Science Arena Publications
International journal of Business Management
Available online at www.sciarena.com
2016, Vol, 1 (1): 77-91

Impact of Securities and Financial Scams on Regulatory Framework

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Abstract: Scam is commonly referred to as an intentional act committed to harm or injure others securing an unfair or unlawful gain. According to the Securities Exchange Act (1934) SEA-"It shall be unlawful for any person to engage in any act, practice or course of action which operates or would operate as a fraud or deceit upon any person in connection with the purchase or sale of a security." There is a certain systemic risk involved if brokers or banks get into settlement problems during the process of transacting in securities. If so, it results in a domino effect, which could create problems for other banks and brokers in the system. The number of past research reveals the various aspects of the securities and financial scams but in this study, an attempt is made to line up the causes which made the financial crisis so grave. The number of provisions and regulations were made to prevent from securities and financial frauds, but still there are some loop holes which causes corporate frauds. Therefore, there is need to analyze the impact of scams on the regulatory framework. The study attempts to find out the causes of these loopholes, as well as the responses of the regulatory bodies on these scams. The objective of the study is to know the impact of securities and financial scams on regulatory framework. A thorough study of the original rules and regulations as well as the amendments made in the rules and regulations of the regulatory authorities due to the occurrence of scams was conducted. This study is descriptive in nature. It attempts to know about the effect of securities and financial scams on the regulatory framework. Therefore, the qualitative analysis of data is done in order to achieve the objective.
Keywords: Financial Scams, Regulatory Framework, Securities

Introduction

Scam is commonly referred to as an intentional act committed to harm or injure others securing an unfair or unlawful gain. This intentional, wrongful act can be differentiated and defined in many ways, depending on the classes of perpetrators. For example, frauds committed by individuals are distinguished from frauds perpetrated by corporations in terms of the classes of perpetrators. The Scam is legally defined as "A generic term, embracing all multifarious means which human ingenuity can devise, and which are resorted to by one individual to get advantage over another by false suggestions, by suppression of truth and it also includes all surprise, trick, cunning, dissembling, any unfair method by which another is cheated."

The five basic elements of Scam are as follows:

- A false representation of a material nature
- Knowledge that the representation is false or reckless disregard for the truth
- Reliance on the false representation by the victim
- Financial damages are incurred (to the benefit of the perpetrator)
- An act that was intentional

Financial scam refers to any disclosure that is omitted or improperly reported on any of the four financial statement components (balance sheet, income statement, cash flow statement and shareholder's equity). This can consist of such things as purposefully misreporting the exact amount of cash sales or other revenue earned for the period (in an attempt to mislead the Internal Revenue Service during tax-reporting time, since companies are taxed on sales; not profit earned); the inaccurate reporting of the information presented on the shareholder's equity statement (in order to persuade bankers or investors that a company is more profitable than is really accurate, which can result in additional loan approvals); and even purposefully misrepresenting the exact amount of liabilities (what a company owes) for the period, in an effort to persuade company leaders to agree to take on more debt (or make expansions that put the company more at financial risk). The example of a scam is the "free book offer", in which the victim is asked to "only pay shipping and handling"; only to find out that other more expensive items were also purchased "on trial", and these will be billed to the victim's account if they are not returned under certain. This condition may or may not have been disclosed in "the fine print"; it is a scam because the intent was disguised, hidden, or obfuscated from the victim in some manner such as small print, hard to get to web page, etc.

