

**'FRAUDS'
IN
INDIAN
SECURITIES MARKET**





GREED



Stock Market is the Game of 'Greed' and 'Fear'

**Greed – Make more Money by
any means!!**

**Fear – Of Loss or Getting
Caught!!**



“

लोभः पापस्य कारणम्

Types of Securities Market Fraud

Intermediaries Fraud

Research Report/
Investment Advise Fraud

Unauthorized Trading

Dabba Trading

Colocation Fraud

Front Running

Trading Frauds

Market Manipulation

Insider Trading

Circular Trading

Price/Volume Rigging

Synchronized Trade

LTCG Fraud

Reversal trade in
F&O Segment

Company Frauds

Illegal fund raising

IPO Fraud

Ponzi Schemes Fraud

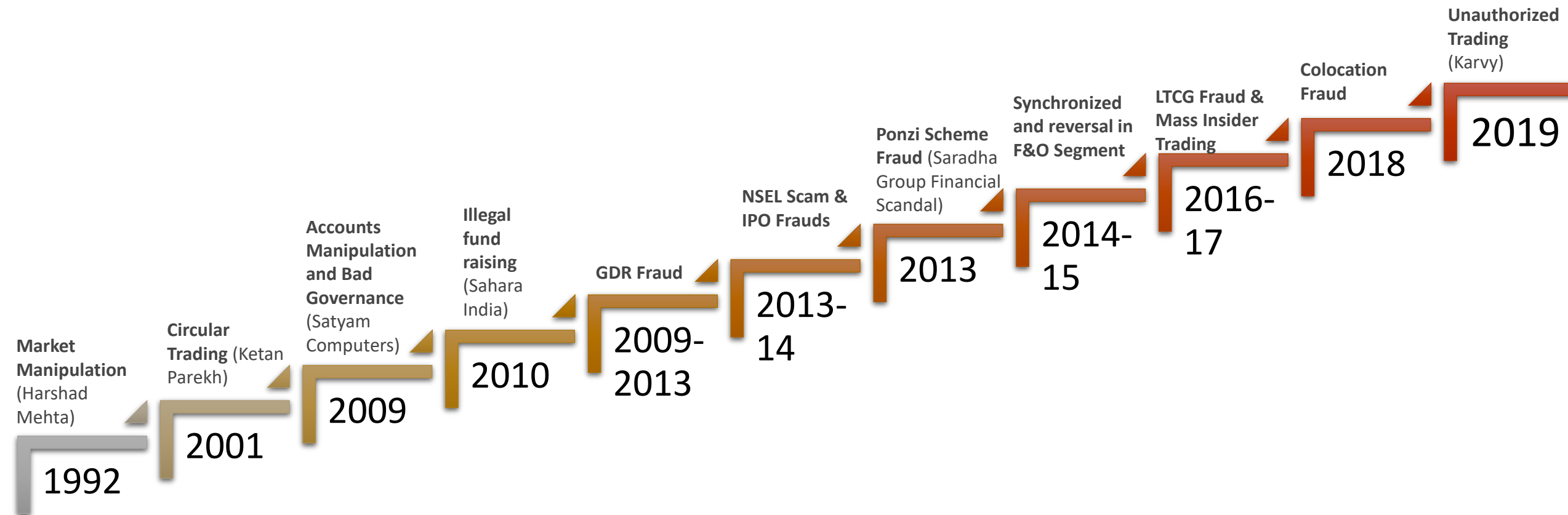
GDR Fraud

Accounts Manipulation &
Mis-Governance

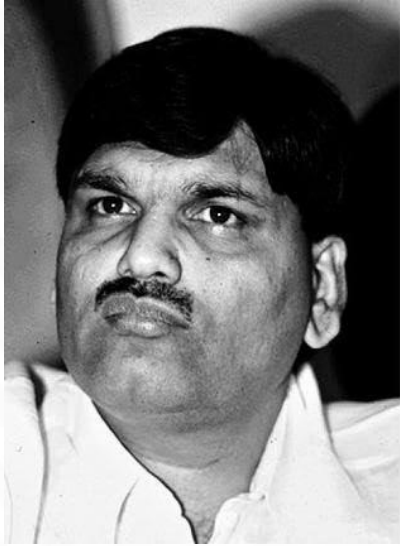
Common reason for Frauds and why they are not detected at early stage

- 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

Timeline of Indian Securities Market Fraud



This is only a indicative timeline... Actual number of fraud in each category are much more



Harshad Mehta Scam: 1992





Harshad Mehta Scam: 1992

Modus Operandi:

- ✍ Price/Volume Rigging
- ✍ Insider Trading
- ✍ Ballooning BSE Index.
- ✍ Bank Fraud

Impact:

- ✍ Scandal involved more than **₹24,000 Crores** of public money.
- ✍ BSE index fell from **4500 to 2500** representing a loss of **Rs. 100,000 crores** in market capitalization.





