Should the recent stock market volatility be probed? | Explained

What happened in the stock market after the exit poll results? What are the allegations made by Opposition parties? What are the rules on insider trading? What is SEBI's role? Is a joint parliamentary committee inquiry warranted?

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Congress Rahul Gandhi shows a stock market movement chart during a press conference in New Delhi on June 6, 2024. | Photo Credit: AP

The story so far: The Indian stock market witnessed extreme volatility right after the release of the exit poll results earlier this month and on June 4 when the results of the latest Lok Sabha election were declared. The benchmark indices, the Nifty and the Sensex, have since managed to recover the losses. The Congress alleged that Prime Minister Narendra Modi and Home Minister Amit Shah had manipulated the stock market through their statements to favour certain investors.

What is the controversy about?

The Nifty and the Sensex gained 3.2% and 3.4%, respectively, to hit all-time highs on June 3, the first day of trading after the exit poll results, which were released over the preceding weekend, suggested that the BJP would win a resounding majority in the election. The biggest gainers were stocks of companies that were seen to be close to the government, such as the Adani Group stocks, and stocks of public sector companies which were expected to benefit during Mr. Modi's third term in power. Both the benchmark indices, however, slumped by almost 6% the very next day after the actual results failed to match exit poll predictions. The decline on June 4, which was the worst single-day fall in the stock market since March 2020 in the wake of the COVID-19 pandemic's outbreak in India, wiped out investor wealth worth about ₹30 lakh crore. Prior to the exit poll results, the Prime Minister and the Home Minister had made statements encouraging investors to buy stocks before June 4 in order to benefit after the election results.

What is the Opposition's allegation?

The Congress has alleged that Mr. Modi and Mr. Shah deliberately made comments exhorting retail investors to purchase stocks before the day of the election results and that this was an attempt to manipulate the market to favour certain foreign investors. To back this claim, the party's data wing head Praveen Chakravarthy has drawn attention to the doubling of the value of stocks traded for cash in the market on May 31, the last trading day before the release of the exit poll results. The total value of stocks traded on May 31 was ₹2.3 lakh crore against ₹1.1 lakh crore the previous day. Mr. Chakravarthy has noted that more than half the buying that happened on May 31 came from foreign investors and further added that foreign investors were largely net sellers prior to May 31, when they suddenly turned net buyers of stocks. According to him, the PM's statements encouraging investors to buy stocks before June 4 would have benefited these foreign investors who managed to load up on stocks before the exit poll results gave a sharp 3% bump to the stock market on Monday. The Opposition parties claim that these foreign investors had insider information about the exit poll results. They also add that the foreign investors managed to offload their stocks on Monday to retail investors who were not just late to the party but also suffered huge losses on Tuesday. The Opposition parties have called for a joint parliamentary committee (JPC) to probe the matter.

What do the market regulator's rules say?

The Securities and Exchange Board of India's Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market (FUTP) Regulations state that "planting false or misleading news which may induce sale or purchase of securities" is illegal. But there are exceptions. Comments on the overall market trend when broadcast to the wider public through mass media such as TV and newspapers, are not considered to be the same as information secretly leaked to certain investors to benefit from a coming market move. If not for such exceptions, it would be impossible for anyone to voice their opinion on the market. So, experts contend that unless, say, an investigation can prove that Mr. Modi acted in collusion with certain investors to boost the market prior to the exit poll results, there is probably nothing illegal about his statement urging investors to buy before June 4.

How has the Centre responded?

Union Minister Piyush Goyal responded to the Opposition's accusations by arguing that foreign investors actually bought stocks at a high price and sold at a low price while Indian investors deftly used the market's volatility to sell high and buy low. NSE data appeared to back this contention as it shows the umbrella category of 'retail investors' were net sellers of stocks on May 31 and June 3, when the market rose, while they were net buyers of stocks worth ₹21,179 crore on June 4, when the markets crashed. Foreign portfolio investors (FPIs), meanwhile, were net buyers on May 31 and June 3 when the markets went up and were net sellers on the day the markets crashed. Some market experts, however, point to the fact that the NSE's 'retail investors' category includes not just small ordinary retail investors but also non-resident Indians (NRIs), HUFs, individual/proprietorship firms and partnership firm /Limited Liability Partnership (LLP) that encompass the investment vehicles used by ultra high net worth and high net worth individuals. These experts observe that shares worth a net amount of more than ₹21,000 crore were bought by 'retail investors' from FPIs and domestic mutual funds and that such heavy buying was unlikely to have been done by small 'retail investors' alone.

Further, while FPIs bought stocks worth ₹96,155 crore on May 31, the highest-ever in history, they also sold stocks worth ₹93,977 crore on the same day. In other words, despite the sudden rise in trading activity, foreign investors were not huge net buyers of stocks on May 31. This is, however, not to categorically say that there was no mischievous activity during the day. Data on net purchases or sales may not reflect how individual foreign investors with insider information may have benefited. Further, whether an investor group profited or lost money can also depend on exactly when during a trading session they managed to buy or exit a stock regardless of whether the indices closed higher or lower that day. Only a thorough investigation based on granular data can offer an answer to whether there was manipulation.