finance) revealed that several top bank officials were involved.

Common reason for Frauds and why they are not detected at early stage Slide –

- Diminishing Ethical Values
- Poor Governance
- Ineffective Internal Control Systems
- Compliances in letter; not in spirit
- Highly Volatile Securities Market
- Lack of Investor Awareness and Activism
- Lack of Protection for Whistleblowers

Scam means big scam by market players, which adversely affects the economy. Even with the increasing number of scams in the Indian stock market especially the 'Securities Scam 1992' by Harshad Mehta, the CRB Securities scam and the more recent scam by 'Ketan Parekh', the situation in the stock market has changed. Really ruined it. And the super minds of market players who want to scam or make huge profits from some malpractice activities, find loopholes in these provisions or rules. The main reason for scams is due to misuse of facilities provided by regulatory authorities to protect the interests of various parties, even the regulatory authorities themselves do nothing to restrict these till some difficult results come out. can do. Some flaws are always there and due to misuse of these flaws. “Harshad was convicted of Rs. The news of Mr Mehta's conviction in the 39-crore Maruti scam saw the BSE index (Sensex) fall 120 points faster than the day's 42-point loss as compared to Friday's close.6” Any action by the government will of course depend on the nature of action either heavily or slightly in the face of the stock market situation." Oil prices for at least a week behind the decision of the Indian government. The decision to postpone the hike in crude oil prices in the international markets further jolted the sentiment. President Mr. Bill Clinton's visit to India, and his visit to the BSE in particular, was his call to improve conditions in the Indian stock market. Some of the new announcements made by and will affect the integration of Indian stock market with other international stock exchanges of developed countries. National stock market lot. Ketan Parekh scam as well as insider trading practices of Mr. Anand Rathi (Chairman of BSE) The stock market indicators faltered due to disclosures that it took the Sensex to its all-time low in 2001.

It is quite clear from the foregoing discussion that the stock market indicators are very sensitive. It absorbs any kind of news affecting the economy and market conditions and reacts accordingly. There are many factors, which affect the indicators of the stock market, so one would not have to resort to a sharp rise in prices in this market, took a step back in light of the reversal of the trend in crude oil prices. The 30 stock BSE Sensitive index resumed with a margin of 112 points at 4145 and touched an intra-day high of 4210 before closing at 4173 net profit of 141 points7. The above data taken from various newspapers shows that, the stock market conditions of the last 10 years along with the major events, which effectively affects the position of the stock market indicators. The stock market indicator Sensex was largely affected by the Harshad Mehta scam in 1992, then the budget remains the hitting factor every year. Political factors also influenced the Sensex in the past. The stock market indicator has also been affected due to international market conditions i.e. South Asian crisis in 1998 and NASDAQ in early 2000. It also shows that political factors influenced it extensively in 1998 and 1999. The Kargil War in May 1999 affected the indices and reduced volatility along with the uncertainty in the market. The old majorly influencing factors as well as the new visit of the US President can certainly predict what will happen in the next hour. Even the stock market players who play regularly in this market have to keep an eye on every moment and keep their eyes and ears open.



In conclusion, we can conclude that the factors affecting the functioning of stock exchanges in India are numerous with controllable and uncontrollable ones, and indeed our Indian stock market has strengths and weaknesses. With alert administrative officials, vulnerabilities like insider trading, speculation, scams etc. which negatively affect the functioning of stock exchanges in India, get converted into strengths.

Falling like ninepins

Date	Sensex	Date	Sensex	Duration of Bear Phase	Fall in Points	% Fall	Reason for Crash
22 -04-1992	4467	12-05-1992	3086	20 days	1381	30.9	Harshad Mehta Scam
28-02-1994	4286	07-03-1994	3744	7 days	542	12.6	Manmohan Singh's Budget
30-09-1998	3102	05-10-1998	2878	5 days	224	7.2	US-64 Value turns Negative
16-04-1999	3573	26-04-1999	3245	10 days	328	9.1	Fall of the Vajpayee Government
03-04-2000	5053	04-04-2000	4691	1 days	361	7.1	Sinha's Budget *blues and* Nasdaq fall
01-03-2001	4273	13-03-2001	3541	12 days	731	17.1	Payment Problem at BSE
07-1-2009	10424	06-03- 2009	8120	60 days	2304	22.1	Satyam Scam
06-11-2010	21004	24-11-2010	19136	18 days	1868	8.8	Sahara Housing Bonds
06--07-2011	18823	15-12-2011	15836	10 day	2987	15.8	Speak Asia
01-04-2013	19254	09-04-2013	18389	8 days	865	4.4	Saradha Scam
28-07-2013	20771	18-08-2013	20635	20 days	136	0.6	NSEL Scam

Source: *SEBI Annual report.*

Previous historic lows on the Indian Stock Markets

Financial scams are not uncommon in India. A scam is a means of obtaining money illegally by fraud or with fake identities or documents. India has at times seen several scams in the financial world that have rocked Dalal Street. Some of these have caused great economic distress to the common man. The Securities Exchange Board of India is revamping the rules and regulations with an aim to plug loopholes in the securities market. Here are some famous scams from the long list of scams in India.

