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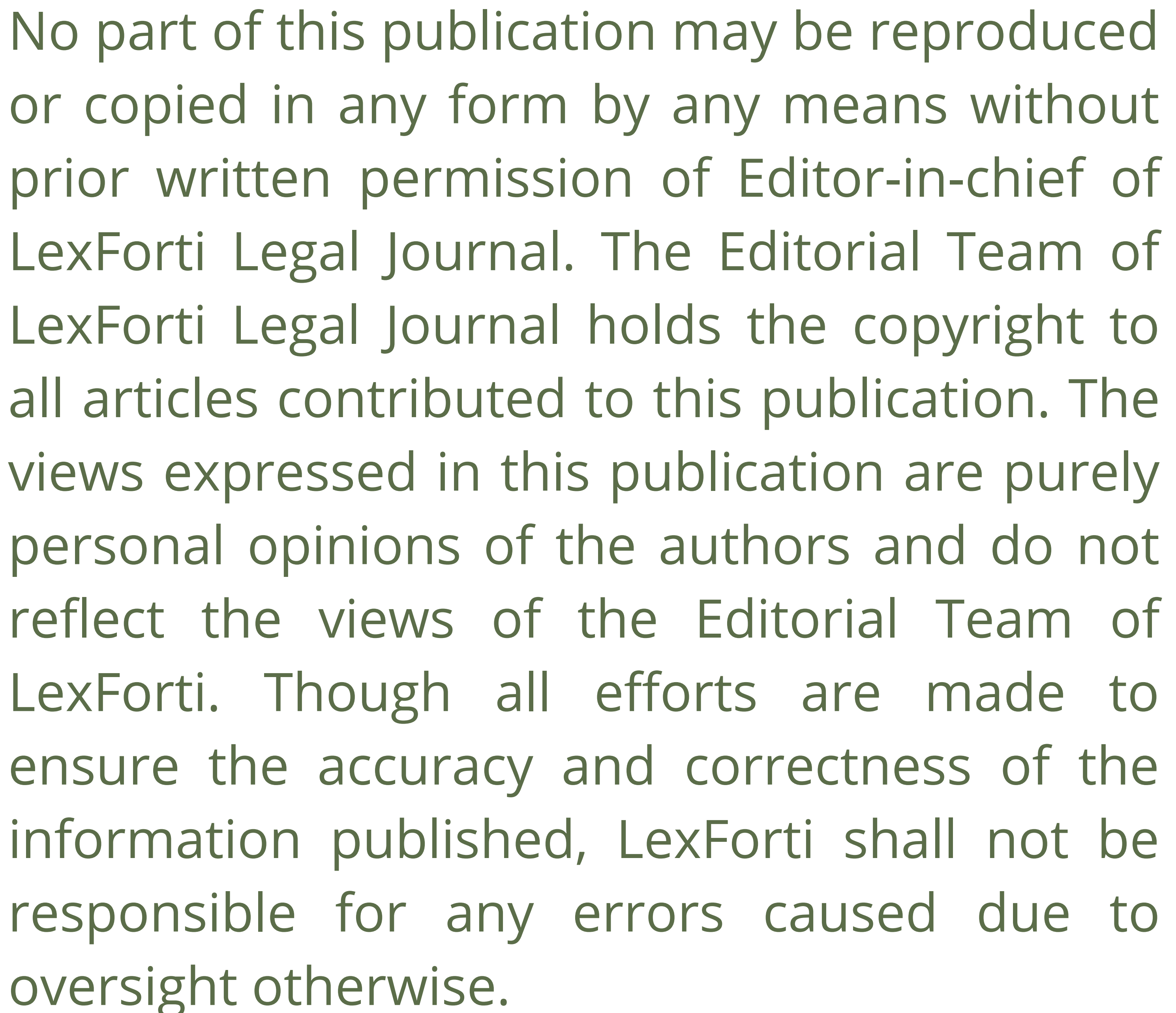

