Reshaping of Dalal Street

Harshad Mehta, once called the Amitabh Bachchan of Dalal Street, changed the way one looks at the stock market and how brokers trade. India experienced ingenious machination of its stock market for the first time in 1992, all thanks to systematic fraud that involved bank receipts and stamp papers leading the stock market to crash.

Following the fraud of around Rs 4,000 crore - 'Securities Scam', the rules of the game on Dalal Street changed forever. The Securities Laws (Amendments) Act was passed in 1995, which widened the jurisdiction of the Securities and Exhchange Board of India (SEBI), and allowed it to regulate depositories, FIIs, venture capital funds, and credit rating agencies.

Scam 1992 The Harshad Mehta Story review | Sony Liv web series captures the years that reshaped Dalal Street

Here are some of changes which prevent the chances of any type of Scam

Here are eight things that are done differently in the Indian stock markets these days.

1) **Settlement cycle:**

   Back in 1992, the settlement cycle - the time within which brokers have to pay full money and take delivery of stocks or deliver stocks if sold - was 14 days. Now, it is two days, and SEBI is also hinting at a 1-day cycle soon.

2) **Minimum balance:**

   In 1992, there was no rule over maintenance of minimum balance that a customer needs to ensure to buy stocks. But now, a customer can't buy stocks without the minimum money in the account or sell without stocks in Demat account.

   The new rule helps reduce the systemic risk from aggressive brokers who were previously compromising risk for the business.

3) **Electronic transactions:**

   Back in 1992, the settlement of trades was done through paper and counter-party risk was evident. Now, all the settlement of trades happens through clearing corporations (CC), and all transactions are electronic.

4) **Broker's approval:**

Today since the risk from the customer is way lesser due to margin requirements & CC, you don't need approval from a broker to open an account like in 1992. You can open a trading account online in under 15 minutes with any broker now.

5) **Brokerage firms' role:**

In 1992, brokerage firms dealt as advisory, but now they focus on execution and not advisory.

6) **Trading process:**

Back in 1992, all the trades were placed through dealers and hence they carried a huge execution risk. These days, most of the trades are executed by customers on their own.

7) **Brokerage fee:**

In 1992, customers were mostly unaware and paid at least 1 percent as brokerage for equity delivery trades, while no charges have to be paid now.

8) **Price difference:**

Lastly, in 1992, dealers used pocket a cut by telling different price to customer than actual trade price. However, these days the process is 100 percent transparent.

Every individual associated with this industry would have come across the Harshad Mehta scam in which he diverted bank funds in a large magnitude into the stock market to rig up prices by using bank funds based on forged bank receipts.

The average investor who has invested since those days has seen a tectonic shift in the evolution of the stock market. This can be attributed to stricter regulations, paradigm shift in technology and easy availability of information.

SEBI, which was set up in 1988 as an administrative body as part of the finance ministry was converted into a statutory body after the scam. Over the years, it was given wide-ranging powers to strengthen investor protection.

SEBI has over the years proactively brought in various regulatory changes and strengthened its surveillance systems. Investing is now far safer than what it was earlier. Even IPOs are much safer to invest today.

Earlier, it was not uncommon for companies to misuse the system, and come out with IPOs, to siphon off money from gullible investors.

Earlier, trading was done in physical shares and through an outcry system on the floor of the stock exchange, i.e. brokers had to shout out their buy/sell prices.

There was also a complete lack of transparency and brokerage rates were exorbitant. The National Stock Exchange was set up post the scam, which brought in to trade in dematerialised shares. Technology brought in much-needed transparency

The banking system was also strengthened, to ensure such misuse was plugged. Dematerialisation also made it much safer for banks. Today, there are strong margin requirements, with good tracking mechanisms.

Similarly, the front running scam that was reported a few days back was uncovered in a span of a few months, and at an early stage.

Brokerages have come down substantially. Transparency has increased and a buyer can on his screen see the best buyer and seller. Insider trading has significantly reduced, while the quality of IPOs has improved.

To conclude, no Harshad Mehta or Ketan Parekh can do any “dhamaka” and walk away hands-free anymore. Investor protection is a continuous effort and SEBI will continue to play an important role.

While the investor of the 90s can take solace from the fact that SEBI is watching out for the bad guys, it cannot protect investors from committing the same behavioural mistakes.