What is Dabba Trading?

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In news– National Stock Exchange (NSE) has recently issued a string of notices naming entities involved in 'dabba trading'.

What did the notice say?

The bourse cautioned **retail investors to not subscribe (or invest) using any of these products** offering indicative/assured/guaranteed returns in the stock market as they are prohibited by law. It added that the **entities are not recognised as authorised members** by the exchange.

About dabba trading-

- ***Dabba* (box) trading refers to informal trading that takes place outside the purview of the stock exchanges**.
- **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.
- In simple words, it is gambling centered around stock price movements.
- 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 primary purpose of such trades is to stay outside the purview of the regulatory mechanism,** and thus, transactions are facilitated using cash and the mechanism is operated using unrecognised software

terminals.

- Other than this, **it could also be facilitated using informal or *kaccha* (rough) records, sauda (transaction) books, challans, DD receipts**, cash receipts alongside bills/contract notes as proof of trading.
- Since there are no proper records of income or gain, it helps ***dabba* traders escape taxation.** They **would not have to pay the Commodity Transaction Tax (CTT) or the Securities Transaction Tax (STT) on their transactions.**
- The use of cash also means that they are outside the purview of the formal banking system. All of it combined results in a loss to the government exchequer.
- **In '*dabba* trading', the primary risk entails the possibility that the broker defaults in paying the investor** or the entity becomes insolvent or bankrupt.
- **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.
- Since all activities are facilitated using cash, and without any auditable records, it could potentially encourage the growth of 'black money' alongside perpetuating a parallel economy. This could potentially translate to risks entailing money laundering and criminal activities.
- **'*Dabba* trading' 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.