

CHAPTER 1- INTRODUCTION

The financial system consists of specialized and non-specialized financial institutions, of organized and unorganized financial markets, of financial instruments and services, which facilitate transfer of funds. Procedures and practices adopted in the markets, and financial interrelationships are also parts of this system. In product or other service markets, purchasers part with their money in exchange for something now. In finance, money “now” is exchanged for a “promise to pay in the future”. Moreover, banks and non-bank financial intermediaries can also alter the risk composition of their assets more quickly than most non-financial industries, and banks can readily hide problems by extending loans to clients that cannot service previous debt obligations

Theoretically, the financial market facilitates allocation of resources efficiently, which involves quick dissemination of information and reaction to it. The financial markets are susceptible to manipulation as some participants have information that others do not that is information asymmetry is ubiquitous in financial markets.

The financial system consists of specialized and non-specialized financial institutions, of organized and unorganized financial markets, of financial instruments and services, which facilitate transfer of funds. Procedures and practices adopted in the markets, and financial interrelationships are also parts of this system. In product or other service markets, purchasers part

with their money in exchange for something now. In finance, money “now” is exchanged for a “promise to pay in the future”.

The financial markets are susceptible to manipulation as some participants have information that others do not that is information. Asymmetry is ubiquitous in financial markets. To overcome this problem Corporate Governance is required to ensure that suppliers of finance to corporations are assured that they get their return on their investments. Despite the existence of institutional and legal framework numerous financial scams continue to be perpetuated both in developed and developing countries.

1.1 FINANCIAL MARKETS

Markets are interrelated, and a problem in one market can have its source in a different market. This finding is a starting point for macroeconomics. To limit the number of markets they must explore, economists conventionally lump together or aggregate the vast number of markets in a modern economy into only four: markets for goods and services, financial assets, money balances, and resources. The examination of these four aggregated markets is central to macroeconomics. Macroeconomists ask two central questions as they examine each: "Is this market a likely source of instability that shows up as inflation or recession," and "Will the adjustment process in this market cause problems for the overall adjustment of the economy."

From a microeconomic point of view, the primary purpose of financial markets is to allocate available savings to the most productive use. A well-functioning financial sector increases economic growth. If an economy does not allocate savings to the most productive uses, it will grow more slowly than it can grow.

What is India Financial Market

What does the India financial market comprise of? It talks about the primary market, FDIs, alternative investment options, banking and insurance and the pension sectors, asset management segment as well. With all these elements in the India financial market, it happens to be one of the oldest across the globe and is definitely the fastest growing and best among all the financial markets of the emerging economies. It was at this time that India was under the rule of the East India Company. The capital market of India initially

developed around Mumbai; with around 200 to 250 securities brokers participating in active trade during the second half of the 19th century.

1.2 SCOPE OF FINANCIAL MARKET

The financial market in India at present is more advanced than many other sectors as it became organized as early as the 19th century with the securities exchanges in Mumbai, Ahmadabad and Kolkata. In the early 1960s, the number of securities exchanges in India became eight - including Mumbai, Ahmadabad and Kolkata. Apart from these three exchanges, there was the Madras, Kanpur, Delhi, Bangalore and Pune exchanges as well. Today there are 23 regional securities exchanges in India.

The Indian stock markets till date have remained stagnant due to the rigid economic controls. It was only in 1991, after the liberalization process that the India securities market witnessed a flurry of IPOs serially. The market saw many new companies spanning across different industry segments and business began to flourish.

The launch of the NSE (National Stock Exchange) and the OTCEI (Over the Counter Exchange of India) in the mid 1990s helped in regulating a smooth and transparent form of securities trading. The regulatory body for the Indian capital markets was the SEBI (Securities and Exchange Board of India). The capital markets in India experienced turbulence after which the SEBI came into prominence. The market loopholes had to be bridged by taking drastic measures.

1.3 POTENTIAL OF INDIA FINANCIAL MARKET

India Financial Market helps in promoting the savings of the economy - helping to adopt an effective sector channel to transmit various financial policies. The Indian financial sector is well-developed, competitive, efficient and integrated to face all shocks. In the India financial market there are various types of financial products whose prices are determined by the numerous buyers and sellers in the market. The other determinant factor of the prices of the financial products is the market forces of demand and supply. The various other types of Indian markets help in the functioning of the wide India financial.

1.4 FEATURES OF FINANCIAL MARKET IN INDIA

India Financial Indices - BSE 30 Index, various sector indexes, stock quotes, Sensex charts, bond prices, foreign exchange, Rupee & Dollar Chart
Indian Financial market news Stock News - Bombay Stock Exchange, BSE Sensex 30 index, S&P CNX-Nifty, company information, issues on market capitalization, corporate earning statements.

Fixed Income - Corporate Bond Prices, Corporate Debt details, and Debt trading activities, Interest Rates, Money Market, Government Securities, Public Sector Debt, and External Debt Service.

Foreign Investment - Foreign Debt Database composed by BIS, IMF, OCED, & World Bank, Investments in India & Abroad .

Global Equity Indexes - Dow Jones Global indexes, Morgan Stanley Equity Indexes.

Currency Indexes - FX & Gold Chart Plotter, J. P. Morgan Currency Indexes National and Global Market Relations Mutual Funds Insurance Loans Forex and Bullion.

If an investor has a clear understanding of the India financial market, then formulating investing strategies and tips would be easier. The financial markets play a very important part in the well-being of every person. They interact with other markets and have an influence on issues such as wealth, inflation and stability in a country. The financial markets have their own characteristics and to operate in them, it is important to comprehend these characteristics.

CHAPTER-2 STOCK EXCHANGES IN INDIA



The Stock Exchange, Mumbai) is the oldest [stock exchange](#) in Asia and largest number of listed The Bombay Stock Exchange (BSE) (Marathi: Mumbai Śhare Bāzar) (formerly companies in the world, with 4900 listed as of Feb 2010. It is located at Dalal Street, Mumbai, India. On Feb, 2010, the equity market capitalization of the companies listed on the BSE was US\$1.28 trillion, making it the 4th largest stock exchange in Asia and the 11th largest in the world.

With over 4900 Indian companies listed & over 7700 scrip's on the stock exchange, it has a significant trading volume. The BSE SENSEX (Sensitive index), also called the "BSE 30", is a widely used market index in India and Asia.

2.1 HISTORY

The Bombay Stock Exchange is the oldest exchange in Asia. The location of these meetings changed many times, as the number of brokers constantly increased. The group eventually moved to Dalal Street in 1874 and in 1875 became an official organization known as 'The Native Share & Stock Brokers Association'. In 1956, the BSE became the first stock exchange to be recognized by the Indian Government under the Securities Contracts Regulation Act. The Bombay Stock Exchange developed the BSE Sensex in 1986, giving the BSE a means to measure overall performance of the exchange.

Historically an open outcry floor trading exchange, the Bombay Stock Exchange switched to an electronic trading system automated, screen-based trading platform called BSE On-line trading (BOLT) currently index to open its derivatives market, trading Sensex futures contracts. The BSE has also introduced the world's first centralized exchange-based internet trading system, BSEWEBx.co.in to enable investors anywhere in the world to trade on the BSE platform.

2.2 BSE INDICES

For the premier stock exchange that pioneered the securities transaction business in India, over a century of experience is a proud achievement. A lot has changed since 1875 when 318 persons by paying a then princely amount of Re. 1, became members of what today is called Bombay Stock Exchange Limited (BSE).

With a view to provide a better representation of the increasing number of listed companies, larger market capitalization and the new industry sectors. Since then, BSE has come a long way in attuning itself to the varied needs of investors and market participants. In order to fulfill the need for still broader, segment-specific and sector-specific indices, BSE has continuously been increasing the range of its indices.

The values of all BSE indices are updated on real time basis during market hours and displayed through the BOLT system, BSE website and news wire agencies. All BSE Indices are reviewed periodically by the BSE Index Committee. The BSE Index Cell carries out the day-to-day maintenance of all indices and conducts research on development of new indices.

2.3 NATIONAL STOCK EXCHANGE OF INDIA



The National Stock Exchange (NSE) is a stock exchange located at Mumbai, India. It is the largest stock exchange in India in terms of daily turnover and number of trades, for both equities and derivative trading. NSE has a market capitalization of around Rs 47, 01,923 crore (7 August 2009) and is expected to become the biggest stock exchange in India in terms of market capitalization by 2009 end. The NSE's key index is the S&P CNX

Nifty, known as the NSE NIFTY (National Stock Exchange Fifty), an index of fifty major stocks weighted by market capitalization.

NSE is mutually-owned by a set of leading financial institutions, banks, insurance companies and other financial intermediaries in India but its ownership and management operate as separate entities. NSE is the third largest Stock Exchange in the world in terms of the number of trades in equities. It is the second fastest growing stock exchange in the world with a recorded growth of 16.6%.

2.4 ORIGINS



The National Stock Exchange of India was promoted by leading Financial Institutions at the behest of the Government of India, and was incorporated in November 1992 as a tax-paying company. In April 1993, it was recognized as a stock exchange under the Securities Contracts (Regulation) Act, 1956.

2.5 INNOVATIONS

NSE has remained in the forefront of modernization of India's capital and financial markets. Being the first national, anonymous, electronic limit order book (LOB) exchange to trade securities in India. Since the success of the NSE, existent market and new market structures have followed the "NSE" model. Setting up the first clearing corporation "National Securities Clearing Corporation Ltd." in India. NSCCL was a landmark in providing innovation on all spot equity market (and later, derivatives market) trades in India.

2.6 INDICES

NSE also set up as index services firm known as India Index Services & Products Limited (IISL) and has launched several stock indices, including: S&P CNX Nifty (Standard & Poor's CRISIL NSE Index).

CHAPTER-3 INTRODUCTION TO FINANCIAL SCAMS

Various scams, scandals and stigmas that have surfaced in the recent years. These may not all be attributable to the antics and bungling of politicians, but they have been facilitated largely because of the vitiated atmosphere that the politicians and the political system have created in the country. Scams and scandals have manifested themselves in large numbers over the past few years. Most of the scams that have taken place keep featuring off and on in the media, but that doesn't stop the next one from taking place since investigations and trials are excruciatingly prolonged. Scams and scandals in Indian financial market.

It terms of reform and development, the Indian capital market and financial sector have been the fastest to grab every opportunity presented by the paradigm shift in India's economic policy. Their furious developmental activities have put the two top Indian bourses almost on par with the best in the world, in terms of their structure, systems and regulation. But for all the development efforts, the capital market remains seriously flawed because three key ingredients are still missing.

They are adequate supervision, strict accountability, and appropriate a retinue of investment bankers and consultants diverted thousands of crores of rupees to themselves. In the process, retail investors have been the biggest losers and the effect of their disenchantment is visible in the

punishment. As a result, the markets have remained shallow and stunted and have lurched from one financial scandal to another over the last decade.

10 years of Financial Scams

Financial scams have a habit of cropping up with an alarming regularity in the Indian financial system. We have reconciled to financial irregularities to such an extent that we simply do not pay heed to smaller scams that take place around us on daily basis.