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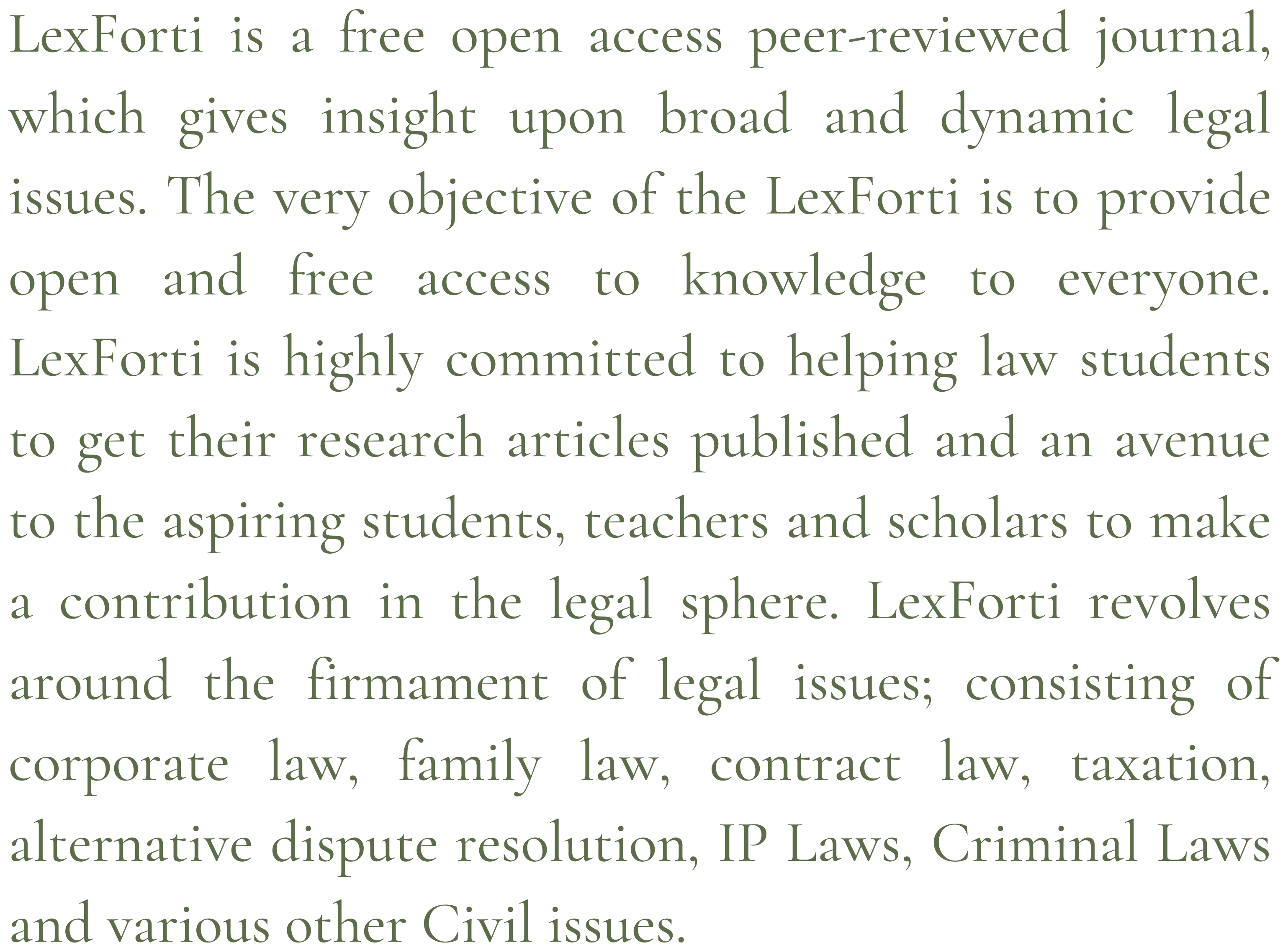

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Pre & Post SEBI Act, 1992: A Critical Analysis of the Securities Market

Rajveer Singh Gurdattal

ABSTRACT

Securities market in India has witnessed tremendous growth in the last twenty years in terms of number of companies, capitalization, increase in number of investors, stock exchanges, turn over, and mutual funds etc. The economic liberalisation and various reforms in the county have also acted as catalyst in the development of securities market. The liberalization measures taken by government have also facilitated the globalization of the Indian securities market. This has brought notable changes in securities market and has changed investment scenario in the country. On the other hand, ever expanding investors population and market capitalization has also led to variety of malpractices on the part of the companies, brokers, merchant bankers and many other market participants in new shares and stocks in India. Thus, the government felt a strong need of a regulatory body which could monitor and supervise securities market. SEBI was constituted in 1988 and it obtained its statutory character in 1992 after the enactment of SEBI Act, 1992. SEBI is primarily constituted to regulate and promote securities market. Concurrently, it is also the duty of SEBI to protect the interest of investors. This paper is aims to highlight the lacunae in the pre-SEBI legislations which led to the incorporation of the SEBI Act, 1992 and to analyse how far it has achieved its goals? The study has focused on Indian securities market particularly the market regulator SEBI. It has aimed to ascertain how far SEBI removed the abusive corporate activities and malpractices from securities market and to evaluate the functioning of SEBI. The research brings out the achievements of SEBI and how it has played a major role in boosting and regulating the securities market. Therefore, historical aspect of securities market and its regulation has been discussed to identify the present status of market. This research is an attempt to determine whether SEBI is adequately empowered to discharge its responsibilities and duties? Further research aims at\analysing the exercise of those powers. The study has also focused on the reforms made by SEBI in primary as well as in secondary market to increase transparency and stability in the market relating it to the root of the scams taking place in the securities market.