Ketan Parekh Scam: 2001





Ketan Parekh Scam: 2001

Modus Operandi:

- ✗ Price/Volume Rigging
- ✗ Circular Trading
- ✗ Front Running

Impact:

- ✗ BSE Sensex crashed badly.
- ✗ Large scale losses to investors, including large institutional investors, insurance companies and mutual funds.



Front Running : 2007/2009



Front Running: 2009

Modus Operandi:

- ✗ Front running in the orders/ trades;
- ✗ Creating false and fictitious records;

Impact:

- ✗ Investors were cheated by Intermediaries
- ✗ Creation of Distrust between Investors & Intermediaries

Vijay Vishal Shah





Satyam Computers Scam: 2009





Satyam Computers Scam: 2009

Modus Operandi:

- ✍ Overstatement of Assets
- ✍ Manipulation of Accounts
- ✍ Siphoning of public money
- ✍ False disclosures
- ✍ Misgovernance

Impact

- ✍ Huge Public Money was lost.
- ✍ Investor lost confidence in listed companies.
- ✍ Government had to make task force to handle the situation.
- ✍ Introduction of Companies Act, 2013 – tightening the rules of the Game





Sahara Fraud: 2010



Sahara Fraud: 2010

Modus Operandi:

- ✗ Illegal Money Collection from investors
- ✗ Circumventing provisions of public issue
- ✗ Non-disclosures/False disclosures
- ✗ Diversion of funds
- ✗ Re-payment default

Impact:

- ✗ Huge monies approx. 24,000 Crore were raised from over 3 crores investors, without following the norms for bringing a public Issue i.e. IPO.
- ✗ As per reports, the total dues from Sahara have gone up to **Rs 40,000 Crore** with the accretion of interest.



GDR Fraud : 2009-2013



GDR Frauds: 2009-2013

Modus Operandi:

- ✗ Farcing a non-genuine off-shore GDR
- ✗ Making false disclosures – investors believed that GDR issue was successful
- ✗ Ballooning the market to lure Indian investors
- ✗ Creation of an intricate web of entities in offshore locations for multi-layered transfers of funds before bringing them back to India.





Saradha Group Financial Scandal: 2013



Saradha Group Financial Scandal : 2013

Modus Operandi:

- ✍ Ponzi Scheme
- ✍ Collection of monies from low incomes investors
- ✍ Assured return to investors
- ✍ Embezzling investors' money
- ✍ Re-payment defaults

Impact:

- ✍ Around **₹20 to 30 billion** was lost by over **1.7 million investors**.
- ✍ Strict Laws were introduced for saving investors against such Ponzi schemes. Now collective investment schemes have to be regulated by SEBI. Strong Penal measures are provided for violations.





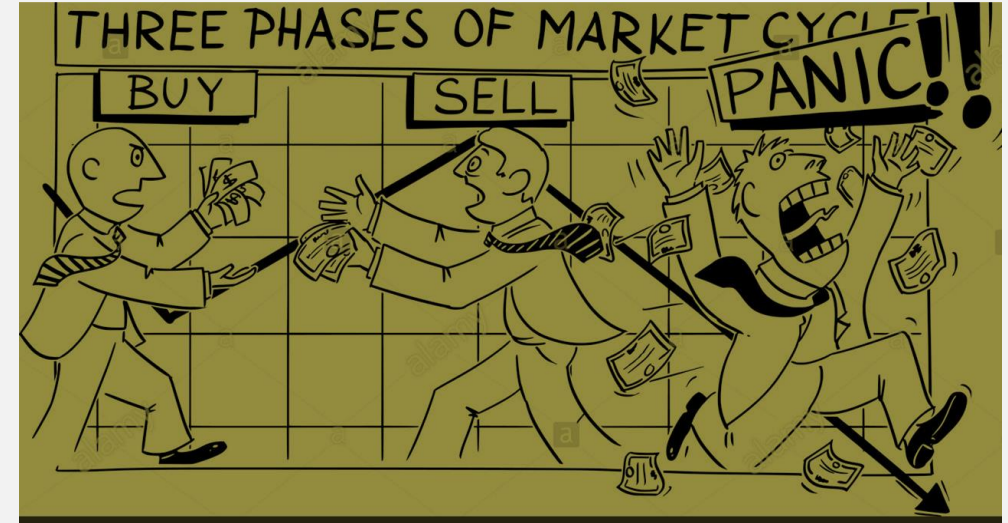
National Spot Exchange Payment Default: 2013



National Spot Exchange Payment Default: 2013

Modus Operandi:

- ✗ Fraudulent trading in Commodity
- ✗ Excessive short selling
- ✗ False reporting to the regulator – FMC
- ✗ Diversion of Funds
- ✗ Default in payment/delivery



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.