REVIEW OF LITERATURE

The Studies that are directly and indirectly related to the research are reviewed as under:
Neelamegam and Srinivasan [1] examined the adequacy of various protective measures offered under the existing Companies Act 1956, Securities Contracts (Regulation) Act 1956, and Securities and Exchange Board of India Act 1992 and also examined the trading activities of primary market and secondary market in India. They have found from their study, various protection measures were taken by regulators through the legislative system. The investors have lost their confidence which is revealed in the increasing trend of grievances and complaints even after the establishment of the SEBI and administrative system of securities market.Stevelman [2] explored the duty of "disclosure/complete candor" (among directors, from boards to shareholders and from controllers to minority shareholders) within state corporate fiduciary law (especially Delaware's, the most developed). It observes the odd minimization of the disclosure duty within the core doctrines of fiduciary care, loyalty and good faith. It analyzes the evolution of the fiduciary disclosure duty and its "moment of truth" in the watershed litigation in Malone. The belated appearance of the fiduciary disclosure duty is partly the result of historical, customary and political understandings which have dwarfed logic and conceptual coherence in this area of law. Bose [3] examined the regulatory infrastructure of the Indian securities market and see whether there exist well formulated laws with well-defined scope and powers of the regulator, capable of presenting all investors in the Indian market with a level playing field. The study summarize some of the regulatory provisions that have evolved for tackling market misconduct and try to see what comes in the way of regulatory action aimed at investor protection in India, as compared with the US which is perceived as the world's most safe and liquid capital market. One tends to conclude that the scope of Indian securities laws, which have gradually evolved over time, is now quite pervasive and the problem lies mostly in enforcing compliance particularly for crimes such as price manipulation and illegal insider trading.Baer [4] stated that corporate fraud is often presumed to be the type of crime that can be deterred. Those who embrace deterrence as a goal of law enforcement, however, often ignore the tradeoffs between the deterrence of potential offenders and the deterrence of those "mid-fraud perpetrators" who are already mid-way through illicit schemes when the government announces a change in policy. Unlike potential offenders, mid-fraud perpetrators have no incentive to cease criminal conduct in response to increases in sanctions or likelihood of detection. This is true because a "link" exists between the offenders' cessation of future misconduct and the probability that their prior conduct will be detected and punished. Bhattacharyya et al. [4] explored that the Securities and Exchange Board of India (SEBI) has enforced a regulation requiring mandatory disclosure of information and change in the corporate governance mechanisms of Indian listed companies, in order to protect the large investor base. The aim of this study is to empirically examine the economic impact of this Regulation on Indian stock market. The results provide evidence of significant reduction in beta of the experimental group, where beta is used as surrogate for cost of equity capital. The result is consistent with the notion that increased information and better corporate governance mechanism reduces the cost of equity capital of these companies.Black [5] stated that Control frauds are seemingly legitimate entities controlled by persons that use them as a fraud "weapon." A single control fraud can cause greater losses than all other forms of property crime combined. This article addresses the role of control fraud in financial crises. Financial control frauds' primary weapon is accounting. Fraudulent lenders produce exceptional short-term "profits" through a four-part strategy: extreme growth (Ponzi), lending to uncreditworthy borrowers, extreme leverage, and minimal loss reserves. These exceptional "profits" defeat regulatory restrictions and turn private market discipline perverse.

Objectives

The specific objectives of the study are:-

- To study the impact of securities and financial scams on regulatory framework.

The following hypothesis has been framed for the present study:

- There is no significant impact of securities and financial scams on the regulatory framework.

Research design

The study is based on secondary data in connection with outline objectives. The Secondary data was collected from published sources such as concerned websites, magazines and journals. This study is descriptive in nature. It attempts to know about the effect of securities and financial scams on the regulatory framework. Therefore, the qualitative analysis of data is done in order to achieve the objective.

A) Impact of Security and Financial Scams on Regulatory Framework

The present study deals with the qualitative analysis of the scams held earlier. As our objective is to study the impact of security and financial scams on the regulatory framework, as a result, we reviewed the 10 cases of scams and frauds.

Financial Market Regulation

The purpose of regulation and supervision is to facilitate the proficient and reasonable performance of economic functions, but a practical regulatory structure must deal with the products and institutions through which those functions are performed. One focus of financial regulation is upon the characteristics of financial products, which are explicit or implicit contracts between parties, entered into with certain expectations on the basis of information held by those parties. The focus of a regulatory structure must be on the welfare of the end users.

