# Dabba Trading: An Unregulated and Illegal Practice

**For Prelims:** National Stock Exchange (NSE), Securities Contracts (Regulation) Act (SCRA) 1956.

**For Mains:** Issues Related to the Banking Sector in India.

## Why in News?

Recently, **National Stock Exchange (NSE)** issued a string of notices naming **entities** involved in **"dabba trading".**

## What is Dabba Trading?

- **About:**
  - **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.**
- **Legality:**
  - 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.
- **Issues Associated:**
  - **Cash Transactions:** Transactions are **facilitated using cash** and the mechanism is operated using unrecognised software terminals, which helps **dabba traders escape taxation.**
    - The **use of cash means that they are outside the purview of the formal** banking system**.** It results in a loss to the government exchequer.
  - **Lack of Security to Investors:** Being outside the regulatory purview implies that **investors are without formal provisions for investor protection, dispute resolution mechanisms** and grievance redressal mechanisms that are available within an exchange.
    - The primary risk entails the possibility that the broker defaults in paying the **investor or the entity becomes insolvent or bankrupt.**
  - **Black Money:** It could **potentially encourage the growth of 'black money'** alongside **perpetuating a parallel economy,** which could lead to risks entailing money laundering

and criminal activities.

## How can Dabba Trading be Prevented?

- **Strict Enforcement of Laws:** 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.
- **Increasing Awareness: 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.
- **Monitoring Social Media and Mobile Apps:** 'Dabba trading' is often **facilitated through mobile apps and** social media. Regulators can monitor these platforms and take action against those **who promote or engage in it.**

### UPSC Civil Services Examination Previous Year Question (PYQ)

**Q. In the parlance of financial investments, the term 'bear' denotes (2010)**

**(a)** An investor who feels that the price of a particular security is going to fall

**(b)** An investor who expects the price of particular shares to rise

**(c)** A shareholder or a bondholder who has an interest in a company, financial or otherwise

**(d)** Any lender whether by making a loan or buying a bond

**Ans: (a)**

- A 'bear' is an investor who believes that a particular security or market is headed downward and attempts to profit from a decline in stock prices. 'Bears' are typically pessimistic about the state of a given market.
- Whereas, a 'bull' is an investor who thinks the market, a specific security or an industry is poised to rise. Investors who adopt a 'bull' approach purchase securities under the assumption that they can sell them later at a higher price. 'Bulls' are optimistic investors who are attempting to profit from the upward movement of stocks.
- **Therefore, option (a) is the correct answer.**

**Source: TH**