Keywords: *investors, securities market, brokers, regulatory body, intermediaries.*

INTRODUCTION

Security market is a place that deals with buying and selling securities in an efficient and effective manner which in return helps the economy in the creation of capital and smooth flow of money. These markets play a significant role in the economy's growth and enlargement. The Secondary market provides a platform to trade in already issued securities of corporate and government organizations. The developed and well-organized securities market represents the economic condition of the financial sector of the country.

The concept of "*Money creating money*" represents the capital market wherein the development in the field of financial sector of the economy will in return require sufficient amount of capital which can be further used for investment purpose and help in capital creation and breaking down of the vicious circle of poverty in developing countries.

The Securities market fosters the investment by potential investors and helps in generating returns in terms of interest, dividend, capital appreciation, etc., which involves the element of risk. Security analysis is one step forward when it comes to managing the risk of uncertainty like the market price fluctuations that are indecisive in nature.

The Securities Contracts (Regulation) Act, 1956, has defined Stock Exchange as an "association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business of buying, selling and dealing in Securities". The securities include:

(i) Shares, scrip, stocks, bonds, debentures stock or other marketable securities of a like nature in or of any incorporated company or other body corporate
(ii) Government securities
(iii) Rights or interest in securities

The cash flow in the economy is possible only through institutes like stock exchanges that provide opportunities for the conversion of scattered savings into profitable investments with minimal risk involved. It is a combination of the savings getting channelized and the free movement of capital in the economy. The stock exchange benefits the community at large by enabling the producers to raise capital which provides employment to millions of people on one hand and on the other hand it provides opportunities to the savers to store the value either as temporary abode of purchasing power or as a permanent abode of purchasing power in the form of financial assets.

There are two major stock exchanges in India, namely NSE and BSE, which are the barometer of security markets in India. Stock market helps in meeting the financial requirement of industries and also providing a market for stock trading to the investors. It also helps in creating financial liquidity in the financial market and provides safety and protection against default risk, as there is primarily regulated by SEBI and various other authorities.

HISTORICAL PERSPECTIVE

The two legislations that governed the securities market till early 1992 before the enactment of SEBI Act were, the Capital Issues (Control) Act, 1947 (CICA) and the Securities Contracts (Regulation) Act, 1956 (SCRA). The war of 1943 introduced CICA to channel resources to support the war effort. After the war, the control was retained with some modifications to regulate the raising of capital companies and to ensure that national resources were channelled into proper lines, i.e., for desirable purposes to serve goals and priorities of the government, and to protect the interests of investors. The stock exchanges operating lacked an intact legislation for their regulation until the Bombay Securities Contracts Control Act, 1925. This was, however found to be deficient in many aspects. After the Constitution coming into force on January 26, 1950, stock exchanges and markets came under the exclusive authority of the Central Government. A.D. Gorwala Committee was appointed in 1951 by the Government to formulate a legislation for the regulating the stock exchanges and contracts in securities. It gives Central Government regulatory jurisdiction over (a) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) listing of securities on stock exchanges. This ensured the stock exchanges complied with conditions prescribed by Central Government, allowing organised trading activity in securities is permitted on recognised stock exchanges.

SEBI Act, 1992 was enacted with the statutory responsibilities to (i) safeguard the interest of investors in securities, (ii) promote the development and growth of the securities market, and to (iii) regulate the exchange in securities market. This was followed by repeal of the Capital Issues (Control) Act, 1947 which paved way for market determined allocation of resources. Later, the Securities Laws (Amendment) Act in 1995 was enacted, which extended SEBI's power over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market. It authorized SEBI to appoint adjudicating officers to adjudicate wide range of violations and impose monetary penalties and provided for establishment of Securities Appellate Tribunals (SATs) to hear appeals against the orders of the

adjudicating officers. This was followed by the Depositories Act in 1996, to provide for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security. It made securities of public limited companies freely transferable subject to certain exceptions; dematerialised the securities in the depository mode; and provided for maintenance of ownership records in a book entry form.