Table 1: Financial Market Regulation around the World

Country	Regulatory Body
India	RBI (reserve bank of India), SEBI (Securities Exchange Board of India)
U.S.A	SEC (Securities Exchange Commission)
U.K	SIB (Securities Investment Board)
Netherlands	Securities Board

Popular Securities and Financial Scams in India

A security scam involves the manipulation of funds in the capital market which could involve the usage of funds for highly speculative purposes resulting in the monopolization of capital market, trading in shares with money not used for their actual purpose etc. Table 2 summarizes the most popular securities and financial scams committed in India and the perpetrators who were responsible for committing the respective scam. The method or mechanism used by the perpetrators is also discussed. The year in which each of the scam was revealed and the amount of funds involved in each of the scam is also highlighted in table 2.

Table 2: Popular scams in India

	Perpetrator	Fraud	Method	Amou

	Harshad Mehta, Broker	Responsible for the securities scam of 1992	Accused of diverting funds from banks to the tune of over rs.4,000 crore to stock brokers between 1991-1992	Rs.4,000 crore
	Sohin Daya of Dawood Shoes, Rafique Tejani of Metro Shoes, and Kishore Signapurkar of Milano Shoes	Multi -crore shoes scam	Created a fictitious cooperative society of cobblers to take advantage of government loans through various schemes	$600 million U
6	Virendra Rastogi chief executive of RBG Resources	Deceiving banks worldwide & duty-drawback scam	Five companies, whose directors were the four Rastogi brothers-Subhash, Virendra, Ravinde and Narinder exported bicycle parts during 1995-96 to Russia and Hong Kong by heavily over invoicing the value of goods for claiming excess duty drawback from customs	Deceiving worldwide estimated $1 b duty-drawback the tune of Rs (Rs 430 millio
	CR Bhansali, Founder, CRB capital markets	Cheated public of over 1,000 crore and the sbi of 57 crore.	Raised money from public and transferred it to non-existent companies.	Rs.1,200 crore
	Uday Goyal, managing director of Arrow Global Agritech Ltd.	The plantation scam	Cheated investors promising high returns through plantations.	Rs 210 crore
	Abdul Karim Telgi	The fake stamp racket	Abdul Karim Telgi acquired a stamp paper license from the Indian government and began printing fake stamp papers.	Rs 171.33 cror
	Ketan Parekh Promoter, NH securities	Accused of price rigging	Used to trade in shares under fictitious names	Rs.1,500 crore
	Dinesh Dalmia former MD, DSQ Software	Dalmia resorted to illegal ways of making money	Dalmia resorted to illegal ways of making money through the shares of DSQ software.	Rs.595 crore

Former UTI chairman P S Subramanyam and two executive directors -- M Kapur and S K Basu -- and a stockbroker Rakesh G Mehta	UTI scam	UTI had purchased 40,000 shares of Cyberspace between Sept. 25, 2000, for about Rs 3.33 crore from Rakesh Mehta when there were no buyers for the scrip. The market price was around Rs 830. The CBI said it was the conspiracy of these four people	Rs 32 crore
Sanjay Agarwal, Ketan Sheth (a broker), Nandkishore Trivedi and Baluchan Rai (a Hong Kong-based Non-Resident Indian)	Home Trade scam	Home Trade had created waves with celebrity endorsements. But Sanjay Agarwal's finance portal was just a veil to cover up his shady deals. He swindled a whopping Rs 600 crore (Rs 6 billion) from more than 25 cooperative banks	Rs 92 crore
P S Saminathan, the promoter of digital cinema chain Pyramid Saimira, stock market operator Nirmal Kotecha in the Securities Exchange Board of India (SEBI) & journalist Rajesh Unnikrishnan who works with India's leading pink newspaper Economic Times	Pyramid Saimira Theater scam	Co. announced that SEBI had asked to make an open offer to acquire 20% of shareholding at a price of more than 4 times the ruling market price. The information was passed through media. The purpose was to disseminating false information and manipulating the share price of the company	
Ramalinga Raju , Founder, Satyam Computers	Cooked up account books of his company	Inflated revenues and hide liabilities	Rs.8,000 crore