IPO Frauds: 2013-14



Mishka Finance and Trading Limited – IPO Fraud: 2013-14

Modus Operandi:

- ✗ Sham IPO and Corporate Actions
- ✗ Manipulation of Accounts
- ✗ Diversion of IPO Proceeds
- ✗ Conversion of unaccounted money into legitimate market gains
- ✗ Price/Volume Rigging
- ✗ Dumping the inflated shares into hands of investors

Impact:

- ✗ Investors Lost Money as well as Confidence in Primary Markets



MISHKA FINANCE AND TRADING LIMITED





PACL Indian Limited Scam: 2015





PACL Indian Limited Scam: 2015

Modus Operandi:

- ✍ Ponzi Land Purchase Scheme
- ✍ Collection of monies from low incomes investors
- ✍ Assured return to investors
- ✍ Siphoning the collected money
- ✍ Re-payment defaults

Impact:

- ✍ Investors collectively lost Rs. 49,100 Crore.
- ✍ SEBI came down heavily on Ponzi/Unregulated Investment Schemes



Synchronized and Reversal Trades in F&O Segment: 2007/2014-15





Reversal Trades in F&O: 2007/2014-15 – Rakhi Trading Case & Ors.

Modus Operandi:

- ✍ Synchronized trading
- ✍ Non-Genuine Reversal trades
- ✍ Price/Volume Rigging
- ✍ Conversion of unaccounted money into legitimate market gains
- ✍ Stock Market was used as a platform for tax evasion and for manipulating books

Impact:

- ✍ Revenue Loss as large scale tax evasion occurred
- ✍ Market integrity was compromised



LTCG/Penny Stock Fraud: 2015-16





Eco Friendly Food and Esteem Bio Organic – LTCG/Penny Stock Fraud

Modus Operandi:

- ✗ Sham IPO and Corporate Actions
- ✗ Misuse of SME Platform
- ✗ Diversion of IPO Proceeds
- ✗ Circular trading amongst large number of entities with help of conduits
- ✗ Price/Volume Rigging
- ✗ Conversion of unaccounted money into legitimate market gains
- ✗ Stock Market was used as a platform for tax evasion

Impact:

- ✗ Revenue Loss as large scale tax evasion occurred
- ✗ Market integrity was compromised





Mass Insider Trading: 2017



WhatsApp Leak Case – Mass Insider Trading Case: 2017

Modus Operandi:

- ✗ Leaking Price sensitive information
- ✗ Spreading false tips to do front running
- ✗ Insider trading
- ✗ Market Manipulation

Impact:

- ✗ Price discovery was distorted by fraud
- ✗ Investors were cheated in Secondary Market



Colocation Scam: 2018



Colocation Scam: 2018

Modus Operandi:

- ✗ Providing Preferential treatment to Brokers
- ✗ Disclosure of market price information to few brokers
- ✗ Facilitated Market Manipulation through front running and privileged access to market information

Impact:

- ✗ Creation of Illegal Cartel
- ✗ Loss of Opportunity to Other Brokers



Unauthorized Trading: 2019



Karvy Stock Broking Scandal – Unauthorized Trading: 2019

Modus Operandi:

- ✗ Misusing client's funds
- ✗ Unauthorized trading into client's account

Impact:

- ✗ Investors lost money
- ✗ Investors Lost faith in Market Intermediaries



KARVY 
STOCK BROKING



Impact of Frauds





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 Frauds



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



Reforms in Law on account of Fraud (Contd...)

- ✍ 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.



“

**Law blocks road for
Fraud;
And Greed builds
Tunnel**

“

**Rather fail with honour
than succeed by fraud**

-Sophocles

One of three Ancient Greek Tragedians

THANK YOU

Pavan Kumar Vijay

Founder,
Corporate Professionals
pkvijay@indiacp.com
+91 9810032568

Follow Us