Despite a plethora of scams that surround us on daily basis, frequently scams of large proportions come to light and manage. Then, there is a usual round of allegations, counter allegations, enquiry and legislation. Some of the most notable regulations and financial institutions are results of such scams.

A list of certain financial scams in India, which have affected a large population of investors, and involve huge sums of money. They manage to shake the very foundation of our financial system, and were driven by that basest of human instincts-GREED. In most cases it was greed of just one individual, or a very small group of individuals, to manage to pull up such huge scandals

3.1 THE SECURITIES SCAMS OF 1992

This was the mother of all Indian financial scandals. It exposed the utter lawlessness and absence of supervision in the money markets; it allowed funds to be transferred with impunity from banks and corporate houses into the equity markets; and saw thousands of crores of bank funds to move in

and out of brokers' bank accounts in what was later claimed as a "accepted market practice". A Special Court under a separate act of parliament was set up and over 70 cases were filed by the CBI but not a single scamster has been finally convicted by the excruciatingly slow judicial system. Instead, their repeated attempts to re-enter the market with the same bag of tricks have caused further losses to investors. More significantly, the Reserve Bank of India which was guilty of gross negligence and was discovered to have deliberately buried supervision reports was let off scot-free with just a couple of officials reprimanded.

3.2 HARSHAD MEHTA.-This is perhaps the most well known of all financial scams probably it happened in a highly visible period-economic reforms –had just been started in 1991.Harshad Mehta was quick to understand the weakness of the banking system, and exploited these weakness to the hilt. He managed to procure huge amounts of money using the so called "Ready Forwards" deals, and used this money to purchase large amounts of shares at hugely inflated prices. He earned the sobriquet the "Big Bull" due to this penchant. Later the banks got a clue of his shady deals, and demanded their money back .The house of cards collapsed and the rest as they say is the History..!

3.3 THE IPO BUBBLE

The entry of Foreign Institutional investors led to a massive bull run, which saw the secondary market recover from the scam even though badla was banned. Soon thereafter, the Control over Capital Issues was abolished with a one-line order and it opened the floodgates for a massive scam in the

primary market (or Initial public offerings). This scam had two parts – the first was perpetrated by existing companies which ramped up their prices in order to raise money at hugely inflated premia to fund Greenfield projects and mindless diversifications, most of which have either failed to take off or are languishing. The other half of the scam had a multitude of small traders, chartered accountants and businessmen, who teamed up with bankers and investment bankers to float new companies and raise public funds. The botched up M. S. Shoes case, exemplifies the first type of scam while the second type, which caused losses of several thousand crores of rupees is known as the vanishing companies scandal. The IPO bubble which lasted three years from 1993 to 1996 finally burst when prices of listed companies began to crash. So huge was investors' disappointment that the primary market remained dead for the next two years, almost until the beginning of 1999.

3.4 PREFERENTIAL ALLOTMENT RIP-OFF

This was an offshoot of the rampant price rigging on the secondary market. Apart from raising fresh funds, promoters of Indian companies who thought that prices would never come down, quickly orchestrated general body clearances to allot shares to them on a preferential basis and at a substantial discount to the market. Multinational companies such as Colgate and Castrol started the trend and it led to a benefit of nearly Rs 5000 crores (in relation to market prices at that time) to retail investors before the Securities and Exchange Board of India (SEBI) put in place a set of rules to block the practice. A public interest litigation filed at that time drags on in court.

3.5 CRB'S HOUSE OF CARDS

Chain Roop Bhansali's (CRB) cardboard empire is only the biggest and most audacious of many that were built and disappeared in the new 'liberalized' milieu of the mid-1990s. His Rs 1000 crore financial conglomerate comprised of a mutual fund, fixed deposit collection (with hefty cash kick backs), a merchant bank (he even lobbied hard to head the Association of Merchant Bankers of India) and a provisional banking license. Many of these licenses required adequate scrutiny by SEBI and the RBI, and that fact that they passed muster is another reflection of supervisory lethargy. Armed with these and favorable credit ratings and audit reports, CRB created a pyramid based on high cost financing which finally collapsed. The winner: C. R. Bhansali, who, after a brief spot of trouble with the authorities moved on to the dotcom business and the regulators who were never held accountable. The losers: millions of small investors who lost through fixed deposits or the mutual fund. The CRB collapse caused a run on other finance companies causing a huge systemic problem and further losses to investors.

3.6 PLANTATION COMPANIES PLUFFERY

These followed the same strategy as vanishing companies, and since they were subject to no regulation, could get away with wild profit projections. They positioned themselves as part mutual fund, part IPO and promised the most incredible returns – over 1000 per cent at least in seven years. High profile television campaigns, full-page advertisements and glossy brochures

had the investors flocking for more. Almost all these project, with barely any exception have vanished. The cost: Rs 8000 crores plus.

3.7 MUTUAL FUNDS DISASTER

The biggest post-liberalization joke on investors is the suggestion that small investors should invest in the market through Mutual Funds. Yet, over the decade, a string of government owned mutual funds have failed to earn enough to pay the returns 'assured' to investors. Starting with the scam-hit Canstar scheme, most mutual funds had to be bailed out by their sponsor banks, or parent institutions. The came the big bail out of Unit Trust of India. Since UTI is set up under its own act, it was the tax- payers who paid for the Rs 4800 crore bailout in 1999. Just three years later, it was back buying recklessly into the Ketan Parekh manipulated scrip's and suffering big losses in the process. The record of the private mutual funds has also been patchy – after hitting a purple patch in 1999-2000, many of the sector specific funds are down in the dumps. It will be a long time indeed before small investors consider mutual funds a reasonably safe investment.

3.8 THE 1998 COLLAPSE

What could be a bigger indicator of the ineffectiveness of the regulatory system and the moral bankruptcy in the country than the return of Harshad Mehta? In 1998, the scamster, who was the villain of 1992, made a comeback by floating a website to hand out stock tips and writing columns in several newspapers that were told that his column would push up their circulation figures. His relentless rigging of BPL, Videocon and Sterlite shares ended with the inevitable collapse and a cover up operation involving

an illegal opening of the trading system in the middle of the night by the Bombay Stock Exchange officials. It cost the BSE President and Executive Director their jobs, but the broker and the companies have got away so far.

3.9 THE K-10 GIMMICK

This too is already on the way to be hushed up even before it is fully investigated. Though everybody knows this as a Ketan Parekh scandal, but if one examines the selective leak of the SEBI investigation report to the media, it would seem as though only three operators caused the problem by hammering down prices.

The government promised stringent action not only against Ketan Parekh and the brokers, who hammered down prices, but also the regulators who slept over their job and companies/banks which colluded with them to divert funds to the market. Yet, within a month, the pressure for action is off and the momentum has been lost.

A decade later we seem to have come a full circle. The Ketan Parekh led scandal has been considered big enough to warrant the setting up of another Joint Parliamentary Committee. And the fact that the second JPC has been spending its first few weeks' action (not) taken on the previous JPC report says it all about supervision, regulation and accountability.

3.10 INSURANCE SCAM

This scam has originated and prospered in the period immediately following independence in 1947. At that time the insurance sector was not nationalized, and a handful of private companies ruled the roost. These companies were more concerned with providing benefits to selected industrialists, and ignore the interest of common man. The government responded by nationalizing the insurance sector, and the LIC was founded under a special Act passed by the parliament. This scam laid the foundation of the nationalization countries in India.

3.11 UTI SCAM

The UTI scam involved the flag ship US 64 scheme of UTI, which was meant to channel the funds of small investors into instruments bearing high returns. Gradually US 64 developed an investor base of around 2 crore investors. The economic liberalization in India coupled with absolute opacity in the operations of UTI, led to the situation where in the government was forced to announce a huge bail out of about Rs 3500-4000 crores in order to prevent default in payments to the investors. The consequences of such a situation are unimaginable. But the story does not end here. Later it turned out that the UTI chairman appointed this time Mr. P S Subramanian along with a couple of executive directors, acted wrongly

to selectively benefit a powerful coterie of brokers and industrialists, while at the same time, jeopardizing the interest of lakhs of small investors.

3.12 HOME TRADE

Around the year 2000, a finance portal emerged on the financial landscape, and gave quick recognition on the back of endorsements by personalities like Hrithik Roshan, Shahrukh Khan, and Sachin Tendulkar. The portal owned by Sanjay Agrawal claimed to deal in gilts. Soon RBI got suspicious of activities cooperative banks in the gilt market, and the scam was uncovered. The same old saga –brokers and bankers combining to rob people of their hard earnings was repeated. The funds from Seaman's provident fund and PPF were affected. The total scam size was reported to be around Rs.300 crores, and more than Rs.200 crores were spent on publicity costs alone.

3.13 DSQ SOFTWARE

Though this scam was modest in the money involved (Rs, 600 crores only) and did not affect the general public to a great extent, yet it is notable for how it came into being. The main player was Mr. Dinesh Dalmia who was the MD of DSQ Software Ltd. This company issued around 1.3 million shares in 2001, and these shares were allotted to 4 companies on a preferential basis. NSDL a stock depository and dematerialized and helped them in delivering the shares. Nothing was wrong in that, except that the shares were not listed on any stock exchange.

3.14 IPO SCAM

A number of key operators including corporate stock brokers such as Karvy and India bulls were involved in the IPO Scam that spanned the years 2004-2005. The modus operandi was simple the operators would open thousands of fake accounts to purchase shares in IPO's in the hope of selling at later in huge profits. A spate of IPO's issued during this period was heavily oversubscribed due to this scam, sometimes as much as 40 times.

3.15 SATYAM SCAM

On a cold January morning in 2009, Ramalinga Raju, chairman of Satyam computer services admitted to falsification in the company accounts and various others irregularities, and sent a chill down the collective spine of the Indian financial system. Coming on the back of the global recession, this incident promised to bust the Indian out sourcing industry and the stock market, but for some deft bail out worked by the government. The matter is still under investigation litigation, and the true extent of the scam will be known in the future perhaps Mr. Raju himself had admitted to irregularities worth around Rs12000 crores. An analysis of the scams reveals common scrip's –greed, corruption, unscrupulous brokers, colluding bankers, irresponsible authorities' hapless investors who refuse to learn their lessons. But then these are the essential ingredients of a worthy financial scam.