	Suresh Kalamadi, Sheila Dixit- the then Chief Minister of the State	Common Wealth Games Scam	It was estimated that out of Rs. 70000 crore spent on the Games, only half of the said amount was spent on Indian sportspersons. The Central Vigilance Commission, involved in probing the alleged corruption in various Commonwealth Games-related projects, has found discrepancies in tenders – like payment to non-existent parties, will-ful delays in execution of contracts, over-inflated price and bungling in purchase of equipment through tendering – and misappropriation of funds.	70,000 crores
	Kunal Ghosh, Ramchandra Hansda, Subarna Naik, Hitesh Kumar Bagarti , Srinjay Bose , Madan Mitra	Saradha Group financial scandal	Financial scam caused by the crumple of a Ponzi scheme of Saradha Group. It was a group of more than 200 private companies that was believed to be running collective investment schemes.	40,000 crores
	Comptroller and Auditor General of India, the coal ministry, many electricity boards and private companies	Indian coal allocation scam	coal blocks allotted, not auctioned, leading to estimated losses as per the Comptroller and Auditor General of India Supreme Court cancels all 214 coal blocks allocations since 1993. Government to e-auction the coal blocks now	185,591 crore

B) Shortcomings in the regulatory structure due to which the scam was made possible

SEBI first detected the irregularities in CRB's operations in December 1995 during a routine inspection. Analysts say that even a cursory look at CRB Mutual fund's balance sheet would reveal that the trustees and the fund managers did everything but run a proper fund. SEBI informed the RBI that the inquiry conducted by them in respect of CRB was completed and later further confirmed that they were free to launch new schemes from 1 July 1996. However CRB group had not mended its ways. Another investigation revealed that there were other irregularities such as not maintaining arm's length distance from its broking subsidiary and investments above set limits. CRB was directed not to enter the market for nine months. According to media sources, SEBI failed to warn the public in spite of detecting all these irregularities.

RBI failed to inspect the activities of CRB capital markets and CRB Corporation, both of whom were raising fixed deposits, and hence were governed by NBFC rules for similar irregularities. RBI tried to cover up its mistakes by pointing out to some loopholes in law, which prevented it from inspecting the assets side of an NBFC balance sheet. In October 1996, RBI received several complaints from several sources regarding the working of CRB during which time CRB Capital applied for registration. SBI complained in late March regarding the fraud. Between October and March RBI took its own time to inspect and issue show cause notices after which it finally issued the ban on the collection of the fixed deposits on 8th April. It took another six weeks for RBI to issue winding up notice and appoints a liquidator. In the meantime Bhansali had destroyed all evidences, gave written assurances to depositors stating that the company had started fresh dialogues with more bankers and requested the depositors to extend their co-operation at that hour of need. In April 1994, CRB applied for its banking license as part of his strategy to get into banking, offshore funds, insurance, custodial services, multimedia and credit rating. Here again CRB received political support. In July 1996, following the clean chit by SEBI to CRB Mutual Fund, it issued an in-principle-banking license. Ideally though RBI had the prerogative to conduct its own investigations into the working of the various group companies before issuing a bank’s license it did not do so. The fallout of the CRB scam had prompted the ministry of finance (MOF) to work on several issues related to the functioning of NBFCs. The ministry was planning to give another look at the recent act which set the guidelines for NBFCs and also review the powers of the Securities of Exchange Board of India (SEBI) and the RBI.Meanwhile SEBI decided to conduct a study to find out if there was any systematic failure that led to the CRB scam. It felt that the system required studying so as to define the faults and find remedies to the shortcomings. Even though NBFCs did not fall within its jurisdiction, it was decided to improve the communication with the Reserve Bank of India. Action against NBFCs can only be taken when they violate SEBI norms though RBI governs NBFCs. It was decided that some leading NBFCs would be put on the RBI.s watch list in consultation with SEBI. According to SEBI chairman, the rating and regulation of NBFCs was necessary.