The Securities market in India has grown over the years in terms of the amount raised from the market, the number of listed stocks, market capitalization, trading volumes and turnover on stock exchanges, number of stock exchanges and other intermediaries, investor population and price indices. Along with this, the profiles of the investors, issuers and intermediaries have changed significantly. There have been relative changes in the market with respect to transaction costs, efficiency, transparency and safety which has armed the Indian market to compete with other markets at a global level.

The securities scam of 1992 and 2000-02 highlighted the ambiguities in the legislation which had been exploited by manipulating brokers. With the objective of improving the market many measures and reforms were undertaken. The market today uses state-of-the-art information technology to provide an efficient and transparent trading, clearing and settlement mechanisms and has witnessed several innovations in products and services via demutualization of stock exchange governance, screen based trading, compression of settlement cycles, dematerialization and electronic transfer of securities, security lending and borrowing, professionalization of trading members, fine-tuned risk management systems, emergence of clearing corporations to assume counterparty risks, market of debt and derivative instruments and intensive use of information technology.

CHAPTER – I

NEED FOR A COMPREHENSIVE LEGISLATION: SEBI ACT, 1992

At the end of the 1970s and during 1980s, capital markets were emerging as the new sensation among the individuals of India. Many malpractices started taking place such as unofficial self-styled merchant bankers, unofficial private placements, rigging of prices, non-adherence of provisions of the Companies Act, violation of rules and regulations of stock exchanges, delay in delivery of shares, price rigging, etc.

Due to such malpractices, people started losing confidence in the stock market. The government felt a sudden need to set up an authority to regulate the working and reduce these malpractices. As a result, the Government came up with the establishment of SEBI.

The formal decision of opening up the economy was introduced in 1991-92, though its planning was undergoing since 1980s. Similarly, to cope up with the problems associated with opening up of the economy, a committee was formed by the Central Government in 1985 under the Chairmanship of Mr. M.J. Pherwani. In 1985, the idea of an autonomous, full-fledged and strong capital market regulator was recommended by the Committee. The then Prime Minister, (late) Rajiv Gandhi, in 1987, announced this strong regulation and in 1988, Securities and Exchange Board of India, came into existence. Initially, SEBI was not given the autonomy of a full-fledged regulator of the Indian capital markets. But eventually, SEBI Act was passed in the year 1992 by the Parliament and thus the authority of an autonomous, independent regulator was given to the SEBI. In its two decades of functioning as a regulatory authority of Indian Capital markets, SEBI has totally changed the way of functioning of the stock exchanges. As the liberalization process required a strong regulator due to whims of capital movement, SEBI continued to play a dominant role in controlling and developing the capital market in India.

After its setting up in April 1988, SEBI was given some interim functions. These functions were i) to collect information and advice the Government on matters relating to capital markets. ii) to license and to regulate merchant bankers, mutual funds etc. iii) to prepare legal drafts for regulatory and developmental role iv) to perform any other function entrusted by the Government regarding regulation of capital market. After three years of setting up of SEBI, in 1992, statutory powers were entrusted to SEBI. In order to curb the malpractices, SEBI was promoted on the same lines in which Securities Exchange Commission (SEC) was promoted in the USA. Some of the malpractices which frequently disturbed the primary market were brokers/consultants' speculative motive, grey market, delay in listing and allotment in shares. Apart from this, some malpractices frequently found in the secondary markets (stock exchanges) were lack of transparency, delay in settlement, insider trading etc. In order to curb these malpractices, a strong regulator was needed for development of capital market. SEBI works on achieving two broad objectives: i) Investor protection to ensure steady flow of savings into the capital market. ii) Ensuring the fair practices by the issuers of securities, namely companies so that they can raise resources at least cost.

Harshad Mehta Case

In the early 1990s, the banks in India had to maintain a particular amount of their deposits in government bonds. This ratio was called SLR (Statutory Liquidity Ratio). Each bank had to submit a detailed sheet of its balance on a day to day basis and also show that there was a sufficient amount invested in government bonds. In such cases, the brokers knew which bank had more or less bonds than the required amount. Harshad Mehta was one such broker dealing with many banks at the same time. He very cleverly scammed some capital out of the banking system and invested in stock market. In this settlement process, deliveries of securities and payments were made through the broker. The seller handed over the securities to the broker, who passed them to the buyer, while the buyer gave the cheque to the broker, who then made the payment to the seller. The broker here imitated the transaction to be one to have happened with the bank. He arranged fake bank receipts to be issued. This went on as long as the stock prices kept going up, and no one had a clue about Mehta's operations. Once the fraud was exposed, though, a lot of banks were left holding BRs which did not have any value. The entire scam cost Rs 40 billion to the market. He was arrested and banished from the stock market. Harshad Mehta fraud has affected the whole of nation. The Market had collapsed. Several investors have lost their money.

