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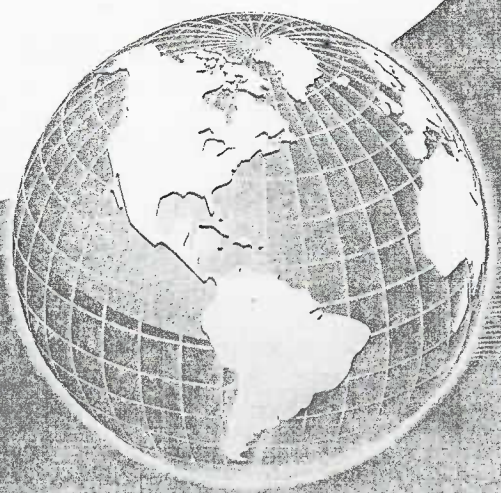
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## The NSEL Crisis

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### ABSTRACT

The financial crisis of 2008 created panic among investors throughout the world. The crisis once again lead investors to reason out the very basis for assessing the intrinsic values of the financial instruments and the various underlying truths or lies structured around these instruments. Indian markets have seen various panicky situations in the past, either due to regulatory limitations or due to regulatory loopholes. Systemic failures like the 1992 Harshad Mehta scam and Ketan Parekh scam, have questioned the safety of the financial markets. This situation has led to investors into choosing financial investments as an avenue for making abnormal profits. Recent years have witnessed the changing profile of the Indian economy with respect to- lower GDP figures, higher inflation and higher interest rates. Rupee depreciation has added more smoke to this tailspin. Though recent years have been seen to be less scam tainted than previous years, due to strict and stringent measures imposed by the regulatory authorities, the NSEL scam questions the very fabric of these measures. The suspension of trading and payout crisis once again points towards systemic failures and weaknesses of the financial market environment.

**Key words:** MCX, National Spot Exchange, Commodities, FMC, Regulatory

### INTRODUCTION TO NSEL SCAM:

The financial crisis of 2008 created panic among investors throughout the world. The crisis once again lead investors to reason out the very basis for assessing the intrinsic values of the financial instruments and the various underlying truths or lies structured around these instruments. Indian markets have seen various panicky situations in the past, either due to regulatory limitations or due to regulatory loopholes. Systemic failures mainly the 1992 Harshad Mehta scam and Ketan Parekh scam, have questioned the safety of the financial markets in the past and haunted the investors into choosing financial investments as an avenue for making abnormal profits. Recent years have witnessed the changing profile of the Indian economy with respect to- lower GDP figures, higher inflation and higher interest rates. Rupee depreciation has added more smoke to this tailspin. Though recent years have been seen to be less scam tainted than previous years, due to strict and stringent measures by the regulatory authorities, the NSEL scam questions the very fabric of these measures. The scam seems to be like a "new wine, in a new bottle" kind of scenario. The NSEL scam is altogether in a different class and hence, it requires much scrutiny. These developments lead to a slight change in safeguards for the investors to choose commodities markets and derivatives markets over spot markets, with the added advantage of leveraged payoffs. Commodities markets are still in the nascent stage when compared to stock markets in terms of demand and supply variables. However, the growth of commodity markets has been truly remarkable and this is reflected in its ranking on world exchanges, such as Chicago Mercantile Exchange (CME), Chicago Board of Trade (CBOT), LIFFE, TIFFE etc. At present there exist four national commodity exchanges, out of which Multi-commodity Exchange (MCX) and National Commodity and Derivatives Exchange limited (NCDEX) have gained recognition among the world top commodity exchanges. The NSEL scam emerging from the NSEL scam tries to brush aside doubts about the efficiency of commodity markets in India. The suspension of trading and payout crisis once again points towards systemic failures and weaknesses of the financial market environment.

### OBJECTIVES OF THE STUDY:

1. To understand the Payment Crisis of NSEL.
2. To find out the reasons for failure of NSEL.