CHAPTER-4 SAGA OF SCAMS

4.1 SECURITIES SCAM (HARSHAD MEHTA)

a) Abstract:

The term "securities scam" refers to a diversion of funds to the tune of over Rs. 3500 crores from the banking system to various stockbrokers in a series of transactions (primarily in Government securities) during the period April 1991 to May 1992. The scam has for several months become a permanent feature of the front pages of the newspapers.

b) Introduction

In April 1992, the first press report appeared indicating that there was a shortfall in the Government Securities held by the State Bank of India. In a little over a month, investigations revealed that this was just the tip of an iceberg which came to be called the securities scam, involving misappropriation of funds to the tune of over Rs. 3500 crores (about \$ 1.2 billion). In an ever expanding ambit, the scam has engulfed top executives of large nationalized banks, foreign banks and financial institutions, brokers, bureaucrats and politicians. The functioning of the money market and the stock market has been thrown in disarray. The scam has generated such immense public interest that it has become a permanent feature on the front pages of newspapers. A large number of agencies, namely, the Reserve Bank of India (RBI), the Central Bureau of Investigation (CBI), the Income Tax Department, the Directorate of Enforcement and the Joint

Parliamentary Committee (JPC) are currently investigating various aspects of the scam.

c) The Two Securities Markets

The scam was in essence a diversion of funds from the banking system (in particular the inter-bank market in government securities) to brokers for financing their operations in the stock market. A clear understanding of the government securities market and the stock (corporate securities) markets is a prerequisite for understanding the scam.

d) The Ready Forward Deal

The crucial mechanism through which the scam was affected was the ready forward (RF) deal. The RF is in essence a secured short term (typically 15 day) loan from one bank to another bank. The lending is done against government securities, exactly the way a pawnbroker lends against jewelers or other valuables. In form, however, the RF is not a loan at all. The borrowing bank (Bank 2) actually sells the securities to the lending bank (Bank 1) and buys them back at the end of the period of the loan at (typically) a slightly higher price. The price difference represents the interest on the loan. The RF is what in other countries is known as repo or repurchase agreement. It is a very safe and secure form of lending and is very common throughout the world.

e) The Mechanics of the Scam

As explained above, a ready forward deal is, in substance, a secured loan from one bank to another. To make the scam possible, the RF had to

undergo a complete metamorphosis: it had to become an unsecured loan to a broker. How was this transformation brought about?

The three crucial steps to affect the metamorphosis were:

The settlement process in the government securities market became broker intermediated, that is, delivery and payments started getting routed through a broker instead of being made directly between the transacting banks.

The broker through whom the payment passed on its way from one bank to another found a way of crediting the money into his account though the account payee cheque was drawn in favors of a bank.

While the above two steps transformed an RF deal from a loan to a bank into a loan to a broker; it would still be a secured loan. However, the brokers soon found a way of persuading the lending bank to dispense with security for the loan or to accept worthless security.

We shall now elaborate on each of these steps, in order to clearly understand the modus operandi used in the scam.

f) Settlement Process

The normal settlement process in government securities is that the transacting banks make payments and deliver the securities directly to each other. The broker's only function is to bring the buyer and seller together and help them negotiate the terms, for which he earns a commission from both the parties. He does not handle either the cash or the securities. During the scam, however, the banks or at least some banks adopted an alternative settlement process which was similar to the process used for settling transactions in the stock market. In this settlement process, deliveries of

securities and payments are made through the broker. That is, the seller hands over the securities to the broker who passes them on to the buyer, while the buyer gives the cheque to the broker who then makes the payment to the seller. In this settlement process, the buyer and the seller may not even know whom they have traded with, both being known only to the broker.

There were two important reasons why the broker intermediated settlement began to be used in the government securities markets:

The brokers instead of merely bringing buyers and sellers together started taking positions in the market. In other words, they started trading on their own account, and in a sense became market makers in some securities thereby imparting greater liquidity to the markets.

When a bank wanted to conceal the fact that it was doing an RF deal, the broker came in handy. The broker provided contract notes for this purpose with fictitious counter parties, but arranged for the actual settlement to take place with the correct counter party.

g) Account Payee Cheques

A broker intermediated settlement allowed the broker to lay his hands on the cheque as it went from one bank to another through him. The hurdle now was to find a way of crediting the cheque to his account though it was drawn in favor of a bank and was crossed account payee. As it happens, it is purely a matter of banking custom that an account payee cheque is paid only to the payee mentioned on the cheque.

In fact, exceptions were being made to this norm, well before the scam came to light. Privileged (corporate) customers were routinely allowed to credit account payee cheques in favor of a bank into their own accounts to avoid clearing delays, thereby reducing the interest lost on the amount. Normally, if a customer obtains a cheque in his own favors and deposits it into his own account, it may take a day or two for the cheque to be cleared and for the funds to become available to the customer. At 15% interest, the interest loss on a clearing delay of two days for a Rs. 100 crore cheque is about Rs. 8 lacs. On the other hand, when banks make payments to each other by writing cheques on their account with the RBI, these cheques are cleared on the same day. The practice which thus emerged was that a customer would obtain a cheque drawn on the RBI favoring not himself but his bank. The bank would get the money and credit his account the same day. This was the practice which the brokers in the money market exploited to their benefit.

h) Dispensing with the Security

The brokers thus found a way of getting hold of the cheques as they went from one bank to another and crediting the amounts to their accounts. This effectively transformed an RF into a loan to a broker rather than to a bank. But this, by itself, would not have led to the scam because the RF after all is a secured loan, and a secured loan to a broker is still secured. What was necessary now was to find a way of eliminating the security itself!

Three routes adopted for this purpose were:

Some banks (or rather their officials) were persuaded to part with cheques without actually receiving securities in return. A simple explanation of this

is that the officials concerned were bribed and/or negligent. A more intriguing possibility is that the banks' senior/top management were aware of this and turned a Nelson's eye to it to benefit from higher returns the brokers could offer by diverting the funds to the stock market. One must recognize that as long as the scam lasted, the banks benefited from such an Arrangement. The management of banks might have been sorely tempted to adopt this route to higher profitability.

The second route was to replace the actual securities by a worthless piece of paper – a fake Bank Receipt (BR). This is discussed in greater detail in the next section.

The third method was simply to forge the securities themselves. In many cases, PSU bonds were represented only by allotment letters rather than certificates on security paper. And it is easier to forge an allotment letter for Rs. 100 crores worth of securities than it is to forge a 100 rupee note! Outright forgery of this kind however accounted for only a very small part of the total funds misappropriated.

Bank Receipt

In an RF deal, as we have discussed it so far, the borrowing bank delivers the actual securities to the lender and takes them back on repayment of the loan. In practice, however, this is not usually done. Instead, the borrower gives a Bank Receipt (BR) which serves three functions:

The BR confirms the sale of securities.

It acts as a receipt for the money received by the selling bank. Hence the name – bank receipt.

It promises to deliver the securities to the buyer. It also states that in the meantime the seller holds the securities in trust for the buyer.

In short, a BR is something like an IOU (I owe you securities!), and the use of the BR de facto converts an RF deal into an unsecured loan. The lending bank no longer has the securities; it has only the borrower's assurance that the borrower has the securities which can/will be delivered if/when the need arises.

i) BRs Issued without Backing of Securities

As stated earlier, a BR is supposed to imply that the issuer actually has the securities and holds them in trust for the buyer. But in reality the issuer may not have the securities at all. There are two reasons why a bank may issue a BR, which is not backed by actual securities:

A bank may short sell securities, that is, it sells securities it does not have. This would be done if the bank thinks that the prices of these securities would decrease. Since this would be an outright sale (not an RF!), the bank issues a BR. When the securities do fall in value, the bank buys them at lower prices and discharges the BR by delivering the securities sold. Short selling in some form is an integral part of most bond markets in the world. It can be argued that some amount of short selling subject to some degree of regulation is a desirable feature of a bond market. In our opinion, an outright sale using a BR, which is not backed by securities, is not harmful per se though it violates the RBI guidelines.

The second reason is that the bank may simply want an unsecured loan. It may then do an RF deal issuing a "fake" BR which is a BR without any securities to back them. The lending bank would be under a mistaken impression that it is making a secured loan when it is actually advancing an unsecured loan. Obviously, lenders should have taken measures to protect themselves from such a possibility. This aspect will be examined later when

we discuss the banks' control system in general and counterparty limits in particular. During the scam, the brokers perfected the art of using fake BRs to obtain unsecured loans from the banking system. They persuaded some small and little known banks – the Bank of Karad (BOK) and the Metropolitan Cooperative Bank (MCB) - to issue BRs as and when required. These BRs could then be used to do RF deals with other banks. The cheques in favors of BOK were, of course, credited into the brokers' accounts. In effect, several large banks made huge unsecured loans to the BOK/MCB which in turn made the money available to the brokers.

j) Control Systems

The scam was made possible by a complete breakdown of the control system both within the commercial banks as well as the control system of the RBI itself. We shall examine these control systems to understand how these failed to function effectively and what lessons can be learnt to prevent failure of control systems in the future. The internal control system of the commercial banks involves the following features:

k) Separation of Functions: The different aspects of securities transactions of a bank, namely dealing, custody and accounting are carried out by different persons.

l) Counterparty Limits: The moment an RF deal is done on the basis of a BR rather than actual securities, the lending bank has to contend with the possibility that the BR received may not be backed by any/adequate securities. In effect, therefore, it may be making an unsecured loan, and it must do the RF only if it is prepared to make an unsecured loan. This requires assessing the creditworthiness of the borrower and assigning him a

"credit limit" up to which the bank is prepared to lend. Technically, this is known as a counterparty limit.

m) Other Aspects of the Scam

There are several aspects of the scam which are closely related to the securities markets, but which are different from the operational aspect of the markets. These pertain to information that can cause significant changes in the prices of securities as well as the information supplied by the commercial banks on their financial performance. We need to understand these to appreciate the motivation for certain kinds of transactions that are entered into in the market.

Coupon Changes and Insider Trading During the period from September 1991 to June 1992, the government raised the interest (coupon) rate on its fresh borrowing three times. On each occasion the coupon rate was increased by 1/2%, thereby raising the coupon rate from 11.5% to 13% during this ten month period. The major implication of raising interest rate on new borrowings is that it would trigger a fall in the market prices of the old loans which are pegged at the old (lower) interest rates.

The price of the 11.5% Government Loan 2010 dropped by 3% to 5% with each coupon rate hike. If anyone has advance information about these changes in the coupon rates, he could make enormous amounts of riskless profit by short selling the old securities just before the announcement of rate

hike and buying back (covering his position) after the prices have fallen. Somebody who took a short position of Rs. 500 crores before the coupon hike of September 1991 could have made a profit of Rs. 15 crores, practically overnight! Since several persons in the Finance Ministry and the RBI are likely to be aware of the impending hike in the coupon rate, the chance of leakage of this all important information is always there. There have been several allegations in this regard. However, it will probably be very difficult to prove with any degree of certainty that there was insider trading based on information about coupon rate changes, because of the size of the market. With a daily trading volume of Rs. 3000 - 4000 crores, it would have been very easy for anyone to take a position (based on inside information) of Rs. 500 or even Rs. 1000 crores without anyone suspecting anything untoward.

n) Where has all the money gone

It is becoming increasingly clear that despite the intensive efforts by several investigating agencies, it would be impossible to trace all the money swindled from the banks. At this stage we can only conjecture about where the money has gone and what part of the misappropriated amount would be recovered. Based on the result of investigations and reporting so far, the following appear to be the possibilities:

A large amount of the money was perhaps invested in shares. However, since the share prices have dropped steeply from the peak they reached towards end of March 1992, the important question is what are the shares worth today? Till February 1992, the Bombay Sensitive Index was below 2000; thereafter, it rose sharply to peak at 4500 by end of March 1992. In

the aftermath of the scam it fell to about 2500 before recovering to around 3000 by August 1992. Going by newspaper reports, it appears likely that the bulk of Harshad Mehta's purchases were made at low prices, so that the average cost of his portfolio corresponds to an index well below 2500 or perhaps even below 2000.