C) Analysis of the Impact of scams on the regulatory framework

The number of provisions and regulations were made to prevent from securities and financial frauds but still there is some loop holes which causes corporate frauds. Therefore, there is need to analyze the impact of scams on the regulatory framework and try to find out the causes of these short comings.

Impact of Harshad Mehta scam

The scam was made possible by a complete breakdown of the control system both within the commercial banks as well as the control system of the RBI itself. The scam engulfed top executives of large nationalized banks, foreign banks and financial institutions, brokers, bureaucrats and politicians. The functioning of the money market and the stock market was thrown in disarray. The tainted shares were worthless as they could not be sold. This created a panic among investors and brokers and led to a prolonged closure of the stock exchanges along with a precipitous drop in the price of shares. A large number of agencies, namely, the Reserve Bank of India (RBI), the Central Bureau of Investigation (CBI), the Income Tax Department, the Directorate of Enforcement and the Joint Parliamentary Committee

(JPC) investigated various aspects of the scam.The immediate impact of the scam was a sharp fall in the share prices. The index fell from 4500 to 2500 representing a loss of Rs. 100,000 crore in market capitalization. Purely technically speaking, scam just resulted in withdrawal of about Rs. 3,500 crore from the market, which for a market of the size of Rs. 250,000 crore is a very small amount, and therefore should have had little impact on the prices. There was however two major reasons for the fall, both related to the government's knee jerk response to the scam. First was the phenomenon of tainted shares which created panic in the market and second was the perceived slow down of the reform process which destroyed the very foundation on which the boom was based.

Response of the Regulatory authorities to the Harshad Mehta scam

The government set up a special court and promulgated an ordinance with several draconian provisions to deal with the scam. Sections (3) and (4) of the ordinance attached the properties of all individuals accused in the scam and also voided all transactions that had at any stage been routed through them after March 31, 1991. Since the accused were active brokers in the stock markets, the number of shares which had passed through their hands in the last one year was colossal. All these shares became "tainted" shares, and overnight they became worthless pieces of paper as they could not be delivered in the market. Genuine investors who had bought these shares well before the scam came to light and even got them registered in their names found them being robbed by the government. This resulted in a messy situation in the market since no one was certain as to which shares were tainted and which were not. The government's liberalization policies came under severe criticism after the scam, with Harshad Mehta and others being described as the products of these policies. Bowing to the political pressures and the bad press it received during the scam, the liberalization policies were put on hold for a while by the government.

- The Securities Exchange Board of India (SEBI) postponed sanctioning of private sector mutual funds. Implementations of some aspects of the Narasimham Committee recommendations on the banking system were also delayed.

- Some question marks arose regarding privatization as the chairman of the committee looking into this ended up in jail on charges of involvement in the scam. The much talked about entry of foreign pension funds and mutual funds became more remote than ever. The Euro-issues planned by several Indian companies were delayed.

- Often it is argued that the origins of the scam lie in over-regulation of our markets. Normal transactions should have been allowed openly and transparently. Another lesson from the scam is that artificial insulation of closely related markets from each other is counterproductive in the long run. Artificial barriers between the money market and the capital market, between the market for corporate securities and the market for government securities and between the formal money market and the informal one must be eliminated. (Anuj Thakur, Anatomy of Securities Scam, 1992)

Impact of the Ketan parekh scam

Smelling deliberate price rigging, the Ministry of Finance asked the SEBI to launch investigations into the matter. The SEBI investigated the books of some 20 big players to find out whether unwarranted deals were carried out. As the news of higher exposure of private banks and cooperative banks to stock markets came to light, the RBI also initiated parallel investigations.

Response of the Regulatory authorities to Ketan parekh scam

After the market crash, the SEBI has launched a series of measures to halt the decline in the financial markets. Some of the measures are listed below:

- All brokers acting as directors and other office bearers of the Bombay Stock Exchange have been suspended for alleged insider trading. In order to prevent misuse of sensitive information by broker-directors, stock markets will be corporatized soon.