Harshad Mehta Case

Talking about scams, how can we forget Harshad Mehta. He was known to fool many investors by taking advantage of loopholes in the system. This was probably the most publicized scam and came to be known as Harshad Mehta scam.

Harshad and his associates started a securities scam between April 1991 and May 1992 by diverting about Rs 5,000 crore of funds from banks to stockbrokers. After the scam was exposed, the stock market crashed and Mehta was arrested and banned from trading in the stock markets. , The scam involved public money of over Rs.24,000 crore. The BSE index fell from 4500 to 2500 representing a loss of Rs. 100,000 crores in market capitalization.

Ketan Parekh

Following in the footsteps of Mehta, Ketan Parekh had big plans. They cheated banks and exchanges like Allahabad Stock Exchange and Calcutta Stock Exchange and bought shares in fake names to manipulate share prices in companies. Ketan was a Chartered Accountant who ran a family business named NH Securities. BSE Sensex broke badly, causing massive losses to investors including large institutional investors, insurance companies and mutual funds.

Satyam Scam

One of India's biggest corporate scams affected India-based company Satyam Computer Services in 2009, in which Ramalinga Raju, chairman of Satyam Company, confessed that he used accounts to show increased sales, profits and margins from 2003 to 2008. manipulated. The CBI investigated and filed three. Partial charge sheet during the year. Later it merged those three partial chargesheets into a single chargesheet. On 9 April 2015, B Ramalinga Raju, along with 9 others was convicted in the Satyam scam.

Impact:

- Huge amount of public money wasted. Listed companies have lost investor confidence. The government had to form a task force to handle the situation. Introduction of the Companies Act, 2013 - Tightening the rules of the game.

Roop Bhansali scam

CRB was once a top investment banking firm, which was started by C R Bhansali. Roop Bhansali collected money from investors through mutual funds, fixed deposits and debentures. The money is raised by him with the help of non-existent companies and transferred to his other shell companies or others who invest with him.

Subrata Roy

Subrata Roy case also known as Sahara India Pariwar Investor Fraud case. In this case, Subrata Roy, chairman of Sahara India, failed to return more than Rs 24,000 crore of interest to its investors as directed by the Supreme Court of India. Eventually, he was arrested by the Uttar Pradesh Police on a Supreme Court warrant. The Supreme Court of India then granted interim bail on the condition that he would have to deposit Rs 10,000 crore with the Securities and Exchange Board of India (SEBI). Subrata was eventually taken into judicial custody and sent to Tihar Jail, along with two other directors of Sahara, for failing to deposit Rs 10,000 crore to SEBI as per the orders of the Supreme Court of India. He was released on parole in May 2016 to attend the funeral of his deceased mother, then the parole was extended.

Impact:

- Huge money approx. 24,000 crore was raised from over 3 crore investors, without adhering to the norms of public offering i.e. IPO.
- According to reports, with the increase of interest, the total outstanding of Sahara has gone up to Rs 40,000 crore..

Saradha Scam

Sudipta Sen, chairman of chit-fund company Saradha Group, ran various investment schemes and collected money from several investors in West Bengal and Odisha.

Impact:

- About Rs. 20 to 30 billion was lost by over 1.7 million investors.
- Strict laws were introduced to protect investors against such Ponzi schemes. Now the collective investment schemes are to be regulated by SEBI. Strict punitive measures are provided for violations.

NSEL Scam

Money was snatched from investors as most of the underlying commodities did not exist and commodities were being bought and sold only on paper. Investors were attracted by offering fixed returns on paired contracts in commodities. And recently, it turned out that stocks were missing. NSEL is a company promoted by Financial Technologies India Limited and NAFE. Jignesh Shah was accused of scam along with Shrikant Jawalgekar.

Impact:

- The fraud led to the closure of the Exchange in July 2013.
- Trade Settlement Norms were changed after NSEL Scam was busted.
- SEBI replaced FMC as Commodity market Regulator.

Coal Scam

Coal allocation scam also known as Colgate scam, is a political scam involving the allocation of the country's coal deposits by the Government of India to public sector entities (PSEs) and private companies. Incorrect allocation of coal deposits was made among government employees without competitive bidding. Providing preferential treatment to brokers, disclosing market price information to certain brokers, front running to market information and facilitating market manipulation through privileged access.

2G Spectrum Scam

It was a telecommunications scam and political scam in which politicians and government officials low-charge mobile telephone companies for frequency allocation licenses. According to the CAG, former Telecom Minister A Raja has flouted standards and awarded dubious 2G licenses in 2008.

Impact on Investors of Frauds

- Loss of Public Money – Crime against public at large
- Loss of Investors' Confidence - Investors' do not return to Market
- Markets do not reach full potential - Under developed Equity Cult
- Loss of over all Economy of Nation - Weak Stock Market reflects poorly on Economy
- Investors' Perception of Market gets hurt - Stock Markets are seen as a den of speculation/gambling
- Revenue Losses - Stock Markets misused as tool of Tax Evasion
- Temptation to Fraud Increases - If he can, why I can't?