Therefore, Mehta's claim that he can clear all his dues if he were allowed to do so cannot be dismissed without a serious consideration. Whether these shares are in fact traceable is another question.

It is well known that while Harshad Mehta was the "big bull" in the stock market, there was an equally powerful "bear cartel", represented by Hiten Dalal, A.D. Narottam and others, operating in the market with money cheated out of the banks. Since the stock prices rose steeply during the period of the scam, it is likely that a considerable part of the money swindled by this group would have been spent on financing the losses in the stock markets.

It is rumored that a part of the money [₹] was sent out of India through the havala racket, converted into dollars/pounds, and brought back as India Development Bonds. These bonds are redeemable in dollars/pounds and the holders cannot be asked to disclose the source of their holdings. Thus, this money is beyond the reach of any of the investigating agencies.

A part of the money must have been [₹] spent as bribes and kickbacks to the various accomplices in the banks and possibly in the bureaucracy and in the political system.

As stated earlier, a part of the money [₹] might have been used to finance the losses taken by the brokers to window-dress various banks' balance sheets. In other words, part of the money that went out of the banking system came

back to it. In sum, it appears that only a small fraction of the funds swindled is recoverable.

o) Impact of the Scam

The immediate impact of the scam was a sharp fall in the share prices. The index fell from 4500 to 2500 representing a loss of Rs. 100,000 crores in market capitalization. Though one may be tempted to blame the steep decline in prices on the scam, we think that the reason for this fall was not scam directly. Purely technically speaking, scam just resulted in withdrawal of about Rs. 3,500 crores from the market, which for a market of the size of Rs. 250,000 crores (at an index level of 4500) is a very small amount, and therefore should have little impact on the prices.

There was however two major reasons for the fall, both related to the government's knee jerk response to the scam. First was the phenomenon of tainted shares which created panic in the market and second was the perceived slow down of the reform process which destroyed the very foundation on which the boom was based. We now take a look at both these factors.

The government set up a special court and promulgated an ordinance with several draconian provisions to deal with the scam. Sections (3) and (4) of the ordinance attached the properties of all individuals accused in the scam and also voided all transactions that had at any stage been routed through

them after March 31, 1991. Since the accused were active brokers in the stock markets, the number of shares which had passed through their hands in the last one year was colossal.

All these shares became "tainted" shares, and overnight they became worthless pieces of paper as they could not be delivered in the market. Genuine investors who had bought these shares well before the scam came to light and even got them registered in their names found them being robbed by the government. This resulted in a chaotic situation in the market since no one was certain as to which shares were tainted and which were not. The government's liberalization policies came under severe criticism after the scam, with Harshad Mehta and others being described as the products of these policies. Bowing to the political pressures and the bad press it received during the scam, the liberalization policies were put on hold for a while by the government.

The Securities Exchange Board of India (SEBI) postponed sanctioning of private sector mutual funds. Implementations of some aspects of the Narasimham Committee recommendations on the banking system were also delayed. Some question marks arose regarding privatization as the chairman of the committee looking into this ended up in jail on charges of involvement in the scam.

The much talked about entry of foreign pension funds and mutual funds became more remote than ever. The Euro-issues planned by several Indian

companies were delayed since the ability of Indian companies to raise equity capital in world markets was severely compromised.

p) Policy Responses Required

It is clear that the government, the RBI and the commercial banks are as much accountable as the brokers for the scam. The brokers were encouraged and abetted by the banks to divert funds from the banking system to the stock market. The RBI too stands indicted because despite knowledge about banks over-stepping the boundaries demarcating their arena of operations, it failed to rein them in.

The looting was done with active connivance and sometimes full knowledge of the very individuals who were supposed to guard against such a possibility. What has been the response of the government so far and what needs to be done to ensure that such scams do not recur in the future? The response of any government to a scam of this kind would have three main facets:

1. Discover and Punish the Guilty. This task has been entrusted to the Central Bureau of Investigation (CBI) and to the Joint Parliamentary Committee (JPC). A special court has also been set up to facilitate speedy trial.

2. Recover the Money. The draconian provisions of the Ordinance for attachment of property and voiding of transactions with the consequent creation of "tainted" shares were attempts in this direction.

3. Reform the System. The government's response so far has consisted of measures like banning of RF deals and going slow on liberalization.

There cannot be two opinions on the need for identifying and punishing the guilty. The principal objective behind punishing the offenders is more to deter future offenders. However, the government must ensure that not only the obviously guilty (the brokers) but also the not so obviously guilty (the bank executives, the bureaucrats and perhaps the politicians) are identified and brought to book. Investigations of this kind are necessarily time consuming and expensive, but they have to be gone through so that the credibility of the system is restored. A rule of thumb which is often quoted throughout the world is that investigation of any fraud will cost as much as the magnitude of the fraud itself. One can, therefore, expect the real costs of the scam investigation to be of the order of a couple of thousand crores at least.

4.2 UTI SCAM

Of all the recent encounters of the Indian public with the much-celebrated forces of the market, the Unit Trust's US-64 debacle is the worst¹². Its gravity far exceeds the stock market downswing of the mid-1990s, which wiped out Rs. 20,000 crores in savings.¹³The debacle is part of the recent economic slowdown which has eliminated one million jobs and also burst the information technology (IT) bubble.

This has tragically led to suicides by investors. Anthem suspension of trading in US-64 made the hapless investors more dejected at the sinking of this "super-safe" public sector instrument that had delivered a regular return since 1964. There is a larger lesson in the US-64 debacle for policies towards public savings and public sector undertakings (PSUs). The US-64 crisis is rooted in plain mismanagement. US-64 was launched as a steady income fund. Logically, it should have invested in debt, especially low-risk fixed-income government bonds. Instead, its managers increasingly invested in equities, with high risk speculative returns.

In the late 1980s UTI was "politicized" with other financial institutions (FIs) such as LIC and GIC, and made to invest in certain favored scrip's. By the mid-1990s, equities exceeded debt in its portfolio. The FIs were also used to "boost the market" artificially as an "endorsement" of controversial economic policies. In the past couple of years, UTI made downright imprudent but heavy investments in stocks from Ketan Parekh's favorite K-10 portfolio, such as Himachal Futuristic, Global Tele and DSQ. These "technology" investments took place despite indications that the "technology boom" had ended. US-64 lost half its Rs.30,000 crore portfolio value within a year. UTI sank Rs. 3,400 crores in just six out of a portfolio of 44 scrip's.

This eroded by 60 percent. Early this year, US-64's net asset value plunged below par (Rs.10). But it was re-purchasing US-64 above Rs. 14! Today, its NAV stands at Rs. 8.30 - a massive loss for 13 million unit-holders. It is inconceivable that UTI made these fateful investment decisions on its own.

According to insiders, the Finance Ministry substantially influenced them: all major decisions need high-level political approval. Indeed, collusion between the FIs, and shady operators like Harshad Mehta, was central to the Securities Scam of 1992.

The Joint Parliamentary Committee's report documents this. In recent months, the Finance Ministry became desperate to reverse the post-Budget market downturn. UTI's disinvestments now coincided with the global technology "meltdown." US-64 crashed. UTI chairman resigned. Although culpable, he was probably a scapegoat too. The Ministry has kept a close watch on UTI, especially since 1999.

The US-64 debacle, then, is not just a UTI scam. It is a governance scam involving mismanagement by a government frustrated at the failure of its macroeconomic calculations. This should have ensured finance Minister's exit in any democracy which respects parliamentary norms. There are larger lessons in the UTI debacle. If a well-established, and until recently well-managed, institution like UTI cannot safeguard public savings, then we should not allow the most precious of such savings -pensions - to be put at risk. Such risky investment is banned in many self-avowedly capitalist European economies.

In India, the argument acquires greater force given the poorly regulated, extremely volatile, stock market—where a dozen brokers control 90 percent of trade. Yet, there is a proposal by the Finance Ministry to privatize

pensions and provident funds. Basically, the government, deplorably, wants to get rid of its annual pension obligation of Rs. 22,000 crores.

4.3 DINESH DALMIA DSQ

Dinesh Dalmia was the managing director of DSQ Software Limited when the Central Bureau of Investigation arrested him for his involvement in a stocks scam of Rs 595 crore (Rs 5.95 billion). Dalmia's group included DSQ Holdings Ltd, Hulda Properties and Trades Ltd, and Power flow Holding and Trading Pvt Ltd. Dalmia resorted to illegal ways to make money through the partly paid shares of DSQ Software Ltd, in the name of New Vision Investment Ltd, UK, and unallotted shares in the name of Dinesh Dalmia Technology Trust. Investigation showed that 1.30 crore (13 million) shares of DSQ Software Ltd had not been listed on any stock exchange.

Some of the findings from SEBI investigation. There was an abnormal spurt in prices and volume of DSQ Software. The price of the scrip rose from Rs. 250 to Rs. 2631 during October 1999 to March 2000 and fell to Rs. 150 in mid-March 2001. SEBI's findings regarding involvement of promoters/associated entities of the company are as follows:—

Unauthorized allotment of one crore shares was made by the company in October/ December 2000 out of which 60 lakh shares were allotted to Dinesh Dalmia Technology Trust and 40 lakh shares to Dr. Suryanil Ghosh Trustee Softee Corporation.

These shares were allotted without any resolution passed by the company and without receipt of any funds and also without following any procedure under the Company Law. These shares were finally transferred to entities connected with promoters and were sold/ given to various brokers. The entities connected with promoters were indulging in circular trades and fictitious trades.

30 lakh shares with distinctive no. 30250001 to 33250000 were allotted on preferential basis to New Vision Investment Ltd., UK, on May 20, 2000 at a premium of Rs. 970/- per share on a partly paid up basis. The shares were later forfeited by the company on account of non-payment of call money. The entire lot of 30 lakh shares had earlier been sold by New Vision Investment Ltd. in the market or transferred to DSQ Holdings and Mehta & Ajmera. Entities appeared to be connected with promoters viz. DSQ Holdings Ltd., DSQ Industries, Hulda Trades and Properties Ltd. have dealt heavily in the shares of the company.

These entities have sold shares through brokers—Dresdner Kleinwort Benson (DKB) and Prabhudas Lilladher. Nearly one crore shares (30% of the total paid up capital) was sold through DKB alone. Some of these

entities have transacted through three Calcutta based defaulting broker groups—Biyani, Poddar and Singhanian.