This scam initiated that a watchdog in the form of regulatory body be introduced, after which SEBI Act, 1992 was enacted. A need was therefore felt to remove these short comings, so that it is better equipped to investigate and enforce against market, unfair trade and malpractice. In furtherance, the object of the Act is to keep check on such manipulative or fraudulent transaction which is not bonafide and has genuine transaction of sale and purchase but a part of manipulative mechanism.

CHAPTER – II

FACTORS OF THE SEBI LEGISLATION THAT PLAYED A KEY ROLE IN REGULATING AND BOOSTING THE STOCK MARKET

Transparent, vibrant and efficient secondary market is necessary to provide a venue for deployment of savings and also to prop up the primary market, to mobilize savings for investments needed for economic growth. SEBI has been striving to ensure such functioning of the market despite the scams taking place.

- **Dematerialization:** The trading system has become on-line, fully automated, screen-based. Manual trading has yielded place to terminal trading. It has brought about efficiency and transparency. It has helped to cut down on the cost, time and risk involved. A large number of participants, irrespective of their location, now trade with one another simultaneously. The system enables audit trail.
  The investors are safeguarded in matters of delayed delivery, bogus documents, stock duplicity and also from constant intimation of change of address, watching the receipt of bonus or rights shares etc.
- **Unique client ID:** In the absence of any single identity code for investors in India such as the social security numbers as available elsewhere. SEBI has initiated a system of providing unique number to all investors.
- **Establishment Central Listing Authority:** To curb over-exercising of powers and to harmonize the listing requirements across the various stock exchanges and centralizing the listing powers in one single authority, an independent body viz. Central Listing Authority has been conceived and is to come into being.
- **Demutualization:** In order to eliminate conflict of interest situation and ensure alignment of investors' interest with the exchanges, the process of demutualization and corporatization of stock exchange has already been initiated.
- **Liquidity:** The introduction of the derivatives in the market and the gradual expansion of the variety of products has further enhanced the liquidity, efficacy of the market and also provided hedging opportunities.
- **Corporate Accountability& Corporate Governance:** The corporate governance standard is a crucial factor for ensuring investors' confidence. SEBI is concerned with the corporate governance practices on on-going basis. SEBI constituted a new committee on corporate governance under the Chairmanship of Mr. Narayana Murthy to look into existing corporate governance practices and suggest improvement wherever necessary. Concurrently, SEBI encouraged the credit rating agencies (ICRA and CRISIL), to evolve a suitable corporate governance index as a measure of wealth creation by the corporates.
- **Dynamic Environment for Market Intermediaries:** In the dynamic conditions of the market, the regulation cannot remain static. As a measure of regulatory dynamism, various regulatory guidelines concerning intermediaries, listed entities, and trade practices have been reviewed and suitably modified. Such a view would be a continual process.

- **Public Issues -** Disclosure & Investor Protection Norms: SEBI has taken several initiatives to improve the operational efficiency and transparency in equity market and to provide investors with the security issues of high quality and to enable entities to raise resources in cost effective manner.
- **Investor Awareness Programmes:** Various investor awareness drives and campaigns are already being carrying out as under SEBI provisions.

CHAPTER – III

COMBAT AGAINST THE DEFAULTERS WITH AMENDMENTS IN SEBI

The foundation of SEBI was laid down in 1988 but the Act was not enacted until the Harshad Mehta scam took place in 1992. Every subsequent Amendment is undertaken after a grave episode has highlighted a lacuna and shortcoming in its legal provisions. The changes have been brought about through ordinance first without waiting for a formal enactment, to tackle the intricacies being faced by the investors at the earliest. Every amendment contains a novel lacuna which leads to the scams taking place till date.
A security scam has the following features:

a) manipulation in share prices.

b) monopoly in dealing with a huge number of shares of a company.

c)money laundering-borrowing money to trade in securities but using the funds for unconnected purposes.[1]

The security scams and financial scandals involve the manipulation of huge amounts of money. The perpetrators of these offences have a comprehensive knowledge of how the system works and they manipulate it to their advantage operating in an opportunistic manner[2]. The essence of the argument in is that the occurrence and reoccurrence of such security scams and financial scandals can be attributed to a failure of corporate governance in finance[3] despite the existence of a functioning regulatory authority (SEBI) empowered with the legal sanctions.