- To contain volatility, SEBI has imposed an additional 10 per cent volatility margins on all the A Group shares and additional margins on stocks in Automated Lending and Borrowing Mechanism (ALBM) and Borrowing and Lending of Securities Scheme (BLESS).

- The SEBI has also imposed volatility margins on net outstanding sale positions of FIIs, financial institutions, banks and mutual funds.

- On March 8, 2001, the SEBI banned naked short sales. In simple words, it means that all short sales have to be covered by an equal amount of long purchases.

- Cutting gross exposure limit for brokers to 10 times the base capital in the case of National Stock Exchange (NSE) and to 15 times in case of other stock exchanges.

- Rolling settlements (which ensures that the settlement takes place five days after trading) will now be compulsory.

- In order to increase liquidity, SEBI has allowed banks to offer collateralized lending only through BSE and NSE.

Impact of the satyam scam

The Sarbanes Oxley Act was primarily introduced subsequent to the Enron Scandal in order to regulate corporate governance in the US. India however failed to learn from US's mistakes and did not introduce similar measures in India. The SEBI did introduce Clause 49 of the listing agreement requiring more disclosures from the Company. However, Satyam managed to pull off a fraud of such magnitude despite formally complying with all the requirements under Clause 49 as well as other SEBI regulations such as the DIP Guidelines and so forth. One also finds the need to reassess the liabilities and responsibilities of auditors under the Indian legal regime. The very fact that a member of the elite Big Four, Price Water House Coopers was caught completely unaware of the reality as it existed distinct from that portrayed in

Satyam's books of accounts indicates the need for more stringent checks on the role of auditors and to make them more accountable.

Response of the Regulatory authorities to satyam scam

It is indeed encouraging that SEBI has already initiated steps towards strengthening the laws pertaining to Corporate Governance with the SEBI Committee on Disclosures and Accounting Standards (SCODA) met in Mumbai on January 9, 2009 and after detailed deliberations, the SCODA recommended that a peer review of the working papers (relating to financial statements of listed entities) of auditors would be conducted in respect of the companies constituting the NSE – Nifty 50 and the BSE Sensex. Such a review would be in relation to the last quarterly results and the last audited annual financial results. For this purpose, a panel of auditors would be prepared by SEBI. This exercise would be taken up following the publication of 3rd quarter results and is expected to be completed by end of February 2009. This recommendation has been accepted by SEBI. In light of the Satyam fiasco, SEBI needs to take a re-look at the mandatory requirements prescribed and set up more checks on the lines of the Sarbanes Oxley Act. Hopefully, the Companies Bill, 2008, shall be passed by the Parliament soon and provide us with a solution to avoid frauds of such magnitude, which end up tarnishing India's corporate image in today's era of globalization.

CLAUSE 49 of SEBI'S LISTING AGREEMENT AND THE SATYAM SCAM

The Securities and Exchange Board of India (SEBI) monitors and regulates corporate governance of listed companies in India through Clause 49. This clause is incorporated in the listing agreement of stock exchanges with companies and it is compulsory for them to comply with its provisions. Clause 49 of SEBI's Listing Agreement requires every listed entity to reserve half the board for independent directors if the chairman is an executive director. SEBI issued Clause 49 in February 2000. All Group A 14 companies had to comply with its provisions by March 31, 2001.

The major new provisions included in the new Clause 49 are:

1) The board will lay down a code of conduct for all board members and senior management of the company to compulsorily follow.

2) The CEO and CFO will certify the financial statements and cash flow statements of the company.

3) At least one independent director of the holding company will be a member of the board of a material non-listed subsidiary.

4) The audit committee of the listed company shall review the financial statements of the unlisted subsidiary, in particular its investments.

5) If while preparing financial statements, the company follows a treatment that is different from that prescribed in the accounting standards, it must disclose this in the financial statements and the

management should also provide an explanation for doing so in the corporate governance report of the annual report.

6) The company will have to lay down procedures for informing the board members about the risk management and minimization procedures.