Hulda and DSQ Holdings indulged in circular trading to create artificial volumes in the scrip. These entities bought shares through one set of brokers and simultaneously sold shares through another set of brokers. Promoter broker nexus is further proved beyond doubt when it was seen that the counter party buying brokers to sale by promoter entities through DKB and Prabhudas were Accord Capital, SMIFS Sec., C Mackertich Ltd., Mehta & Ajmera, Suresh Jajoo group (Millennium, Omega, Woodstock Sec. Woodstock Broking), Biyani Securities, Khandwala Finance. DSQ Software gave Rs. 25 crore to Accord, Rs. 54 crore to Mehta & Ajmera, Rs. 20 crore to Woodstock and Rs. 5 crore to Titan totaling Rs. 104 crore. DSQ also gave funds to associated entities—Time (Rs. 50 cr.) and Annapurna (Rs. 54 cr.) totaling Rs. 104 cr. These funds appear to have been primarily used to buy shares to DSQ Software i.e. in violation of section 77 of the Companies Act.153.Promoter related entities have given large number of shares of DSQ Industries and DSQ Software to Ketan Parekh entities. These shares were in turn either sold or pledged by the Ketan Parekh entities to come out of the payment difficulties arising out of highly leveraged position. DSQ Software gave funds to Ketan Parekh entities to the tune of Rs. 75 cr.

Further, on 30.12.99, when the company made a preferential allotment of 1 crore shares of DSQ Software @ Rs. 275/- per share to FII's, OCB's etc. Ketan Parekh entities—Classic Credit Ltd. and Saimangal Investrade Ltd.

were allotted 9 lakh shares each. The preferential allotment was made at a discount of almost 67% to prevailing market price of the share. Classic Credit Ltd. sold all the 9 lakh shares allotted to it within 4 months of allotment. The net benefit accrued to Classic Credit Ltd. as a result of sales of 9 lakh shares is approximately to the tune of Rs. 144.5 cr. Out of 9 lakh shares allotted to Saimangal Investrade 5,45,000 shares were bought back by DSQ Holdings which is a promoter group company in off-market transactions. Further 42, 50,000 shares of DSQ Biotech were given by DSQ group/associated entities to Ketan Parekh. The market value of these shares is approximately Rs. 74.35 cr. Thus, funds to the tune of approximately Rs. 75 cr. And shares worth Rs. 400 crores (totaling to Rs. 475 crores approximately) have been given by DSQ group to Ketan Parekh entities.

4.4 THE IPO SCAM

It started with M. S. Shoes case, exemplifies the first type of scam, which caused losses of several thousand crores of rupees is known as the vanishing companies IPO scam. The IPO bubble which lasted three years from 1993 to 96 finally burst when prices of listed companies began to crash. So huge was investors' disappointment that the primary market remained dead for the next two years, almost until the beginning of 1999.

Another, IPO scam took place in the market between 2003 -2007, which was much more refined & organized in terms of operation. It involved manipulation of the primary market—read initial public offers (IPOs)—by financiers and market players by using fictitious or benaami demats accounts.

While investigating the Yes Bank scam, Sebi found that certain entities had illegally obtained IPO shares reserved for retail applicants through thousands of benaami demat accounts. They then transferred the shares to financiers, who sold on the first day of listing, making windfall gains from the price difference between the IPO price and the listing price. The IPO scam came to light in 2005 when the private 'Yes Bank' launched its initial public offering. Roopalben Panchal, a resident of Ahmadabad, had allegedly opened several fake demat accounts and subsequently raised finances on the shares allotted to her through Bharat Overseas Bank branches.

The Sebi started a broad investigation into IPO allotments after it detected irregularities in the buying of shares of YES Bank's IPO in 2005.

Income Tax raid on businessman Purushottam Budhwani accidentally found he was controlling over 5,000 demat accounts. SEBI finds this suspicious. SEBI declared results of its probe, how a few people cornered a large chunk of YES Bank IPO shares. Sebi discovered huge rigging in the IDFC IPO.

Roopalben Panchal was found to be controlling nearly 15,000 demat accounts. It was found that once they obtained these shares, the fictitious investors transferred them to financiers. The financiers then sold these shares on the first day of listing, reaping huge profits between the IPO price and the listing price.

The SEBI report covered 105 IPOs from 2003-2007. The SEBI probe covered several IPOs dating back to 2005, 2004 and 2003 to detect misuse. These included the offerings of Jet Airways, Saskaen Communications,

Suzlon Energy, Punj Lloyds, JP Hydro Power, NTPC, PVR Cinema, Shringar Cinema and others. A lot more dubious accounts across several IPOs are expected to tumble out in the next few days. It also detected similar irregularities in the IDFC IPO; in which over 8 per cent of the allotment in the retail segment was cornered by fictitious applicants through multiple demat accounts.

4.5 INVESTMENT SCAMS

a) Introduction

Here if we are talking about the investors scams then basically it deals with point of view of investors. The fraud which is been undertaken for the investors. The Internet is a great tool for investors, allowing us to research investments and trade securities with unprecedented ease. Unfortunately, the lack of rules on the 'Net also makes it a perfect place for fraud to flourish.

b) Different Types of Scams

Very few of the scams on the Internet are new. Most of the swindling techniques we see today originated long ago as telemarketing, direct mail, or even door-to-door selling schemes. But the Internet adds another troubling dimension to these old tricks. For example, a fancy Web site can create the illusion of a large and reputable company, especially if it provides links to legitimate sites.

Here are some of the largest and most successful investment scams:

- **Ponzi Scheme** - A type of pyramid scheme, this is where money from new investors is used to provide a return to previous investors. The scheme collapses when money owed to previous investors is greater than the money that can be raised from new ones. Ponzi schemes always collapse eventually.

- **Pump and Dump** - A highly illegal practice where a small group of informed people buy a stock before they recommend it to thousands of investors. The result is a quick spike in stock price followed by an equally fast downfall. The perpetrators who bought the stock early sell off when the price peaks at a huge profit. Most pump and dump schemes recommend companies that are over-the-counter bulletin board (OTCBB) and have a small float. Small companies are more volatile and it's easier to manipulate a stock when there's little or no information available about the company. There is also a variation of this scam called the "short and distort." Instead of spreading positive news, fraudsters use a smear campaign and attempt to drive the stock price down. Profit is then made by short selling.

- **Off Shore Investing** - These are becoming one of the more popular scams to trap U.S. and Canadian investors. Conflicting time zones, differing currencies, and the high costs of international telephone calls made it difficult for fraudsters to prey on North American residents. The Internet has eroded these barriers. Be all the more cautious when considering an investment opportunity originating in another country. It's extremely

difficult for your local law enforcement agencies to investigate and prosecute foreign criminals.

- **Prime Bank** - This term usually describes the top 50 banks (or thereabouts) in the world. Prime banks trade high quality and low risk instruments such as world paper, International Monetary Fund bonds, and Federal Reserve notes. You should be very wary when you hear this term--it is often used by fraudsters looking to lend legitimacy to their cause.

Prime bank programs often claim investors' funds will be used to purchase and trade "prime bank" financial instruments for huge gains. Unfortunately these "prime bank" instruments often never exist and people lose all of their money.

- **Bulletin Boards.** There are literally hundreds of investment boards where anyone can rant, rave, or post BS. Online bulletin boards (BBs) come in various forms, including newsgroups, UseNet, or web-based boards. Some of the larger BBs, like those found on sites such as Raging Bull, Boards on Yahoo! Finance, and Silicon Investor, see thousands of messages posted on an hourly basis.

While there are many valid and useful posts on these boards, a large number of tips turn out to be bogus. Fraudsters most often use a pump and dump scheme on BBs by pretending to reveal inside information about big upcoming announcements, great new products, or lucrative contracts. The opposite can be done too. If fraudsters hold a short position in a company, they will try to spread negative rumors in the hope that investors will panic and push prices down. Here's the tricky part about BBs: anonymity.

You don't know for sure who you're dealing with and how credible they are. People claiming to be unbiased observers who've carefully researched a company may actually be company insiders, large shareholders, or paid promoters. A single person can easily create the illusion of widespread interest in a small, thinly-traded stock by posting a series of messages under various aliases. In the aftermath of the dot-com bubble, bulletin boards experienced a dramatic drop in traffic. Thankfully, many investors realized they couldn't believe everything they read online.

But that's not to say there is no valuable information on BBs. Before Enron went bankrupt, posts were made online that revealed many of the fraudulent practices taking place at the energy giant. Regrettably, at the same time, there were countless posts that were bullish on Enron. It's nearly impossible to sort out the valuable posts from the fake ones.

- **News letters**

Almost every stock pick site offers a newsletter that is supposedly full of useful insights and great stocks. There are many good newsletters out there, but some are just promoting stocks under the guise of presenting investors with "free unbiased information."

In fact, many companies hire employees or pay people to write online newsletters to promote their stock. In theory, this practice is not illegal. But federal securities laws require newsletters to disclose who paid them, the

amount paid, and the type of payment. Most fraudulent newsletters fail to provide this information. Instead, they lie about the income they receive, their independence, their research, and their historical results. They stand to profit handsomely if they convince investors to buy or sell particular stocks. Newsletters also use the pump and dump technique discussed earlier. With enough people on the list, it is possible to create movement in the price of small stocks.

c) Dealing with Investment Fraud

If you come across or are the victim of an investment scam, the best thing to do is report it to the SEC. They have online forms to contact them at their complaint site: <http://www.sec.gov/complaint.shtml>.

You can also write them at:

Securities and Exchange Commission Office of Investor Education & Assistance 450 Fifth Street, N.W. Washington, D.C. 20549-0213 Fax: 202-942-9634

When contacting the SEC, you only need to give as much personal information as you wish. However, the more information you give them, the better they will be able to help you. Include specific details of how, why and when you were defrauded with any contact info you have on the fraudulent person or company you are reporting.

d) Conclusion

Now that you're familiar with the various kinds of online investment scams, we hope you'll be prepared for anything the fraudsters throw at you. We'll be happy if this tutorial saves one person from being scammed out of their hard-earned money.

4.6 STOCK MARKET SCAMS AND BANKS

Stock market Scams (SMS) have been occurring in stock markets across the world at regular intervals and these have resulted in people losing their huge capitals invested in various types of scams. SMS are also called as securities scams different types of securities are traded in the stock market. SMS are result of various types of manipulations and other processes carried out by investors and traders at various levels. Most of banks involved in this stock market scam were carrying investments at cost of acquisition in their books.

This meant that financial institutions were not ready to sell securities held by them as losses are organized in such accounts only when securities are sold. However, Brokers and banks created an innovative way of accommodating such investment. Securities were sold by the banks at a

discount to participating brokers either at the price that has quite higher than the market price at that time. Bank also bought other securities from participating broker at price that was higher than the market price. This settled transactions between them. However whole scam was eventually unearthed.

a) Step to Prevent Stock Market Scam

Since stock market scams are becoming quite common in present times, it is really very essential that a person avoid being a part of these scams or being affected by such scams.