Challenges In Fixing Accountability Of Intermediaries

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1 "Securities and Exchange Commission: Securities fraud and insider trading", Palgraves' Dictionary of Money And Finance (1994)
2 Machiraju H.R. ', Indian Financial System' (1997)
3 Sanyal. Sreejata, Regulation of Securities Markets in India'1997, Ph.D.

Managing conflicts of interests of intermediaries and fixing their accountability is an onerous challenge[4], which further intensifies with the increasing complexities and diversities of the market. Some of the emerging aspects that can potentially increase the abuse of conflict of interests by intermediaries are discussed below.

(i) **Outsourcing the intermediary services**: Intermediary services are complimentary to the surge of inbound and outbound outsourcing witnessed by India. Taking cognizance of this, the SEBI issued certain guidelines on outsourcing by intermediaries in 2011[5].

While the SEBI retains accountability and liability of the registered intermediaries with respect to all outsourced services, it does not require the third-party outsourced entities to procure any regulatory approval or registration prior to undertaking such outsourced assignments. Considering that this circular is still in a nascent stage, it is yet to be seen how the intermediaries implement and conform to these outsourcing principles.

(ii) **Market analysts and researchers:** While analysts/researchers associated with mainstream intermediaries such as broking houses, merchant bankers, and so on are regulated, those operating on an independent and standalone basis, especially those providing services other than for a fee, remain outside any registration requirements of the regulator, which necessitates a comprehensive regulatory regime for them, similar to the U.S. rules.

(iii) **Growth in number of intermediaries**: With the rapid increase in the number of intermediaries in the Indian market, it becomes difficult to identify the genuine and authorised intermediaries from the disguised, fraudulent ones. In this context, it is essential that the SEBI publishes a comprehensive updated database of all registered intermediaries, similar to what the Monetary Authority of Singapore publishes.[6] While the SEBI website provides lists of recognised intermediaries,[7] these lists are not updated; some of the lists date back to 2009.

(iv) **Lack of expertise and inflow of hybrid products**: The risks linked to market dealings aggravate manifold owing to the complex and hybrid products floating in the market today. The dealings in complex products should only be restricted to intermediaries having

[4]Challenges before Securities and Exchange Board of India, L. C. Gupta, Economic and Political Weekly, Vol. 31, No. 12 (Mar. 23, 1996), pp. 751-757.

[5] Stewart, M. *Conflicts of Interest Among Market Intermediaries*, U.S. Securities and Exchange Commission International Institute Presentation, http://www.sec.gov/about/offices/oia/oia_market/conflict.

[6] Zame, W, *Efficiency and the Role of Default when Security Markets are Incomplete,* American Economic Review 1142,1164(2004).

[7] Von Thadden, *Liquidity Creation through Banks and Markets: Multiple Insurance and Limited Market Access*, 43 European Economic Review 991,1006(1999).

expertise/qualifications, ascertained through certification programs, minimum experience conditions, and so on.[8]

(v) **Irresponsible and unauthenticated news/rumours**: Despite the SEBI's directions to control the circulation of unauthenticated news/rumours having serious market implications, this problem persists, more so in smaller towns and remote areas lacking sophisticated corporate intermediaries. The "stock guru" scam involving crores of investors' monies duped by certain individuals through fake offices, celebrity promotion, and ambitious promises of returns equalling double the invested amount within six months, came to light recently. It is a glaring example of the abuse of naive investors. SEBI must take proactive steps towards investor education and awareness, such that investors are able to exercise prudence and judgement to filter information prior to making investments based on such information.

(vi) **Extensive anti-corruption laws**: Considering the impact of the U.S. Foreign Corrupt Practices Act, 1977, along with the U.K.'s Bribery Act, 2010, Indian companies and individuals all over the world with foreign exposure, including market intermediaries, must bring anti-corruption compliance policies and procedures in place.

But the need of such sector specific regulators cannot be undermined as certain features are common across sectors which inhibit market efficiency and welfare, and provide a need for sector specific regulators which cannot be handled by overarching cross-sector regulators like SEBI.[9] Companies and commercial ventures are now significant interested parties to corruption matters pursuant to extensive corruption laws at the international level. Therefore, the SEBI must take cognisance of this less explored but critical area in the context of actions of market intermediaries and market participants as a whole.