7) Where money is raised through public issues, rights issues etc., the company will have to disclose the uses/applications of funds according to major categories 15as part of quarterly disclosure of financial statements. Further, on an annual basis, the company will prepare a statement of funds utilized for purposes other than those specified in the offer document/prospectus and place it before the audit committee.

8) The company will have to publish its criteria for making its payments to non-executive directors in its annual report.

Impact of C.R bhansali scam

An inspection of CRB books and accounts by the RBI's department of Supervision (DOS) had revealed that there was inadequate provision against non-performing assets (NPA). Only Rs. 0.25 crore was provided as against a required amount of Rs.3 crore when actual amount was Rs.21.10 crore. DOS also found that the company had violated provisions of the directives for NBFCs issued by the RBI. The DOS report also said that the company invited deposit from the public, projecting itself as an equipment leasing company when it was actually carrying out loan business as its principal activity, and consequently was entitled to accept a lesser quantum of deposits. CRB collected deposits aggregating to Rs.139.83 crore in excess of its entitlement of Rs.107.19 crore violating the ceiling restriction. Also, according to the deputy governor, RBI, Mr. S.P. Talwar, CRB Caps had issued Rs.200 crore secured debentures in April 1996, but the debt paper stood unsecured as CRB did not register the charge against its assets. In June 1997, six persons were arrested including four directors of CRB Capital Markets. Later C.R. Bhansali and five members of his family including his wife and parents were escorted from Hong Kong by CBI sleuths. He was formally arrested after reaching the Indira Gandhi International Airport in New Delhi. Under an earlier arrangement with the SBI in June 1996, Bhansali could issue warrants totalling Rs. 50 lakh and no warrant was to be of an amount over Rs.25000. Despite a ceiling of Rs.25, 000, the SBI inserted a special clause that allowed Bhansali to alter the warrant with his signature. As a result, he would cancel the amount himself and write the warrants in the name of shell companies of which he was the ultimate beneficiary. When questioned by The Indian Express, all that SBI officials had to say was that this manual override was permissible and that a few other companies have also been extended similar facilities.

Response of the Regulatory authorities to C.R bhansali scam

- There was a lot of confusion about how to act against the CRB, considering its NBFC status.

- Loopholes in the law ensured the SEBI, the RBI and the Department of Company Affairs have a limited role to play in NBFCs. It was only in 1995 that the RBI began monitoring activities of NBFCs.

- After the CRB crash, the RBI was planning to establish norms covering NBFCs better with the market regulator favouring a system through which mutual funds can be monitored better.

- SEBI was also considering more open disclosure norms for mutual funds and fixed deposits. A possibility of bringing the fixed deposits in NBFCs under the Deposit Insurance Act was to be handed over to the RBI.

Impact of the Pyramid Saimira scam

Market regulator SEBI banned 5 persons, who are allegedly involved in the Pyramid Saimira case, from buying and selling shares in capital markets for 3 years after the watchdog found they had cornered employee quota shares of the company by pretending to be on its roles. Five persons, who allegedly acted in collusion with the Pyramid Samira Theater Limited (PSTL), were also asked to surrender the money they made by obtaining employee quota shares along with an interest of 20 per cent.

Response of the Regulatory authorities to the Pyramid Saimira scam

- SEBI further ordered to ban these persons for seven more years from buying and selling shares if they fail to surrender the "unlawful gains" made by acquiring shares during the initial public offer (IPO) of PSTL which hit the market in December 2006.

- Stock markets regulator Securities and Exchange Board of India (SEBI) barred the promoter-chairman of entertainment chain Pyramid Saimira Theatres, P.S. Saminathan, and four others from the securities market for forgery, disseminating false information and manipulating the share price of the company. K.M. Abraham, whole-time member of SEBI, said it was necessary to intervene immediately, "in view of the grave emergency arising out of the fact that a forged letter was sent."

- SEBI also prohibited Keynote Capital Ltd, a SEBI registered stock broker, from giving recommendations in respect of companies listed in any of the recognized stock exchanges till further orders.

- SEBI also asked two brokers, India Capital Markets Pvt Ltd and Dynamic Stock Broking Pvt Ltd, from entering into fresh agreements with new clients till further orders.