There are certain guidelines following which above purpose can be solved. People with fraudulent behavior are quite aware of the fact that investor like to subscribe to such stocks that have higher yield. For example all investors wish to have stock of software companies in their portfolio as these stocks are able to provide high returns investments in such companies thus should not be made.

b) Types of Stock Market Scams

Let us understand one type of scam that is generally noticed. This type of scams occurs by making investing in those companies that have higher market capitalization and offer higher liquidity too but stocks of which are hardly traded. In each stock market there are different categories stocks and one particular category comprises above types of stocks. For example in Bombay stock Exchange, Principal stock exchange of stock market of India, B2 is the category which comprises stock having higher capitalization and liquidity but low trading volume. Most of these stocks pertain to those

companies that are no longer in operation. People and companies with fraudulent behavior take over are these companies and entity of company is also changed. New entity pertains to that sector which attracts more investment for example software industry. People are then hired, required equipment installed and even exports orders are also processed. But in reality there is no requisite infrastructure or professionals to carry out such orders. The various regularities and guide lines are been followed by government after been undertaken due to such scams occur in financial markets.

CHAPTER 5-GUIDELINES ISSUED BY SECURITIES AND EXCHANGE BOARD OF INDIA FOR THE REGULATION OF SECURITIES MARKETS

1) Prohibition of Certain Dealings in Securities

No person shall buy, sell or otherwise deal in securities in a fraudulent manner.

2) Prohibition against Market Manipulation

(a) No person shall effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising

or depressing the prices of securities and thereby inducing the sale or purchase of securities by any person;

(b) Indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market.

(c) Indulge in any act which results in reflection of prices of securities. Based on transactions that is not genuine trade transactions.

(d) enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress, or cause fluctuations in the market price of securities;

(e) Pay, offer or agree to pay or offer, directly or indirectly, to any person any money or money's worth for inducing another person to purchase or sell any security with the sole object of inflating, depressing, or causing fluctuations in the market price of securities

Prohibition of misleading statements to induce sale or purchase of Securities

No person shall make any statement, or disseminate any information which

-

(A) Is misleading in a material particular; and

(B) is likely to induce the sale or purchase of securities by any other person or is likely to have the effect of increasing or depressing the market price of

securities, if when he makes the statement or disseminates the information- He does not care whether the statement or information is true Or false; or

(ii) He knows, or ought reasonably to have known that the statement or information is misleading in any material particular.

Nothing in this sub-regulation shall apply to any general comments made in Good faith in regard to -

- (a) The economic policy of the Government,
- (b) The economic situation in the country,
- (c) Trends in the securities markets, or
- (d) Any other matter of a similar nature, whether such comments be made in public or in private.

Prohibition on unfair trade practice relating to securities

No person shall -

- (a) In the course of his business, knowingly engage in any act, or practice which would operate as a fraud upon any person in connection with the purchase or sale of, or any other dealing in, any securities;
- (b) On his own behalf or on behalf of any person, knowingly buy, sell or otherwise deal in securities, pending the execution of any order of his client relating to the same security for purchase, sale or other dealings in respect of securities.

Nothing contained in this clause shall apply where according to the clients instruction, the transaction for the client is to be effected only under specified conditions or in specified circumstances; intentionally and in contravention of any law for the time being in force delays the transfer of securities in the name of the transferee or the dispatch of securities or connected documents to any transferee.

(d) Indulge in falsification of the books, accounts and records

(Whether maintained manually or in computer or in any other form);

(e) When acting as an agent, execute a transaction with a client at a price other than the price at which the transaction was executed by him, whether on a stock exchange or otherwise, or at a price other than the price at which it was offset against the transaction of another client.

5.1 REASONS FOR THE REOCCURRENCE OF SECURITY SCAM IN 2001 INSPITE OF GUIDELINES ISSUED BY RBI IN 192

The Committee did not have the benefit of a report on the lines of the Janakiraman Committee Report which was made available to the previous JPC on the scam in securities and banking transactions. Reliable evidence was difficult to find and took much time to cull. The Committee had to rely on a number of reports that dealt with specific and limited subjects. The enquiry reports of the regulators also displayed many gaps which had to be filled by securing answers to a very large number of questions asked by the Committee.

The Special Cell constituted by the Ministry of Finance in June, 1994 to investigate the nexus between brokers and industrial houses in pursuance of the recommendation of the earlier JPC having gone defunct since May 22, 1995, without coming out with any tangible findings or recommendations for remedial action, is one of the examples of apathy on the part of different agencies and departments concerned.

The Committee was informed by the Central Board of Direct Taxes that on May 19, 1995 the DGIT (Investigation), Bombay, who headed the Special Cell, had sought from CBDT adequate empowerment and administrative support for the Cell in the absence of which the Cell was unlikely to reach to any firm conclusions about the role of any one or more industrial houses in comprehensive manner but the Chairman, CBDT, in his response thereto had suggested that due to limited scope of task of the Special Cell no additional manpower was required.

Also in the minutes of the last meeting of the Special Cell held on May 22, 1995, the members recorded that principal obstacle in unearthing the exact role of the industrial houses in the scam was due to the scope of the Cell was limited only to Bombay region due to which investigation into the activities of the suspects outside Bombay was not within the jurisdictional authority. Thus, the Special Cell was virtually rendered a still-born baby.

The lack of concern of Government demonstrated in this casual approach to such an important issue is regrettable. This Scam is basically the

manipulation of the capital market to benefit market operators, brokers, corporate entities and their promoters and managements. Certain banks, notably private and co-operative banks, stock exchanges, overseas corporate bodies and financial institutions were willing facilitators in this exercise.

The scam lies not in the rise and fall of prices in the stock market, but in large scale manipulations like the diversion of funds, fraudulent use of banks funds, use of public funds by institutions like the Unit Trust of India (UTI), violation of risk norms on the stock exchanges and banks, and use of funds coming through overseas corporate bodies to transfer stock holdings and stock market profits out of the country.

These activities went largely unnoticed. While the stock market was rising, there was inadequate attempt to ensure that this was not due to manipulations and malpractices. In contrast, during the precipitous fall in March 2001 the regulators showed greater concern. Another aspect of concern has been the emergence of a practice of non-accountability in our financial system.

The effectiveness of regulations and their implementation, the role of the regulatory bodies and the continuing decline in the banking systems have been critically examined, for which the regulators, financial institutions, banks, Registrars of Co-operative Societies, perhaps corporate entities and their promoters and managements, brokers, auditors and stock exchanges

are responsible in varying degrees. The parameters of governmental responsibility have also been taken into account.

It is the considered view of the Committee that the lack of progress in implementing the recommendations of the last Joint Parliamentary Committee set up in 1992 to enquire into Irregularities in Securities and Banking Transactions emboldened wrong-doers and unscrupulous elements to indulge in financial misconduct.

The Special Cell constituted by the Ministry of Finance in June 1994 to investigate the nexus between brokers and industrial houses in pursuance of the recommendation of the previous Committee having gone defunct since 22 May 1995, without coming out with any tangible findings or recommendations for remedial action, is one of the examples of apathy on the part of different agencies and departments concerned.

The Committee expresses their concern at the way the supervisory authorities have been performing their role and the regulators have been exercising their regulatory responsibilities. That the regulatory bodies failed in exercising prudent supervision on the activities of the stock market and banking transactions, became evident during the course of evidence taken by the Committee and this has been detailed in the succeeding chapters.

In the Committee's view no financial system can work efficiently even if innumerable regulations are put in place, unless there is a system of accountability, cohesion and close cooperation in the working of different

agencies of the government and the regulators. The Committee found that weaknesses in management and regulations of stock exchanges was compounded by serious management deficiencies in the UTI and financial institutions.

CHAPTER 6- THE MECHANICS OF THE STOCK MARKET SCAMS OF 2001

The period of the scam, the main players involved, and its intensity have been examined by the Committee. The present scam includes the role of banks, stock exchanges, brokers, the Unit Trust of India (UTI), corporate bodies and chartered accountants. Regulatory authorities like SEBI, RBI and the Department of Company Affairs (DCA) should have been able to lie down and implement guidelines and procedures that could prevent such a scam or at least activate red alerts that could lead to early detection, investigation and action against fraud as well as the rectification of any systemic deficiencies discovered. Moreover, the Ministry of Finance, the Regulators and all others concerned had the benefit of the voluminous and detailed Action Taken Reports (ATRs) submitted by Government to

Parliament on the numerous recommendations of the 1993 Report of the Joint Committee on irregularities in securities and banking transactions.

Concerted mutual interaction between Government and the Regulators, especially through the institutional mechanism of HLCC, could have signally contributed to effective pre-emptive and corrective action to forestall or moderate the scam by the early detection of wrong-doing.

Investigations were undertaken by SEBI against the manipulator's entities in the wake of allegations that manipulator's entities were involved in market manipulation in some scrip's. The manipulator was operating through a large number of entities which facilitated hiding the nexus between the source of fund flows to him from corporate houses, banks, financial institutions and foreign institutional investors and the ultimate deployment of these funds in the stock market. It was observed that funds received by certain entities from banks as loans and overdrafts were diverted to other entities for acquiring shares/meeting other obligations. It also appeared that, transactions for purchase and sale of shares were done in the name of a large number of entities so that concentration of positions/transactions in particular scrip could not be readily detected.

He used a net working of various FII subaccounts, OCBs, institutions and mutual funds for large transactions thereby creating an impression of market interest in certain select scrips. To begin with, he normally identified companies with relatively low floating stocks, acquired substantial holdings in these companies either directly or through associates including FII sub

accounts, OCBs etc. He also used presence of a number of exchanges and different settlement cycles to systemically shift positions from one Exchange to the other Exchange.

While being interested in increasing or maintaining the prices of selects rips, he appears at various point of time to have systematically sold/off-loaded his holdings to book profits and take further positions there from to further increase the prices.. Some of the corporate groups which had given funds to the manipulators entities during January 2000-April 2001 are Adani, HFCL, DSQ, Cadila, Essel,Kopran and Nirma and the amount outstanding from the manipulator to these entities is over Rs. 1273 crore.

6.1 FINANCIAL SCAMS STORMS THE MARKET AND KILLED THE INNOCENT INVESTORS

Does any body know why Indian investors are so frustrated & most of the time in losses, whether they invest in IPO, Secondary market, mutual fund but their story is same though the market goes up or down. This is because of lack of knowledge on the part of Retail Investors, Manipulation by some greedy Operators, Stock Brokers, Promoters, and ambiguity in the system etc. Its time our regulatory authorities formulate policies which punish Manipulators in such a manner that it acts as a deterrent for other Promoters.

There have been cases where Promoters after doing scams and committing fraud are roaming free and act as a role model for other aspiring scamsters. There is lot of loopholes in the system which needs to be removed so that

there is accountability & transparency in the system. Many innocent investors have committed suicides and these white collar crimes are like any Terrorist attacks carried out against the country.

The only difference is that these are Financial Terrorism carried out against by few Promoters, Operators, and Brokers which have destabilized the system and acted against the interest of the country. Such crimes are even worse than the crimes committed by Real Terrorists.

The society want such kind of system to be evolved whereby we are proud of our country and live in a free society liberated from manipulation, scams. We know all this is not easy and at least steps should be taken in this regard. For e.g. if some one commits fraud & rigs his company share prices via circular trading, synchronized trading, planting stories in the Media, operating through shell companies, it has been observed that the culprits get Scott free via paying penalty of few lacs which is not even sometimes 1% of the real scam and there is criminal conspiracy in this as many small investors commit suicides and blame the system which should not be the purpose.

