www.livemint.com /market/stock-market-news/can-gamestop-frenzy-happen-in-india-11611930232304.html

Can GameStop frenzy happen in India?

Renu Yadav : 5-6 minutes : 29/01/2021

If you are someone who is into stock investing, you might have noticed the stories doing rounds about the US company called Gamestop. The stock price of this video game retail company surged a massive 1,900% in a brief period of one month. It has surged from $17 on 4 January, 2021 to $348 on 27 January. What is more interesting is the reason behind the surge. Basically, members of a Reddit group called WallStreetBets came together to manipulate the price of the company. They started to buy shares of the company as they came to know that a hedge fund is holding big short positions in the stock. This led to a short squeeze kind of situation and led to huge losses for the hedge fund which is filing for bankruptcy. So, the question that arises is can something like this happen in India?

Before we get to that lets first understand two terms- short-selling and short squeeze.

Short selling

It basically means selling a stock at current price without holding that stock. So, is that possible? Basically, the trader borrows (from brokers or others) the shares and short sells it. By short selling a stock the trader is hoping that its price will fall in future and he will be able to pay back the broker or from whomever he has borrowed. So, let's understand with an example. You short sell a stock at ₹15. So now to cover a position you need to buy the stock. So suppose the stock price goes down to ₹10, you buy it and give it at ₹10 to your broker. You earn a profit of ₹5. But suppose the price of the stock goes up to ₹20, now to pay back your broker you have to buy the stock 20. So, your loss will be equal to ₹5. So, as the price increases, your losses go up.

Short squeeze

It is basically is a phenomenon in which the trader who has short sold the shares buys the stock at a higher price to cover the losses. A buying by the short seller further pushes the price of the stock leading to a situation called short squeeze.

This is exactly what happened in case of the company Gamestop.The traders anticipated a short squeeze situation in the stock.

So now the question is can this happen in India?

There are basically two aspects in it. One do the derivative market regulations allow such trade to happen in India and second what are the legal implications of it.

The experts *Mint* spoke to were of the view given the regulations put in place by the Securities and Exchange Board of India (SEBI), it is very difficult to carry out such trade in India.

There are a few reasons behind it. One, in US brokers are allowed to lend shares to the traders. So, they keep shares in a pooled account, which makes lending possible. However, In India the shares are kept in the demat account of the particular trader and brokers are not allowed to use them for lending. “In India the regulatory environment is stricter. Lending in stocks has to be done through an Exchange platform called Stock Lending and Borrowing Mechanism (SLBM). SLBM is regulated but is not yet very popular among retail investors in India." said Vikas Singhania, Executive Director, TradeSmart, a discount broking firm.

“Plus borrowing or lending is allowed in around 350 stocks which are generally liquid stocks," said Singhania.

“Another important deterrent for such things happening in India is a SEBI regulation called Market Wide Position Limit (MWPL) in India. This regulation limits the net position including the futures and the SLBM to 20% of the free float market capitalisation of the company," added Singhania.

Also, legally there are regulations which prevent traders from manipulating stock prices.

SEBI has regulation under the Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market, which defines manipulative and unfair trade practices and prohibits a trader or investor from carrying out such practices," said Shyam Pandya, Partner, Stratage Law Partners.If SEBI establishes that an activity is conducted for the purpose of manipulating the stock price of a company, such persons can be liable under the law," he added.

Experts believe that SEBI has a good surveillance mechanism in place to prevent such practices happening in India.

" It is impossible to create that kind of short squeeze in India. SEBI and stock exchanges closely regulate Stock Lending and Borrowing Mechanism (SLBM) which itself is reviewed half-yearly. Also, SEBI and Stock Exchanges have robust surveillance systems and any concentration in stock or F&O is keenly watched through limits on market-wide position limit (MWPL). SEBI routinely issues inquiry letters as well as notices under SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003," said Sumit Agrawal, Partner, Regstreet Law Advisors & former SEBIofficer.