

## Module 2:- KYC & AML

Activity :- Harshad Mehta / Ketan Parekh scam  
discussion by students.

### HARSHAD MEHTA

⇒ Harshad Mehta was an Indian stockbroker, well known for his wealth and for having been charged with numerous financial crimes that took place in the securities scam of 1992.

Born : 29 July 1954 Paneli Moti,  
Gujarat, India

Nationality : Indian

Occupation : Businessman, Stockbroker

Residence : Mumbai, Maharashtra, India

Died : 31 December 2001

### 4 FRAME OF THE SCAM

⇒ The name of Harshad M. Mehta was in the focus of public attention in the year 1992.

⇒ Harshad Mehta was an Indian stock broker who was purported for a huge stock deployed scheme.

⇒ There were nearly 27 criminal charges filed against

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him.

- ⇒ Harshad Mehta born in 1954 grew up in Raipur and worked in the New India Assurance company.
- ⇒ In the year 1980 he quit his job only to join the stockbroker P. Damalal who was affiliated to the BSE.
- ⇒ Later in 1981 Mehta worked as a sub broker for stockbrokers.
- ⇒ Another name which was in the conversation of Harshad Mehta scam was Nimesh Shah who played a very safe game and however he is supposed to be a heavy player in the Indian stock market.

### \* HARSHAD MEHTA AND STOCK EXCHANGE

- ⇒ Soon Harshad Mehta started buying shares in heavy numbers and soon his name became very well known in the Indian stock market.
- ⇒ The problem actually started when Mehta started buying the shares of Associated Cement Company and increased the prices of the shares from Rs 200 to Rs 9000 (approx).
- ⇒ Harshad Mehta was able to convince the reason behind the high level bidding as for the replacement

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cart theory.

⇒ Mehta's firm also acted as a broker for what is generally assumed or believed to be a collateralised bank receipts.

⇒ These bank receipts were thus used in hot-torn bank-to-bank lending known as "ready forward transactions".

⇒ Soon people started calling him as the "Big Bull" as he paved way for the big bull run of the stock market.

⇒ But the actual fact was Harshad Mehta used the advantages of the many loopholes in the banking system.

⇒ And evacuated off funds from inter-bank transaction

#### 4 SITUATION CAUSING TO FUNCTION A HUGE INCREASE IN THE PRICES OF STOCK

⇒ Harshad Mehta used this technique of exercising unscrupulous control over the situation causing to function a huge increase in the prices of stock.

⇒ However by then Mehta was smart enough to scam the banks an amount of nearly ₹2400 crores.

⇒ Once this scam was brought into light & taken

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to the Parliament. Harshada Mehta was immediately taken to prison.

→ But however when this scam was exposed the chairman of Vijaya Bank committed suicide.

→ Feeling culpable of having given lot of loans to Harshada Mehta thereby holding responsible to the public money.

→ Thus Mehta was charged with 72 criminal offences and more than 600 civil action suits against him and was arrested on these grounds on November 9<sup>th</sup> in 1992.

→ The arrest warrant was issued based on the grounds of misappropriating more than 2.8 million shares of about 90 companies, including ACC and Hindalco, through forged share transfer forms.

#### 4 Investigation:-

→ This was very clearly explained by the veteran writer Sucheta Dalal in Times of India of how the scam got its shape by the ready forward (RF)

→ The RF is a fortified loan given from one bank to another for a very short period of time.

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⇒ In Mehta's case both the securities and the money was transferred through the brokers where they acted as an intermediary.

⇒ Who received the securities from the seller and handed them over to the buyer and received the cheque from the buyer and subsequently made the payment to the seller.

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