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[8] *Supra 11*

[9] Pranshu Paul, "Conflicts of jurisdiction between SEBI and other regulators", legal articles, India Law Journal, volume-7, issue-2, 2007, (http://indialawjournal.com)

CASE STUDIES

Ketan Parekh Scam

An infamous case of 'price rigging' history. According to RBI regulation, a broker is allowed a loan of only Rs. 15cr. Mr. Parekh borrowed Rs 250cr from Global Trust Bank and Rs. 1000cr from Madhavpura Merchantile Cooperative along with his. The method of price rigging in the scripts of Global Trust Bank, ZEE Telefilms, HFCL, Lupin Laboratories, Aftech Infosys and Padmini Polymer was being used. Ketan Parekh took advantage of low liquidity in these stocks which later on became popular as K-10 stock.

The volume of trading in these stocks kept on increasing and Ketan Parekh started facing difficulty in controlling its *modus operandi* was to raise funds by offering shares as collateral security to the banks. This worked in favour of him as long as markets were good but problems started when market crashed in the year 2000, followed by a crash in NASDAQ. Banks pressurized him for pledging more shares as collateral security or refund some money. Fall in KP- stock prices led to payment crisis at Calcutta Stock Exchange. He was arrested by CBI on the charges of defrauding Bank of India for around 30$ million.

Satyam Scam (2009)

A case of Corporate Fraud, Satyam Computers Ltd. (popularly known as Satyam) was leading global business and Information technology (IT) services company delivering consulting, system integration and outsourcing solutions. It was incorporated in 1987, with 20 employees by two brothers B. Rama Raju and B. Ramalinga Raju.[10] It grew to become the fourth largest software company in India with a market capitalization of $3 billion $2.1 billion revenues in 2008.[11] The problem began when Raju announced in Dec, 2008 that in order to de-risk its core business, the company's Board had approved acquisition of two Maytas companies i.e. Maytas Infrastructure Ltd. and Maytas Properties Ltd. The acquisition would mean an outflow of $1.6 billion from company's books. The negative reactions from both domestic as well as foreign investors forced him to retreat within 12 hours.[12] The fact that Raju's family held owned 35% in Maytas Properties Ltd. and 36% stake in Maytas Infra made the suspicion stronger. Share prices plunged

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[10] India Today (New Delhi), January 26,2009, p 43.

[11] Bhattacharyya K. Ashish, "Satyam: How guilty are the independent directors?", January 12th 2009.

[12] The Pioneer (New Delhi), January 11, 2009.

by 55% on concerns about Satyam's corporate governance.[13] The World Bank charged Satyam of its involvement in data theft and bribing the Bank staff on its 25 Dec, 2008 and banned it from its dealing for next 8 years. Mangalam Srinivasam the longest serving independent Director on the Board resigned owning moral responsibility over Satyam scam. This was followed by resignation from three more directors of the company.[14] On 7th Jan, 2009, in letter to the Board, B. Ramalinga Raju confessed that there were inflated cash and bank of Rs. 5,040cr whereas the amount reflected in the books being Rs. 5,361cr. It also showed receipt of accrued interest of Rs. 376cr which was not in existence. The books also reflected an understated liability of Rs. 1,230cr and overstated debtors of Rs. 2,651cr against the actual debt of Rs. 490cr.[15] Raju also admitted that Satyam's profit was inflated over several years. It was found out that what started as marginal gap between the actual operating profit and the reported figure attained unmanageable disproportionate increase as the size of the company grew and every attempt to eliminate that gap had failed.

SUGGESTIONS TO TACKLE LOOPHOLES IN THE LEGISLATION

The scams in the Indian capital markets have stained the potentiality of investors since the past. In spite of many scams which emerged throughout last one and half century, still the market has overcome and with emergence of regulators as well as legal actions from time to time. But some factors which have made such scams possible are:

- **<u>Need for Operational Efficiency</u>**

Efficiency in case of capital market is understood with reference to the availability of information to different sectors in the market. Indian capital market is not fully developed or competitive in nature as the flow of information is not always smooth. Sensitive information relating to the financial and operational performance of the company may get leaked from the insiders/decision making authorities of the company leading to insider trading. The insiders who have access to such price sensitive information are in a position to take undue advantage of having access of sensitive information. The same information reaches out to the ultimate investors after some time gap and by that time, the people having access to the information earlier, already get benefited, thus leaving small and genuine investors at distance. Due to this

13 India Today (New Delhi), January 26,2009, p 43.
14 The Directors were Vinod K Dham, M Rammohan Rao and Krishna Palepu
15 "Raju admits fraud; Satyam books inflated of Rs 5040 cr', January 7th 2011.

particular problem the potential investors try to keep themselves away from the market as they may not be in a position to make the 'timely decisions.'

