

Regulators fail to curb SMS on fake stock tips

Use of overseas database servers and encryption tech help operators defy crackdown

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Joint efforts of the Securities and Exchange Board of India (Sebi) and the Telecom Regulatory Authority (Trai) to curb mobile messages with fake stock tips have not yielded the desired results.

Hoads of users continue to receive such messages, claiming to be sent by leading brokerages.

Sources said the regulators, along with a police cyber team, have failed to identify and trace the culprits behind these bulk messages. Citing limitations, a regulatory official reiterated the issue was deliberated with the telecom regulator and the cyber security cell of the police.

Even the cyber security team was unable to track original senders or creators of such messages, sources said. In most cases, the database servers are based outside the country and encryption technologies make it more difficult to track the messages, explained another person in know. Advance technologies were available to deal with such cases and India should hire experts from outside to tackle the situation, they said.

“This is a very serious situation and requires urgent action,” said Prithvi Haldea, chairman and managing director of Prime Database. “This should be done by identifying and significantly punishing at least two-three people so that the message would go loud and clear to other fraudsters. For this, the regulator needs to outsource the identification job to cyber experts, maybe even to those outside India, to crack down the syndicate.” Additionally, there should be monitoring of entities who acquire large quantities of shares of companies whose stock prices are propped up through fake tips, Haldea added.

As a preemptive measure, Sebi has come out with advisories and advertisements, alerting investors of such traps. The regulator was said to have made some enquiries after some brokers could have been using third-party bulk messaging service providers to circulate unauthorised investment tips. But nothing concrete has been found.

The offenders, meanwhile, are widening their reach and experimenting with different strategies to lure investors.

For instance, an SMS recommends buying Funny Software. It gives details such as entry price, stop loss, trade quantity, the target price and the holding period. Interestingly, little known companies’ like Funny Software have shown significant momentum in three-six months. “Such tricks help create liquidity, thereby providing an exit to share operators who take positions when the price is low,” explained a broker on condition of anonymity.

Some of these stock operators also provide a price trigger, such as a major order or a company being an acquisition target.

Sebi’s move comes after several top brokerage houses such as Motilal Oswal, India Infoline Financial Services, Angel Broking and HDFC Securities have reportedly complained to the regulator that their names were being misused by dubious operators. Some of them also filed police complaints.