Reforms in Law on account of Fraud

- SEBI got statutory recognition
- Rules of Trading changed
- Ring trading was replaced by system driven electronic trading
- Physical shares were replaced by digital shares
- Settlement Mechanism was made Faster and Faceless
- Corporate Governance became part of the law
- State of art surveillance systems deployed by SEBI
- Regulatory Thrust on Disclosures/Reporting by companies and Monitoring
- Law introduced for hammering down Ponzi/ Fly by Night Schemes
- Code of Conduct for Market Intermediaries strengthened

- Rules for Issuance of Securities Rationalized to prevent frauds
- Tough law to prevent and prohibit Insider Trading
- More Powers to SEBI to investigate, order for disgorgement, bar from securities market and even arrest.

False representation of a matter of fact—whether by words or conduct, by false or misleading allegations, or by concealment of what should have been disclosed—that deceives and intends to deceive another so that the person may act upon him, or his legal injury. In the broadest sense, fraud is a deliberate deception done for personal gain or to cause harm to another person. Several fraudulent accounting practices emerged over the past decade when the energy, telecommunications and other industries were expanding rapidly, and competition was particularly fierce. Stock market indices were hitting all-time records and investors were looking for short term earnings targets. Many corporate executives did whatever was necessary to meet the quarterly expectations of analysts on Wall Street, driving their stock price up. This often allowed their companies to borrow more money to grow and compete. Since most top executives also enjoyed stock options that rose with their companies' stock prices, they had the added incentive of making significant profits by selling their stock at higher prices. This resulted in considerable transfer of wealth from individual shareholders to corporate managers. However, individual investors were still making profits and therefore were not paying attention to conflicts of interest and fraudulent practices, thus allowing executives to be virtually uncontrolled in their actions.

Corporate fraud is fraud committed by an organization rather than an individual. This usually results from the organization's audit misconduct. Auditing practices came into limelight when the world saw the collapse of Enron and WorldCom in 2001 and 2002. Both companies inflated their profits. India has also been witnessing a similar corporate scenario in the past. A recent report by KPMG states that 75 per cent of India surveyed felt that overall incidents of fraud are on the rise. The report also said that e-commerce and computer-related frauds will be a major concern for companies in the coming years.

CAUSES OF IPO SCAM

- The two most common factors leading to major IPO scams in India were tacit consent of banks and poor monitoring techniques.
- Proof of Identity and Proof of Address should be provided to Depository Participants as a regular check for opening Demat Accounts. This was not followed.
- Many dematerialized accounts and bank accounts were opened in false names and IPO applications were made in non-existent names.

IPO SCAMS - HOW IT IS DONE

- Earlier bank accounts were opened in fake or "benami" names, which allowed these fake account holders to open demat accounts.
- The master account holder, the person who executed the scheme, acts as an intermediary on behalf of the financiers.
- The shares acquired in the IPO were settled on the date of listing at a premium to receive an amount in excess of the amount invested.
- Banks played an important role through opening bank accounts and lending to bogus institutions for the purpose of earning fee income.

CONCLUDING REMARKS

The security scams and financial scandals discussed here involved the manipulation of huge amounts of money. The purpose of the so called “traders” or “investors” was not genuine. The frauds may be primarily due to lack of adequate supervision of top management, faulty incentive mechanism in place for employees; collusion between the staff, corporate borrowers and third party agencies; weak regulatory system; lack of appropriate tools and technologies in place to detect early warning signals of a fraud; lack of awareness of bank employees and customers; and lack of coordination among different banks across India and abroad. One of the root causes of this problem is identified as lack of specialized financial sleuths with knowledge of nuances of forensic accounting as well as a good legal understanding of frauds.

Reference:

[1] Varma, J. R. (2002). The Indian financial sector after a decade of reforms. Centre for Civil Society, New Delhi

[2] Barua, Samir K; Varma, Jayanth R (January 1993). "Securities Scam: Genesis, Mechanics, and Impact" (PDF). Vikalpa: The Journal for Decision Makers.

[3] "Economic Milestone: Stock Market Scam (1992)". *Forbes India*. Retrieved 2019-11- 13.

[4] Basu, Debashis (2001). The scam : who won, who lost, who got away: from Harshad Mehta to Ketan Parekh. KenSource Information Services.

[5] Rattanani, Lekha; Parikh, Daksesh (June 14, 2013). "Securities scam: Harshad Mehta throws banking system, stock-markets into turmoil". India Today. Retrieved 2019-11- 21.

[6] Gandhi, R. (2015), “Financial Frauds-Prevention: A Question of Knowing Somebody”, 2nd National Conference on Financial Frauds Risks & Preventions organized by ASSOCHAM on June 26, 2015 at New Delhi.

[7] Deloitte (2014), “India Fraud Survey, Edition 1”.

[8] The Hindustan Times, 28'1' September, 2000, p-1.

[9] The Economic Times. 26'1' September. 2000. p-1