The loss due to scam is of unimaginable magnitude and this hidden cowardly act of the some of the operators need to be punished just as Terrorist should be. It's high time that our system evolves & castigates such people and make country proud. There is lot of Circumstantial evidence on the basis of which these people can be brought to books.

There is no doubt that there is Indian corporate which are Ethical and benchmark when it comes to adhering to Corporate Governance Norms and have made country proud. We as a forum are not entirely blaming the system. We are proud of Politicians & Industrialists like Mrs. Sonia Gandhi, Mr. Manmohan Singh, Mr. LK Advani, Mr. AK Anthony, Mr. Rajnath Singh, Mr. Ratan Tata, Mr. Mukesh Ambani, Mr. Naryana Murthy, Mr. Kumaramangalam Birla, Mr. BM Munjal, Mr. Shiv Nadar, and Dr. Anil Reddy etc.

CHAPTER 7- CASE STUDY ON ROOPALBEN PANCHAL

7.1 Story of Panchals

If we are talking about the story of panchals it was basically started or the people involved in this scam were the Roopalben, Sugandh Investments, Zaveri, Budhwani, Sakseries. This scam or scandal evolved with the Bharat Overseas Bank, City Bank, Indian Overseas Banks. Roopalben & Budhwani were allowed to open 5,000 Bogus Demat A/c on the last day of IDFC issue by Karvy & Bharat Overseas Bank and made 43,982 applications in fictitious names in IDFC Public Issue. They were the main mastermind to corner Small Investors Share.

The entire plan, properly designed, masterminded and executed by a operators acting in this system of the scam. Basically there ideas were to

clear abuse of the very process of IPO, meant to shore up the participation of small investors.

The syndicate “shared” the “Share Allotment Benefit”

Investor to get 50% of Bogus Allotment – ‘Panchals’ & Broker, the Shell Investment Co’s remaining 50%. Karvy put – added further thousands application.

7.2 SEBI Order on IDFC

Now the SEBI comes into the picture. Due to the thousands of applications in fictitious / benami names. IPO applicants merely name-lenders or non-existent these Bogus allotted transferred shares to Panchals, Budhwani the Syndicate. Thus due to the transfer of shares before listing they old shares on the first day of listing. Thus there was a gain by eliminating the retail investors and the bank in depositories allowed syndicate to open benami/ fictitious demat and bank accounts.

7.3 IPO of IDFC

Now at point of time the IPO of IDFC opened on July 15, 2005 and closed on July 22, 2005. By all the detailed discussion and at the end on basis of allotment it was finalized on Aug 04, 2005. The Shares credited to IPO allottees on August 05/06, 2005 and later which got listed on the Stock Exchanges on August 12, 2005.

Yes, before listing the Scamsters use to transfer Shares to the Beneficiaries accounts. Mutual Understanding. Unsigned Moll Small Investors Portion/Quota

- IDFC came out with public issue of 403,600,000 equity shares of Rs. 10 each for cash at a price of Rs. 34 per equity share.

- 141,260,000 equity shares were to be offered to Small Individual Investors (defined as Individual Bidders who bid for equity shares for an amount less than or equal to Rs. 1, 00,000 as per prospectus).

7.4 Transactions in IDFC Shares by Roopalben Panchal & Associates

As Roopalben have their demat a/c with Karvy Stock Broking Ltd and also they have thousands of Fictitious- Bogus-Benami Demat Accounts & Banks. She received 39, 43,184 shares from 14,807 demat a/c's on August 11 and Budhwani received 2, 98,412 shares from 1122 demat a/c's on 8 August. Roopalben also received 32, 61,426 shares from 12,257 dematerialized a/c on 8 August and Sugandh Investment Pvt. Ltd. received 27, 08,944 share- 10181 demat a/c on 8 August.

7.5 Roopalben-Fairy Tale

It was next to impossible that such things occurred, because how an individual can open 27,064 A/C and can persuade all 27,064 to make off-market transfers to her demat account. After that immediately prior to the scheduled the listing on the stock exchanges took place.

7.6 Yes Bank Issue

Now there was a Public Issue @ Rs 45 and 1.75 crores Shares reserved for Small Investors. She took the advantage and cornered & sold 8, 39,500 Shares @ Rs 61.40 so that ultimately she syndicate and earned profit of Rs 1, 37,67,8000.

7.7 Gimmick of Roopalben in Yes Bank IPO

She opened along with her associates 6,315 Bogus-fictitious applications, Demat A/cs, Bank A/cs and similar addresses of Ahmadabad for Demat A/c. On all applications similar address of Bharat Overseas Bank, Worli, Mumbai 9, 47,250 shares allotment to these fictitious accounts. Later Roopalben & Investors received funds from 8 entities which were prior to the IPO of Yes Bank Ltd.

- She in turn transferred these funds to 6315 entities who had utilized these funds for making applications in the IPO of YBL.

7.8 Criminal Action Demanded

There was a Criminal action against Panchals and others for opening bogus Demat and Bank Accounts. Because Companies Act is clear on this under Sub-section (1) of Section 68A:

“Any person who:

a) Makes in a fictitious name an application to a Company for acquiring or subscribing for any shares therein, or

b) Otherwise induces a Company to allot, or register any transfer of, shares therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years.”

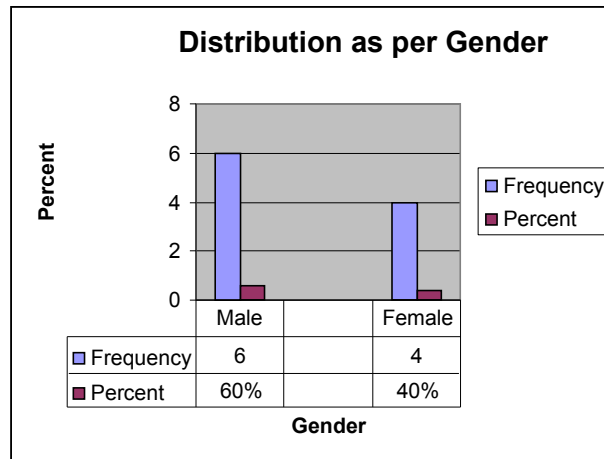
•As per Sec. 55A of Companies Act, provision of 68A is to be administered by SEBI. In case of listed companies, Sec. 621 authorizes SEBI to file complaints for offences under the Companies Act.

CHAPTER 8-FINDINGS AND SUGGESTIONS

A short survey was conducted to understand the respondent's opinion regarding frauds in stock market. Data was collected through questionnaire. The questionnaire was given to ten respondents. The data was analyzed and is presented in the form of graphs.

8.1 Distribution as Per Gender

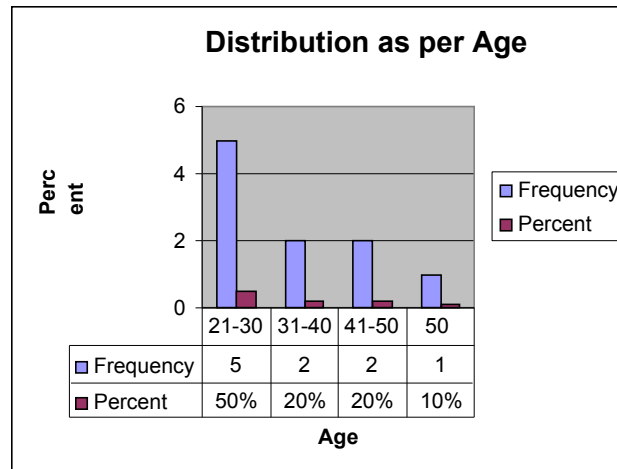
Table 1



As per Graph 1 it was found that 60 per cent were males while 40 per cent were females. This indicates that females have slowly entered stock market. This is possible because the numbers of working women are increasing and prefer to invest their saving in safe investment opportunities.

8.2 Distribution as Per Age

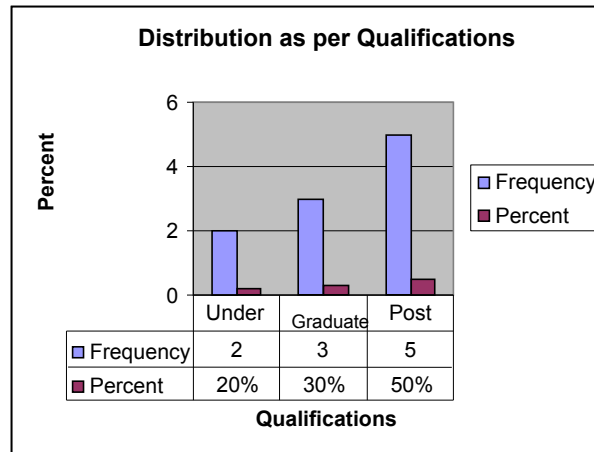
Table 2



Graph 2 indicates that 50 per cent of the respondents were in the age group of 21-30, while 20 per cent of the respondents were in the age group 31-40 and 41-50 respectively. This indicates that youngster prefer to invest in share market with an aim of making more money. However respondents falling in the age group between 31- 50 are more cautious in investing in the stock market due to family responsibility. In other words they prefer to play safe.

8.3 Distribution as Per Qualifications

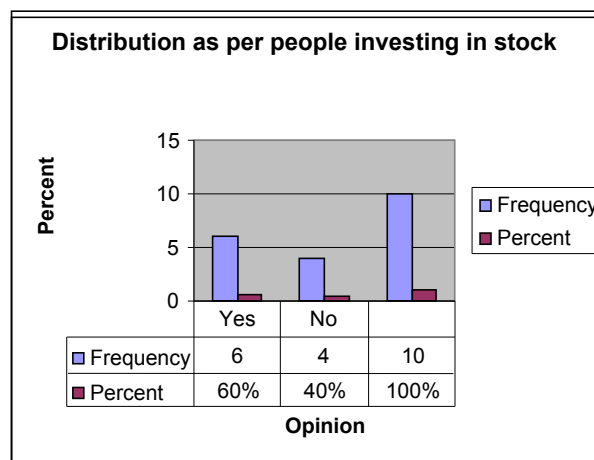
Table 3



Graph 3 indicates that 50 per cent of the respondents were postgraduates while 30 per cent were graduates. Only 20 Per cent were undergraduates. Hence one can infer that educated people are taking keen interest in investing in stock market.

