

## Dabba Trading

As a part of the investor education, it is important to know the good as well as bad practices prevailing in the market. We often read about *dabba* trading, not being permitted by the regulators. Many do not know the mechanics, and also the risk associated with it, till now.

*Dabba means box and a dabba operator*, in stock market terminology is the one who indulges in dabba trading. His office is like any other broker's office having terminals linked to the stock exchange showing market rates of stocks. However, the difference is that the investor's trades do not get executed on the stock exchange system but in the dabba operator's books only. A dabba operator acts as a principal to all the trades and not as an agent of the client. He is a counter party to the trades, whereas, he should be the Clearing Corporation who guarantees trades on the BOLT/NEAT system. This kind of operation, where trade is kept within the books of the operator is called "dabba" in the popular market terms.

A Dabba operator flouts rules and regulations relating to Client Protection, which includes registrations, margins, transaction, execution and settlements. Not only he evades the Income tax regulations, which prohibit dealings in cash, but also

service tax rules and many other mandatory requirements.

It may be learnt that the Securities Contract Regulation Act permits securities transactions only through stock exchanges unless the settlement of the trade is done on a spot basis i.e. the receipt and delivery of shares happen within 24 hours of the trade. But a *dabba* operator allows the client to carry forward the trade, be it in cash or in derivative segment for a period, not necessarily prescribed by the stock exchange. The cash trade is not settled on rolling basis and the derivative trade may not have a month-end settlement cycle.

In *dabba* trading, most of the times, neither written contracts are made, nor the bills are issued. The settlement cycles are authorized by the dabba operator, himself. There is no daily mark to market settlement if the trade is in client's favour, whereas losses are extracted regularly from the clients.

This presents before us the picture of an outlaw practicing amidst us, the organized price discovery mechanism of stock exchanges to run an illegal business, while maintaining the façade of a stock market broker. It is a criminal offence, not much different from smuggling or black marketing. As a result, frequent raids are conducted on dabba trading operators in which their computers and records are seized. Those working in his office are also taken in the custody just like drunkards found in the illegal toddy shop. The Gujarat police has conducted several raids in the past and alerted citizens. Media has also played its role in reducing the menace of dabba trading.

Some dabba traders hedge their positions in the market by partly executing the trade in the market, maybe in their own proprietary accounts or some *benami* names. Dabba traders disappear when the market goes against them, resulting in huge losses for their clients. The brokers who permit such activity in their branches or even sub-broker's offices are the

affected parties. Stock exchanges take complaints against *dabba* trading very seriously and enforce strict penalties. Even suspension is levied, if stock exchange inspections confirm the complaint.

As Sensex jumps, resulting in the spurt in trading activity, dabba traders bounce back in the business. Hence constant vigilance is required. Most important, people should not patronize such traders.

The clients patronizing such *dabba* traders may find some short-term benefits here. They do not follow 'Know Your Client' norms; fill cumbersome forms, sign long agreements and requirements like PAN card. Margins are bypassed and leveraging is freely available. Unaccounted cash is used for making payments rather than making payment by cheque. It must be understood that dabba traders are fair weather friends. They seldom honour their commitments, particularly when market is against them. Dabba shops close overnight, with traders disappearing from the locality. They go to the extent of employing goons for the recovery of losses. In such a case, neither Stock Exchange Arbitration is available to the investor nor there is any access to customer protection funds. The Security blanket provided by the Security Market Regulations is also not there.





India is a country where the respect for law is scant. Our holy epic Ramayana prophesies compliance of the law. Sita was kidnapped by Ravan because she did not follow the instructions of Lord Rama and crossed the Line. In spite of our rich cultural past, we demonstrate non-compliance to our children, early in their lives. We notice parents as well as teachers breaking traffic signals just outside the school campus, as there is no penalty levied. Such small instances showing indiscipline grow leading to casual approach towards law.

Globally, Indian Securities Markets have earned a "Place of Pride." Indian investors have gained a lot from the rising indices. Let us be alert citizens and report all instances of *dabba* in our locality.

Remember healthy market is the foundation of wealth creation.

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