- **Strike Structural and Organizational balance**

The Pherwani Committee included a two-tier system in its suggestions to organize the structure of the stock exchanges, which has not been followed. It recommended four premium stock exchanges in metropolitan cities and then, for semi-urban areas, more stock exchanges in emerging cities. Both the premier stock exchanges in India are located in Mumbai viz. BSE and NSE. These two stock exchanges account for almost 90% of the total turnover of turnover in all the stock exchanges in India. The investors that do not belong to such areas where there is a stock exchange would find it difficult to access the market, though dematerialization has helped to bridge this gap. But in the past, due to the non-corporate nature of stock exchanges, there was scope for malpractices as there was no legislative and specific action against such type of organization.

The Indian Capital Market allows investment at the domestic as well as international level which plays an important role in boosting or the fall in the market. The international investments are huge as compared to domestic investments and are at a position to determine the fate of the market, thorough research fosters the intent of the investor but such a practice wherein the profits are biased towards the profitable investors will only result in the downfall of the market for which the organisation and structure should be balanced.

- **Tackling Speculation**

To some extent, speculation is required to provide liquidity in the market. Without speculation, the turnover in the markets may come down which creates a problem of liquidity. But excessive speculation is dangerous for the health of the markets. In Indian capital markets, speculation has become a well-established phenomenon. Often the prices of stocks in the stock exchanges are determined or driven by future expectations than the fundamentals or track record of the respective company. The brokers or insiders try to speculate the prices of shares. The insiders of a company in certain situation indulge in practices of guiding, protruding other investors to purchase the shares of the company for future profits through sensitive information and

speculation, it is possible that such a decision would not provide positive returns as such decision is purely based on speculative motives.

Naturally, as a common man is not in a position to analyse the company's performance, he intends to go with broker's tips/anticipation. In such situation, brokers may get into a fraudulent position as investors rely on them for their decisions. Hence, the company which has no prospect or future may wrongly become attractive only due to recommendation of brokers. Day-trading is similar to speculative trading and the increasing significance of day-trading highlights more and more inclination of investors towards speculation which makes it more in demand than long term investment. The brokers, in this situation, may utilize their knowledge to promote speculation and excessive speculation may lead to scams. The scams like Harshad Mehta and Ketan Parekh scam took place due to speculation only.

- **Unpredictability**

Another factor which ultimately causes the scams in Indian capital market is volatility. The two important factors which are described earlier viz. presence of FIIs and speculation have made markets more volatile. A genuine investor normally goes for delivery-based trading which is a long-term investment. On the other hand, day-trader who is a speculator does not go for delivery-based trading. Instead, he goes for quick returns and even he is ready to bear the risk of loss in such trade. As the number of such trades is high, it results into volatility. Volatility is the standard deviation of daily returns. More the volatility more is the instability in the markets. Though the volatility is a phenomenon which is experienced in the markets throughout the world, in India also, this feature has been experienced since past few decades. There is a high rise in the volatility of Indian markets. Due to volatility, genuine investors try to remain away from the markets. This is the time when the speculators grab the opportunity and force the investors to trade in a particular company's shares. This provides the speculators a platform to be involved in a scam to get benefits in short run.

CONCLUSION

Stock market renders valuable services to the country, corporate sector and investing community. The Stock Exchange helps in rapid economic development and economic growth in the country and severs as an agency of capital formation. It induces the masses to save and invest in industries. SEBI, the first National Regulatory Body in India with comprehensive statutory

power over practically all aspects of capital market operation to Protect the Interest of the Investors and to promote the development and to regulate the securities marked by such measures as it thinks fit. It has various committees including, Technical Advisory committee, and committee of review of structure of market infrastructure, member of advisory board for SEBI Investor Protection and Education Fund, takeover regulation advisory committee, market advisory committee etc.

Securities market regulators in almost all developed and emerging markets have for some time been concerned about the importance of the subject and of the need to raise the standards of corporate governance. The financial crisis in the Asian markets in the recent past have highlighted the need for improved level of corporate governance and the lack of it in certain countries have been mentioned as one of the causes of the crisis. Formation of a regulatory body like Securities and Exchange Board of India, has helped the market to operate in an orderly fashion and address the corporate frauds rapidly occurring in the country. Therefore, it is a much appraised and permanent legislation in the regard of regulation of capital market.
Thus, stock market is one of the reasons why India is becoming a financially secured and economically stable country. For a developing nation like ours, it is important to establish a proper economy and well-equipped stock market. More than this, investors play a key role in the whole process of stock trading. It is important to adhere to proper ways of investing and not to resort to improper ways. Considering these suggestions, one could promise a well-established, well formulated and malpractice-free Stock market.

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