8.4 Distribution as per People Investing in Stock Market

Table 4

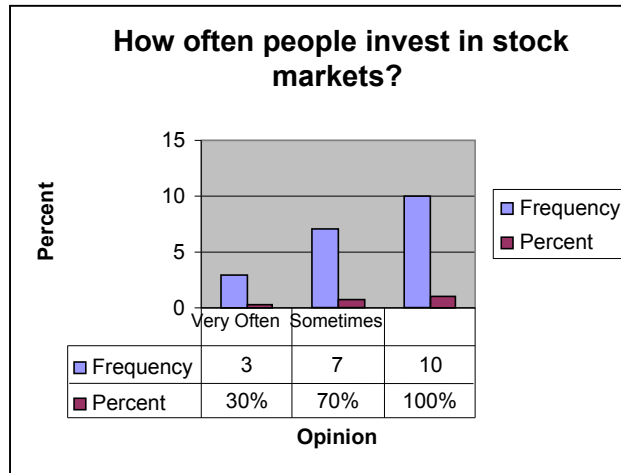


The above table indicates that 60 per cent of the respondents invest in stock market whereas 40 per cent do not invest in stock market. Analysis of the above table indicates that in spite of frauds, people invest in stocks.

However they also mentioned that they invest in stock after analyzing their financial performance.

8.5 How often people invest in stock markets?

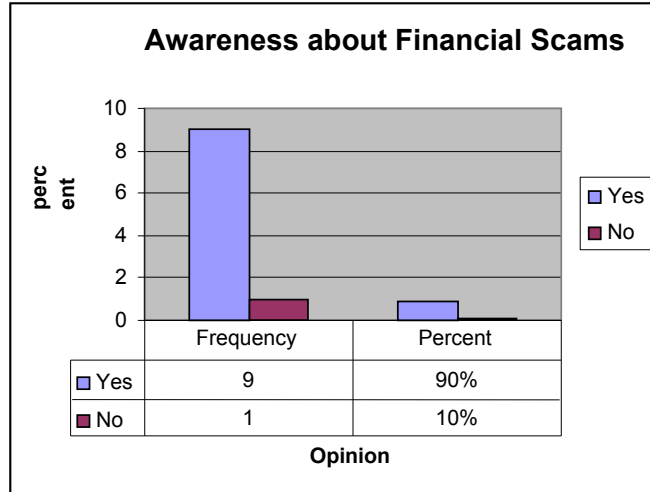
Table 5



Graph 5 indicates that 30 per cent of the respondents invest very often while 70 per cent of the respondents prefer to invest sometimes. Thus the above table indicates that the respondents are cautious while investing in the stock market.

8.6 Awareness about Financial Scams

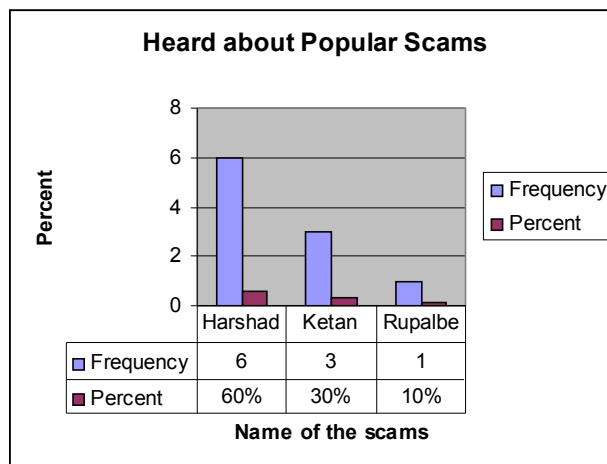
Table 6



Graph 6 indicates that a whopping majority of 90 per cent of the respondents are aware of financial scam which is prevalent in the stock market in India.

8.7 Heard about popular scams?

Table 7

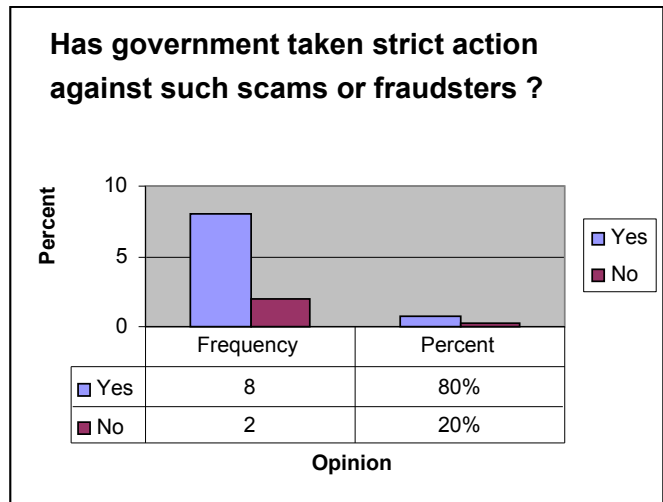


Analysis of Graph 7 indicates that 60 per cent of the respondents were aware of Harshad Mehta scam which took place in 1992 while only 30 per

cent are aware of Ketan Parekh scam. Only 10 per cent of the respondents are aware of Rupalben Mehta scam which is related to fake demat accounts.

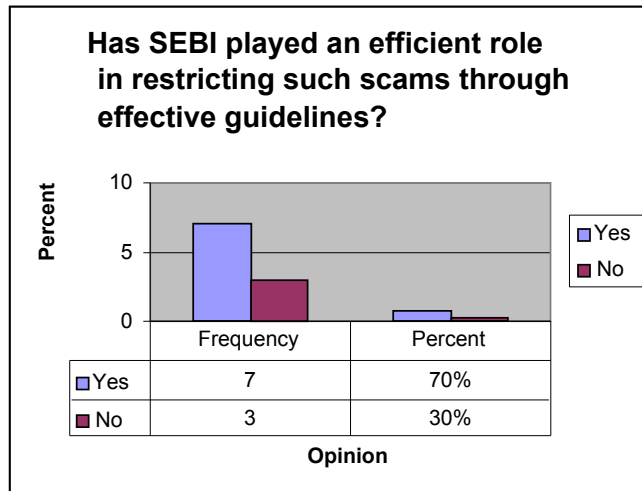
8.8 Has government taken strict actions against such scams or fraudsters?

Table 8



Graph 8 indicates that 80 per cent of the respondents were of the opinion that the government has taken certain strict actions against scamster. They are of the view that the government should take stringent action and impose heavy penalty on such fraudster which help to, prevent scams in the near future.

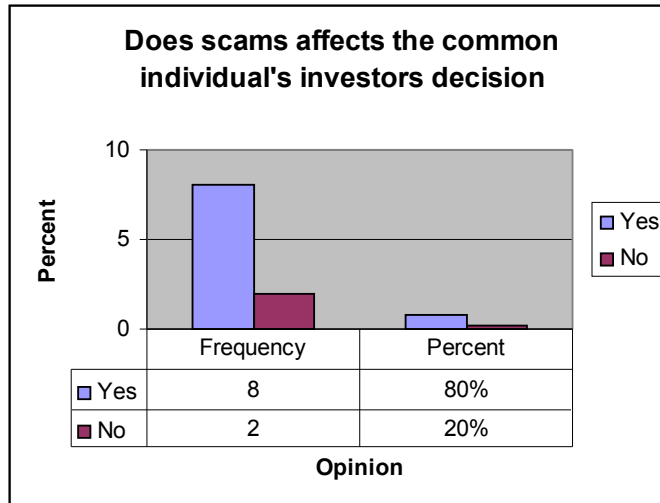
8.9 Has SEBI played an efficient role in restricting such scams through effective guidelines?

Table 9

Analysis in Graph 9 reveals that 70 per cent of the respondents felt that SEBI has played an effective role in restricting such scams. The respondents were of the opinion SEBI has consistently introduced rules and regulations in stock exchange, which has helped to curtail and restrict frauds. Respondents were in favor of the role played by SEBI, because they believed that due to SEBI guidelines the number of scams or the frauds occurring in India has been minimal compared to other countries.

8.10 Does Scams affect the common individual's investor's decision?

Table 10



Graph 10 shows that 80 per cent of the respondents felt that scams affect individual investor's decision in investing in shares, while only 20 per cent felt that it does not affect their investment decision. Thus if necessary measures are taken by SEBI in restricting the intensity of scam, the investor will show confidence in investing in stock market which is considered the barometer of economic growth.

CHAPTER-9 CONCLUSION

It is clearly evident that the occurrence and reoccurrence of such security scams and financial scandals at some point in time be attributed to a failure of corporate governance in finance and that of financial regulation. Corporate Governance vs. Financial Regulation is more a personal thing which involves the adherence to rules regulations and ethics by officials (management).

It is more self enforced as a ethical behavior or a matter of pursuing codes of conduct without an outside agent monitoring, but financial market regulation is exercised more by an external organization either a regulatory body authorized to monitor and impose a surveillance mechanism to ensure frauds or misdemeanors are not perpetuated and so that the market functions efficiently to over see the functions of the market participants and impose fines and other penalty for non-compliance.

Though standard corporate governance theory states that corporate governance includes the role that equity and debt holders have to play in influencing managers to act in the best interests of suppliers of capital it should not be forgotten that it also includes the role that creditors, owners and government in the same capacity.

Corporate governance ensures a regular supply of capital and fair share of profit to investors its role does not end there. Corporate Governance at that

level does not mean that it is entirely solved but definitely can be improved on. Shareholders and other parties find difficulty in exercising corporate governance because of poor legal systems, corruption and bankruptcy.

Also regulations and prohibitions of entry of foreign banks reduce competition and market pressures on managers to earn profits.

Corporate Governance problem can be improved by increasing private monitoring and reducing government ownership when it interferes with private monitoring. The opacity of banking processes should be removed and a proper information flow should ensue.

Thus effective measures should be taken to protect the interests of investor's right from stakeholders to small investors. The underlying theme of the suggestion is to encourage the concept of shareholders democracy because in actual practice, shareholders democracy means total control by the majority to the virtual exclusion of minority.

Therefore there is need to provide sufficient checks and balances' in order to ensure that unscrupulous promoters do not misuse the system. SEBI is also taking the initiative to protect the investors and enhance the efficacy and transparency relating to the disclosure of norms and regulations.

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" were not genuine. The perpetrators had such a

Comprehensive knowledge of how the system worked that they manipulated it. It is clearly evident that the occurrence and reoccurrence of such security scams and financial scandals as some point in time be attributed to a failure in finance and that of financial regulation. It is more self enforced as a ethical behavior or a matter of pursuing codes of conduct without an outside agent monitoring, but financial market regulation in exercised more by an external organization and suffer a major loss in the market. Majorly if we see the scams has almost been disadvantage in securities market and affected the small investors.

BIBLIOGRAPHY

Books-

1. Sucheta Dalal and Debashis Basu, The Scam from Harshad Mehta to Ketan Parekh, 2001.

Journals-

1. Roopali Batra, Investor Protection, ICFAI Reader, May 2006.
2. V Gangadhar and Naresh Reddy, Impact of IPO Scams on Capital Markets, ICFAI Reader. May 2006.
3. YG Sivaram, Corporate Governance the Other Side, ICFAI Reader, April 2008.

Web-

1. suchetadalal@yahoo.com
2. <http://ismb-india.blogspot.com/2009/01/indias-biggest-scams.html>
3. <http://business.mapsofindia.com/investment-industry/top-10-investment-scams.html>
4. <http://www.capitalmarket.com/magazine/cm1603/mongor.htm>
5. <http://www.icmrindia.org/casestudies/catalogue/Finance/FINC006.htm>