3. Dabba Trading

Why in News?

- National Stock Exchange (NSE) has recently issued a string of notices naming entities involved in “dabba trading”.

Highlights

- It is recognised as an offence under Section 23(1) of the Securities Contracts (Regulation) Act (SCRA), 1956 and upon conviction, can invite imprisonment for a term extending up to 10 years or a fine up to ₹25 crore, or both.
- Dabba trading is a form of informal trading that takes place outside the purview of the stock exchanges.
- In this practice, traders bet on stock price movements without incurring a real transaction to take physical ownership of a particular stock as is done in an exchange.
- This results in gambling centred around stock price movements, which is illegal and unregulated.
- For example, an investor places a bet on a stock at a price point, say ₹1,000.
- If the price point rose to ₹1,500, he/she would make a gain of ₹500.
- However, if the price point falls to ₹900, the investor would have to pay the difference to the dabba broker.
- Thus, it could be concluded that the broker’s profit equates the investor’s loss and vice-versa. The equations are particularly consequential during bull runs or bear market.
- The Securities Contracts (Regulation) Act, 1956, already prohibits ‘dabba trading’ and provides for severe penalties upon conviction.
- However, these laws need to be more strictly enforced, and culprits should be punished to deter others from engaging in such activities
- Retail investors need to be educated and made aware of the dangers of ‘dabba trading’.
- Financial regulators can conduct awareness campaigns and disseminate information about the risks associated with such trades