Required Amendments by the Regulatory Authority to Prevent Corporate Frauds

PWC's IAS Practice has developed solutions to help organizations reach the desired level of compliance as mandated by these legislations. The services include :

- Assisting corporate to document and evaluate internal controls

- Providing assistance in developing Internal Control Framework

- Providing assistance in developing Risk Management Framework

- Training personnel on COSO, methods of documenting controls, etc.

• Project management.

The amendment to Clause 49 of the Listing Agreement has been the topic of elaborate discussion in the Indian corporate scene. The difficulties in achieving compliance prompted many apex chambers of commerce to appeal for an extension of the extended deadline of 31 December 2005, without success. In this scenario, the upgraded Control Objectives for Information and related Technology (COBIT) 4.0 frameworks came at the right time. If corporate India seizes this regulatory requirement (Clause 49) as an opportunity to refine and fine-tune IT processes, the regulatory requirement will serve the purpose of the regulators, ushering in much needed corporate governance in letter as well as in spirit.

Major Findings regarding Impact of Corporate Frauds and Scams on Regulatory Framework

- The qualitative analysis of data shows that the corporate frauds have the significant impact on the regulatory framework. Therefore, the null hypothesis is rejected that there is no significant impact of corporate frauds on the regulatory framework.
- The results revealed that SEBI has also imposed volatility margins on net outstanding sale positions of FIIs, financial institutions, banks and mutual funds.
- The results disclosed that to contain volatility, SEBI has imposed an additional 10 per cent volatility margins on all the A Group shares and additional margins on stocks in Automated Lending and Borrowing Mechanism (ALBM) and Borrowing and Lending of Securities Scheme (BLESS).
- In order to increase liquidity, SEBI has allowed banks to offer collateralized lending only through BSE and NSE.
- The results explored that The Securities Exchange Board of India (SEBI) postponed sanctioning of private sector mutual funds. Implementations of some aspects of the Narasimham Committee recommendations on the banking system were also delayed.
- The results reveal that SEBI has Cut the gross exposure limit for brokers to 10 times the base capital in the case of National Stock Exchange (NSE) and to 15 times in case of other stock exchanges.
- Rolling settlements (which ensures that the settlement takes place five days after trading) will now be compulsory.
- A relative of a promoter, or an executive director or a senior executive one level below an executive director, too, cannot be an independent director.
- The new Clause 49 lays down tighter qualification criteria for independent directors. The new clause disqualifies material suppliers and customers from being independent directors.
- The board will lay down a code of conduct for all board members and senior management of the company to compulsorily follow.

• The CEO and CFO will certify the financial statements and cash flow statements of the company.

• At least one independent director of the holding company will be a member of the board of a material non-listed subsidiary.

• The audit committee of the listed company shall review the financial statements of the unlisted subsidiary, in particular its investments.

• The company will have to publish its criteria for making its payments to non-executive directors in its annual report.

• Where money is raised through public issues, rights issues etc., the company will have to disclose the uses/applications of funds according to major categories 15 as part of quarterly disclosure of financial statements.

CONCLUSION

The above analysis of data shows that the corporate frauds have the significant impact on the regulatory framework. After the commitment of frauds there is immediate change in the guidelines issued by the regulatory authorities. The authorities try to take strict action against the fraudulent parties in order to prevent shareholder's interest in future but the corporate frauds are still committed. This represents that there is somewhere loopholes in the regulatory framework. There is strongly need of the amendments in the regulation in order to prevent the shareholder's interest from corporate frauds. RBI and the commercial banks stood as much accountable as the brokers for the scam. The brokers were encouraged and abetted by the banks to divert funds from the banking system to the stock market. Some of the recent scams have involved huge frauds and a large number of people. The RBI too stands indicted because despite knowledge about banks over-stepping the boundaries demarcating their arena of operations, it failed to reign them in. The looting was done with active connivance and sometimes full knowledge of the very individuals who were supposed to guard against such a possibility.

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